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The University of San Francisco

SUCCESS FACTORS IN MERGERS AND
ACQUISITIONS: COMPLEXITY THEORY AND
CONTENT ANALYSIS PERSPECTIVES

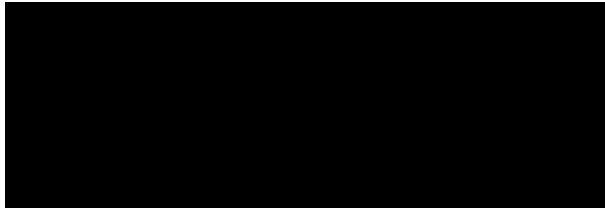
A Dissertation Presented
to

The Faculty of the School of Education
Department of Leadership Studies

In Partial Fulfillment
of the Requirements for the Degree
Doctor of Education

by
Lena Petsa-Papanicolaou
San Francisco
May 2007

This dissertation, written under the direction of the candidate's dissertation committee and approved by the members of the committee, has been presented to and accepted by the Faculty of the School of Education in partial fulfillment of the requirements for the degree of Doctor of Education. The content and research methodologies presented in this work represent the work of the



5/9/07
Date

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Chairperson

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5-9-07

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5/9/07

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CHAPTER I

THE RESEARCH PROBLEM

Introduction

Today, mergers and acquisitions have become standard practice for companies that want to compete in an ever-changing global economy. Companies in the U.S. and around the world pursue these strategies in order to achieve competitive advantage through growth, consolidation, entry into new markets, and most importantly, perceived financial gains. Almost every business sector has practiced and has been affected by mergers and acquisitions. Regardless of the popularity of these strategies, very few transactions have lived up to their expectations. Current research provides evidence that at least half of all mergers and acquisitions fail to meet the expectations of the deal decision.

However, regardless of the often disastrous outcomes and dismal successes, merger and acquisition activities continue to grow and have reached new heights in the past years. It has been reported that between July 1, 1995 and August 31, 2001 merger activity “was five times greater than any previous merger and acquisition boom in U.S. economic history,” with deals totaling “nearly \$4 trillion-more than in the preceding 30 years combined” (Henry & Jespersen, 2002, p. 2). More recently, another study reported that during the first quarter of 2006, the value of the M&A globally, averaged \$10 billion a day, the highest for six years (Economist, 2006). The monetary volume of these merger and acquisition transactions speaks to the tremendous effects on everyone involved and the need for better implementation of the merger and acquisition processes. Gaining

greater insights of the factors leading to positive merger and acquisition outcomes is an issue of critical importance.

Mergers and Acquisitions Defined

The terms “mergers” and “acquisitions” are often used interchangeably, but in actuality, they are two differing types of unions. Gaughan (2002) defines a merger as a combination of two corporations in which only one corporation survives and the merged corporation goes out of existence. There are three types of mergers: (1) horizontal – “which occur when two competitors combine,” (2) vertical – which “are combinations of companies that have a buyer-seller relationship,” and (3) conglomerate mergers – which occur “when the companies are not competitors and do not have a buyer-seller relationship” (Gaughan, 2002, p. 8). According to Burki (2003), acquisitions take place when one company purchases another and takes control of some or all of its assets, profits, and employees: these are referred to as friendly or hostile takeovers.

According to Sherman (2001), mergers and acquisitions are often confused and used interchangeably by business and financial executives. Rentsch and Schneider (1991) note that the occurrence of true mergers is rare, with many acquisitions disguised as mergers to avoid the appearance of dominance by one firm. “During negotiation the purchasing firm may create an impression of the union being a cooperative partnership, designed to maximize the growth potential of the target, in order to make the deal attractive” (Rentsch & Schneider, 1991, p. 2). However, “the larger firm may seek control over the smaller, but continue this facade until the deal is successfully closed, at which time they take more aggressive steps to impose rule over the target” (Rentsch & Schneider, 1991, p. 2).

Statement of the Problem

Companies seeking to expand are faced with a choice between internal growth and growth through mergers and acquisitions. A choice between internal growth and growth through mergers and acquisitions challenges companies seeking to expand. According to Gaughan (2002) “internal growth may be a slow and uncertain process” however “growth through mergers and acquisitions may be a much more rapid process, although it brings with it its own uncertainties” (p. 111). The desire for access to speed and the creation of a rapid response to the market-place are the main reasons that mergers are occurring today.

Mergers and acquisitions are faced with many unknowns. These “uncertainties” refer to the plethora of factors in the areas of leadership, management, vision, integration, culture, and communication that can affect the process of a merger or an acquisition in a positive or negative direction. Unfortunately, however popular the practice of mergers may be, statistics show that the numbers of failed mergers in general outweigh the successes. “Numerous empirical studies show that half of all mergers fail to meet the expectations of the merger decision while other empirical studies suggest mergers failing two out of three times to deliver their intended benefits” (Adolph et al., 2006, p. 1). In a recent *Economist* book review of “Deals from Hell” by Robert Bruner, 10 case studies of failed merger activity provide a very grim and representative picture of merger outcomes. “Where the Greeks had theatre, the modern business world has mergers and acquisitions” (Global Executive, 2006, p. 1). In order to improve these negative statistics, it is of critical importance to gain greater understanding and insights of what makes a deal

successful. A path towards this goal would be to attain more knowledge about the factors that contribute to merger and acquisition success.

The research problem is that, although there is an abundance of articles, research reports, books, academic dissertations, and general information about mergers and acquisitions, very few works have consolidated the factors that lead to merger success. The emphasis has been on deal failure. In addition, although disaster stories are very intriguing and offer valuable information, factors that allow a deal to have positive outcomes is essential knowledge for companies that are planning to merge or acquire. Many books written about mergers contain only a discussion about factors that cause merger success, but only the following few elaborate on these factors: *The Complete Guide to Mergers and Acquisitions* by Gaplin and Herndon, and *Do the Right Deal, Do the Deal Right: 35 Success Factors for Mergers and Acquisitions* by Barry Massoudi.

One area not explored through any dissertation research, according to the Dissertation Abstracts International Database or any other major published work according to the on-line bookstores Amazon and Barnes & Noble, is the consolidation of the factors that lead to merger and acquisition success derived from management consulting companies. Furthermore, research that combines consulting company findings with academic teaching on factors leading to merger success is also lacking. Attaining knowledge of the success factors that positively affect merger and acquisition activities derived from both academia and consultant companies can provide valuable information towards the enhancement of academic and business training and expectantly contribute to better merger and acquisition outcomes.

Purpose of the Study

The purpose of this qualitative study was to explore success factors that contribute to the positive outcomes of mergers and acquisitions. Critical success factors define key areas of performance that are essential for the organization to accomplish its mission. Caralli (2004) suggests that "managers implicitly know and consider these key areas when they set goals and as they direct operational activities and tasks that are important to achieving goals" however, "when these key areas are made explicit, they provide a common point of reference for the entire organization" (p. 18). Specifically, this study reviewed success factors from the perspective of consultants and academicians.

First, the consultant perspective was explored from research reports on mergers and acquisitions reported from the three top management consulting companies in the U.S. offering services in the area of mergers and acquisitions. Research reports were collected from consulting companies' web-sites and reviewed to discover what consultants are publishing about the causal factors of merger and acquisition success. Second, the academic perspective was explored from textbooks used to teach merger and acquisition classes from the three top business schools in the U.S. Textbooks were collected and reviewed to discover what professors are teaching about the causal factors of merger and acquisition success. Another purpose of this study was to explore the findings and differences between consultants and academicians using qualitative content analysis to induct factors that contributed to positive outcomes.

Background and Need for the Study

The high failure rate of mergers and acquisitions and the significant costs related to failure are an increasing concern to the stakeholders of both companies involved—obviously their Boards of Directors, CEOs, executive teams, and management, but also their shareholders, employees, customers, suppliers, and

residents of the communities in which they do business. (Carleton & Lineberry, 2004, p. 1)

Mergers and acquisitions lead to large-scale changes which affect every aspect of an organization. A study of 10 types of organizational change efforts led to an overall 33% success rate with the same rate reflecting organizational change in mergers and acquisitions (Smith, 2002). The pre-, during, and post-merger activities are complex, intricate, and fragile. The GE Capital Services' acquisition-integration model provides a complete view of the steps and intricacies that are part of the merger process (Ashkenas et al., 1998). The *preacquisition stage* begins with (1) cultural assessment, (2) identification of the business/cultural barriers to integration success, (3) selection of integration manager, (4) leadership assessment of business and function leaders, and (5) development of communication strategy (Ashkenas et al., 1998).

The *foundation building stage* suggests that: (1) formal introduction of the integration manager, (2) an orientation of new executives to the business rhythms and non-negotiables, (3) a formulation of the integration plan and communication plans, (4) involvement of senior management, and (5) access to sufficient resources and assignment of accountability (Ashkenas et al., 1998). During the *stage of rapid integration*: (1) use process mapping, CAP, and workout to accelerate integration, (2) use audit staff for process audits, (3) use feedback and learning to continually adapt integration plan, and (4) initiate short-term management exchange (Ashkenas et al., 1998). Finally, in the *assimilation stage*: (1) continue developing common tools, practices, processes, and language, (2) continue longer-term management exchanges, (3) utilize corporate education center, and (4) use audit staff for integration audit (Ashkenas et al., 1998).

The dismal success of mergers and acquisitions relates to the complexity and the myriad of problems inherent in this huge undertaking of organizational transformation. According to Adolph et al. (2001) mergers and acquisitions “by whatever measure you choose--stock price, revenue, earnings, return on equity--most deals fall short of expectations. Somewhere between the concept of the merger and its execution, the promise fades” (p. 1). However, low success rates do not deter CEOs from pursuing mergers and acquisitions as a business strategy. According to Eccles, Lanes, & Wilson (1999) “despite 30 years of evidence demonstrating that most acquisitions don’t create value for the acquiring company’s shareholders, executives continue to make more deals, and bigger deals, every year” (p. 136). Overall, these findings are not encouraging for companies. However, the feeling among executives is that mergers and acquisitions are an important tool in responding quickly and effectively to today’s market economy. Further, with this urgency and belief in the merger or acquisition as a strategy for organizational survival, an inquiry into the factors that contribute to that success is also vital.

Theoretical Rationale

The theoretical rationale that was used to examine merger and acquisition success factors was the lens of complexity theory. Complexity theory allows for a departure of traditional models of organizational change.

Rather than focusing at the macro ‘strategic’ level of the organizational system, complexity theory suggests that the most powerful processes of change occur at the micro level, where relationships, interactions, small experiments, and simple rules shape emerging patterns. Everything in an organization is interconnected, so large-scale occurs through an integration of changes that affect the smallest parts. Organization change emerges from evolution of individuals and small groups. (Olson & Eoyang, 2001, p. xxxiii)

In a merger or acquisition, each company has the ability to maintain itself through its components. When companies are able to maintain themselves, through their components, they have life – they are adaptive systems. Complex adoptive systems “behave/evolve according to three key principles: (1) order is emergent as opposed to hierarchical, (2) the system’s history is irreversible, and (3) the system’s future is often unpredictable” (Olson & Eoyang, 2001, p. xxxiii). Mergers and acquisitions are considered complex adoptive systems because they they are *complex* in that they are diverse and made up of multiple interconnected elements and *adaptive* in that they have the capacity to change and learn from experience (Olson & Eoyang, 2001).

Viewing merger and acquisition success factors using the lens of complexity allows for an examination by way of the 12 characteristics common to complexity science and complex adoptive systems. (1) *Autopoesis* is the ability to adapt to a changing environment (Goerner, 1999). A merger or an acquisition is a strategic response to the economic environment. (2) An *Open System* allows for the maintenance of the organization through the ongoing flow of information (Goerner, 1999). Communication allows information to flow throughout the organization and allows understanding and learning to take place. Communication is a key factor in the success of a merger. (3) *Networks* exist inside a merging organization. They operate in the form of affiliated departments in a merging or acquiring organization. (4) *Fractal* is the reflection of one department that mirrors what other departments are experiencing. If people issues is a problem within one department, most probably people issues is the reoccurring problem throughout the organization. (5) *Entities are dynamic* and phase transitions occur by providing the opportunity for creativity and the emergence of new

forms (Goerner, 1999). In a merger or acquisition, phase transitions allow for new forms of relationships and organizational structure to emerge. (6) *Fitness peaks* are opportunities for change to occur (Goerner, 1999). These crises or tensions, often referred to as fitness peaks, are opportunities for creativity and the emergence of new forms. (7) *Complex Entities* behave in non-linear ways (Dimitrov, 2004). (8) *Small changes bring about large effects* and large changes do not necessarily produce changes of equal effects (Dimitrov, 2004). (9) *Limiting Attractors*: the point attractor returns repeatedly to the same state as a pendulum. The pendulum attractors move back and forth and never succeed in moving beyond a certain area. The torus attractor is the non-existence of significant change (Goerner, 1999). (10) *Emergence* is the creation of new forms brought about through transitions. (11) *Strange Attractors* influence direction and duration of the dynamics (Goerner, 1999). (12) *Complex Adaptive Systems* exist only as part of a nested inseparability or connectedness (Goerner, 1999).

According to Cachon, Zipkin, and Anderson (1999), “the utility of applying complex adaptive systems models to strategic management leads to an emphasis on building systems that can rapidly evolve effective adaptive solutions” (p. 3).

Furthermore, “strategic direction of complex organizations consists of establishing and modifying environments within which effective, improvised, self-organized solutions can evolve” (Cachon, Zipkin & Anderson 1999, p. 3). Using the lens of complexity theory to illuminate factors that lead to merger success may provide a basis for understanding and defining positive merger outcomes. The ‘emergence’ of success factors from this study may contribute to positive strategic solutions.

Research Questions

The following research questions guided this study:

1. What do consultants management consulting firms report as the factors contributing to merger and acquisition success?
2. What do academicians in top U.S. business schools teach about factors contributing to merger and acquisition success?
3. What are the similarities and the differences in the findings between consultants and academicians?

Definition of Terms

For the purposes of this study, the terms were defined as follows:

Academicians. Academicians are the university professors who teach business courses in the area of mergers and acquisitions. “The typical requirements of most professors are to teach, engage in scholarly activity such as research and the generation of publications, and provide service to their respective academic institutions” (Gaughan, 2005, p. 126).

Case Study Method. The case study method “places the student in the role of the decision maker...through the dynamic process of exchanging perspectives, countering and defending points, and building on each other’s ideas, students become adept at analyzing issues, exercising judgment, and making difficult decisions” (President & Fellows of Harvard College, 2007, p. 1).

Conceptual analysis. Conceptual analysis is a category of content analysis and “can be thought of as establishing the existence and frequency of concepts – most often represented by words or phrases – in a text” (Busch et al., 2005, p. 1).

Consolidation. “A merger differs from a consolidation, which is a business combination whereby two or more companies join to form an entirely new company. All the combining companies are dissolved and only the new entity continues to operate” (Gaughan, 2002, p. 7).

Consultants. Consultants are the working professionals in the public sector working for companies who specialize in the area of business management and specifically provide consulting services in the area of mergers and acquisitions. The consultants that conduct this research “may have similar credentials to what one might find in an academic institution” and the research is often conducted “on the front lines of the transactional battles that may be taking place” (Gaughan, 2005, p. 127).

Content analysis. According to Neuendorf, content analysis is, an “analysis of messages that relies on the scientific method and is not limited to the types of variables that may be measured or the context in which the messages are created or presented (p. 10).

Complexity. “Complexity science is concerned with the study of the dynamics of complex adaptive systems which are non-linear, have self-organizing attributes and emergent properties” (McMillan, 2004, p. 25). Some authors “refer to this theoretical rationale as complex systems rather than complexity or complexity science” nevertheless, the theory rests on the same principles and dynamics (McMillan, 2004, p. 25).

Conglomerate. A conglomerate “is a combination of unrelated firms” (Gaughan, 2002, p. 596).

Corpus. “Each corpus (‘or body’) is typically a set of written materials representing a particular era and place” (Neuendorf, 2002, p. 77).

Critical Success Factors. Critical Success Factors “are the limited number of areas in which satisfactory results will ensure successful competitive performance” and “the few key areas where “things must go right” for the business to flourish and for the manager’s goals to be attained” (Bullen & Rockart, 1981, p. 7).

Deal or Top team. The deal or top team includes a group or a business unit that engages in mergers and acquisitions. “The team shares general responsibility for the organization's future. The number of people in the top team and the organizational levels represented on it are highly context specific” (Fubini, Price, & Zollo, 2006, p. 4).

Diversification. Diversification refers to “growing outside a company’s current industry category” (Gaughan, 2002, p. 123).

High Liquidity. According to Gaughan (2004), “liquidity rates measure the firm’s ability to satisfy its current obligations as they come due” (p. 475). “The more liquid a firm before a takeover, the more likely it is that it will not face liquidity problems if it assumes additional post merger costs, such as higher interest payments” (Gaughan, 2004, p. 476).

Low leverage. “Low leverage ratios...are desirable because this shows a lower level of risk as well as added debt capacity that can be used to finance the takeover” (Gaughan, 2004, p. 545).

Monopoly. Monopoly is “an industry structure that is characterized by one seller” (Gaughan, 2002, p. 599).

Oligopoly. Oligopoly is an industry structure characterized by a small number of sellers (Gaughan, 2002, p. 599).

Reliability. Reliability refers to the extent to which a measuring procedure yields similar results during repeated trials. “When human coders are used in content analysis, this translates to intercoder reliability or level of agreement among two or more coders” (Neuendorf, 2002, p. 12).

Synergy. Synergy “refers to the type of reactions that occur when two substances or factors combine to produce a greater effect together than that which the sum of the two operating independently could account for” (Gaughan, 2002, p. 113).

Takeovers. The characterization of takeovers is either friendly or hostile. What determines “whether takeovers are considered friendly or hostile generally is determined by the reaction of the target company’s board of directors. If the board approves the takeover, it is considered friendly; if the board is opposed, the takeover is deemed hostile” (Gaughan, 2002, p. 44).

Summary

The complexity science theoretical rationale allows a merging or acquiring company to be regarded as a dynamic, open, complex, adaptive system, composed of inter-related parts, interacting with its environment, subject to resulting feedback effects, evolving over time adaptively to fit the pressures imposed on it, and even attaining a sustainable advantage (Holbrook, 2003). This organic, metaphoric use of complexity theory provides a view of mergers and acquisitions as an open, complex, adoptive system experiencing changes in a multitude of areas involving many possible outcomes. The possibilities that can emerge from these organizational changes provide rich opportunities for the study of complexity and create better understanding of the elements crucial to merger and acquisition success. Emergence in complexity theory is the process by which

complex adoptive systems adapt to changes in their environment by self-organizing into radically new processes, structures, and forms. Mergers and acquisitions alike are emerging. They are organizations in the “process of evolving, of adapting and transforming spontaneously and intuitively to changing circumstance and finding new ways of being” (McMillan, 2004, p. 32). Most important, they have the ability to adapt and learn, and that learning from both academic and consultant sources can be recorded and translated into factors that contribute to success.

Limitations of the Study: Consultant Research

One limitation is that the consultant research selected was based solely on research reports available from the three top management consulting companies in the U.S. Also, this research was contained in reports that were available on consulting companies' web-sites. Research may have been published elsewhere and not have been available on the company's web-site, which may also have limited reporting. The study was limited to research studies that were free to web-site visitors. Since this was not funded research, monies were not available for reports requiring prescription to publications. McKinsey and Company provided free reports on mergers and acquisitions, but for some reports one had to enroll as a paid subscription member. Bain and Company, on the other hand, required the purchasing of articles through Harvard Business on Line; and articles that were not available through the university library were excluded from the study. The Boston Consulting Group had no report exclusions and all reports were utilized in the research. Overall, the corpus of the research may have been affected due to the exclusion of reports that required payment.

The study was also limited to research written during the years 2000 to 2006. There may have been valuable reporting prior to the year 2000, however the impetus of this research was to provide only the most current information on factors that lead to merger and acquisition success and purposefully utilized only the most recent studies. Another limitation was the lack of listings of the top consulting companies from the first source, the 2006 *Book of Lists*. Initially, companies were going to be selected from the *Business Times – 2006 Book of Lists*, a publication that is available in almost every state that lists all the top companies in the state by descending number. The states of California, Pennsylvania, and Massachusetts were originally selected and the top management consulting company was going to be selected from each state. However, the Vault publication provided more current (2007) rankings of the top three consulting companies in the U.S. and it replaced the *Book of Lists*.

Limitations of the Study: Academic Research

The study was limited to books utilized in merger and acquisition classes at the top three business schools in the U.S. Another limitation of the study was that the University of Stanford which ranked second did not offer any classes in mergers and acquisitions other than a professional summer seminar. The third-ranked University of Pennsylvania (Wharton School of Business) replaced Stanford University and the third-ranked business school was Massachusetts Institute of Technology (Sloan School of Management). Another limitation was that professors from these universities were not easily accessible for questions regarding the types of text-book(s) utilized in their classes. Information about the type of textbooks was attained solely through university web-sites and bookstores. Another limitation was the difficulty of acquiring the additional packets

that were used to teach the courses in addition to books. Some universities contended that their case studies were proprietary information. Another constraint with the use of the packets, had they been made available was the cost which ranges in the hundreds of dollars. Due to the lack of research funding, these costs would have been prohibitive.

A further limitation of this research was the use of one researcher as the primary recorder for the study. Content analysis recommends that a second recorder be available to double check on the accuracy of the recorded information. The issue can have minimal effect since the researcher has experience in the field of business and understands the terminology without the need to have a second reader. Also, working in a setting without distractions will also increase the accuracy of the recorder.

Significance of the Study

The present study provides additional knowledge in the area of mergers and acquisitions that is inclusive of academic and consultant expertise. The study offers information about what type of textbooks top business schools in the U.S. are using in their teaching of mergers and acquisitions and what these books offer as success factors in the area of mergers and acquisitions. The study also offers information about the success factors reported by management consulting companies offering services in mergers and acquisitions. This research adds a very valuable component: a view of academic and field expertise findings. The combination of these two areas of inquiry provides a more holistic and inclusive view of the factors that contribute to positive deal outcomes.

The findings of this study are significant to leaders, managers, and employees of companies that are planning to merge or are in the process of merging. Best practices in

the area of leadership are strategy, preparation, execution, results, and learning capabilities. Also, areas of significant value to leadership are the creation and presence of a deal team, due diligence, communication, timing, people issues, integration, economy, and culture. It is only through the understanding and the learning of these critical success factors that leadership can begin to create positive merger and acquisition outcomes. Success factors are equally important to management because they are better able to understand how the process works and better able to define their role in the deal process, areas of communication, timing, and people issues. Also, awareness of success factors is equally important to employees. Best practices in the area of people issues include employee selection, retention, compensation, and communication. The more understanding employees have about how the process works and how it will affect them, the less resistant they will be to a merger or acquisition.

The information gained from this study lends important information to civic groups and task forces that exist to impose good practices on companies who are proceeding with mergers or acquisitions. The factors leading to positive outcomes can serve as a guide to companies and to those who seek to promote good merger practices. The findings are also significant to academicians who would like to know how their understanding of mergers differs or agrees from what consultants are reporting. Often, research is limited in academia but ample in consulting companies. This study provided academia with a check on whether their books reflect current business practices in mergers and acquisitions.

In addition, the results of this study are significant in the area of academic research. The results add to the existing body of merger and acquisition research and

possibly provide an impetus for further research regarding factors that contribute to positive deal outcomes. The findings are significant to the students who want to have a greater understanding of business practices in general and specifically to an in-depth understanding of mergers and acquisitions. Best practices yielding positive outcomes serve the students well who look forward to being part of the business sector. Overall, the findings are significant to a wide audience and enhance understanding of what makes mergers and acquisitions successful. This research is also of value to lay people who want to understand more about mergers and acquisitions. Success factors increase awareness of best practices in organizational structural change and are applicable to many areas and fields.

CHAPTER II

REVIEW OF RELATED LITERATURE

Introduction

Literature in the field of mergers and acquisitions is plentiful. In this literature review particular focus was placed in following areas: (1) history, (2) economic effects, (3) management of change models, (4) critical factors in organizational change, (5) success factors reported in academic dissertations, and (6) success factors reported by consulting companies. First, a historical overview of mergers and acquisitions provides an account of merger activity and their respective affects on particular industries. Second, there is a discussion on the affects of mergers and acquisitions on the society and economy are discussed. Third, management of change models provide a theoretical basis for mergers and acquisitions. At this time, mergers and acquisitions are not based on any particular theoretical model and a different or a combination of theoretical models may be used to understand and describe the merger and acquisition process. Fourth, the critical factors most commonly cited in literature in management and organizational change, included leadership, communication, culture, and people issues. Fifth, a review of academic dissertation abstracts provided merger and acquisition success factors in the areas of leadership, communication, and culture. Sixth, a review success factors reported by management consulting companies provided a view of what consultants consider areas contributing to positive merger and acquisition outcomes.

History of Mergers

Five dominant merger periods characterize the history of mergers. “These periods were characterized by cyclic activity, that is, high levels of mergers followed by periods of relatively fewer mergers” (Gaughan, 2002, p. 23). Mergers come in waves; “the first

four waves occurred between 1897 and 1904, 1916 and 1929, 1965 and 1969, and 1984 and 1989” and “resumed again in the early 1990’s to begin the current fifth wave” (Gaughan, 2002, p. 23) as presented in Figure 1.

Figure 1

Dominant and Prominent Mergers and Acquisition Periods

1 st Wave	1897 ⇌ 1904	Horizontal Mergers
2 nd Wave	1916 ⇌ 1929	Oligopolies and Consolidations
3 rd Wave	1965 ⇌ 1969	Conglomerates
4 th Wave	1984 ⇌ 1989	Mega-mergers and Hostile Takeovers
5 th Wave	1992 ⇌ Present	Consolidations

According to Brealey, Myers, and Allen (2006) “each merger episode coincided with a period of buoyant stock prices, though there were substantial differences in the types of companies that merged and the ways they went about it” (p. 896). During the first waves, the United States experienced tremendous technological growth and became a major industrial economy.

According to Gaughan (2002) the first takeover battle occurred in 1868. The growth of the railroad industry and anti-railroad protests characterizes this period. During this time, adequate restraints against unethical business practices were lacking and many takeovers by today’s standards were violent and unethical. For example, “one such take over involved an attempt to take control of the Erie Railroad” which “took a violent turn when the target corporation hired guards, equipped with firearms and cannons, to protect their headquarters” (Gaughan, 2002, p. 27). The reason for such

disarray was “because bribery of judges and elected officials was common” and “legal remedies for violating corporate laws were relatively weak” (Gaughan, 2002, p. 27). Only when Congress established the Interstate Commerce Commission in 1897 and passed “antitrust regulation in the late 1800s and early 1900s, and tougher securities laws after the Great Depression, did the legal system obtain the necessary power to discourage unethical takeover tactics” (Gaughan, 2002, p. 27). Finally, it was the financial factors, the stock market crash of 1904, followed by the banking panic of 1907, which closed many banks, versus the legal restrictions that brought the first wave to an end (Gaughan, 2002).

The first merger wave (1897-1904) occurred after the depression of 1883 and has thus far been of greater magnitude than any others (Gaughan, 2002). During this time many horizontal mergers took place in steel, oil, telephone, and the basic manufacturing industries (Weston & Weaver, 2001). Industries that accounted for two-thirds of this period’s merger activity were “primary metals, food products, petroleum products, chemicals, transportation equipment, fabricated metal products, machinery, and bituminous coal” (Gaughan, 2002, p. 23). “Besides USX Corporation (formerly U.S. Steel), some of today’s great industrial giants originated in the first merger wave” such as “DuPont, Inc., Standard Oil, General Electric, Eastman Kodak, American Tobacco, Inc., and Navistar International (formerly International Harvester)” (Gaughan, 2002, p. 24). This first wave “produced 300 combinations covering many industrial areas” and “an excess of 3,000 companies disappeared during this period as a result of mergers” (Gaughan, 2002, p. 24).

The second merger wave (1916-1929) consisted of additional industry consolidations, oligopolies, and large-scale formations of conglomerates (Gaughan, 2002). This wave was “associated with the development of the radio, which made national advertising possible, and the automobile, which permitted more effective geographic sales and distribution organizations” (Weston & Weaver, 2001, p. 8). “Just as in the first merger wave, the second merger period witnessed the formation of many prominent corporations that still operate today” such as “General Motors, IBM, John Deere, and the Union Carbide Corporation” (Gaughan, 2002, p. 29). “Between 1926 and 1930, a total of 4,600 mergers took place, and from 1919 to 1930, 12,000 manufacturing, mining, public utility, and banking firms disappeared” (Gaughan, 2002, p. 30). Congress attempted to place antimonopoly regulations to restrict abuses of the market and passed the Clayton Act; however, these regulations focused mainly on the regulation of unfair business practices versus merger regulation (Gaughan, 2002).

The third merger wave (1965-1969) consisted primarily of conglomerate mergers that invested and conducted a large percentage of their activities in multiple industries (Gaughan, 2002). It is estimated that “80 percent of the mergers that took place in the 10-year period between 1965 and 1975 were conglomerate mergers” (Gaughan, 2002, p. 32). These mergers “represented in part an adjustment to the slowdown in defense expenditures” and “at least one-half of the companies were aerospace or natural resource-depleting companies (oil, forest)” (Weston & Weaver, 2001, p. 8). For example, the firm ITT in the 1960s “acquired such diverse businesses as Avis Rent-a-Car, Sheraton Hotels, Continental Baking, and other far-flung enterprises such as restaurant chains, consumer credit agencies, home building companies, and airport parking firms” (Gaughan, 2002,

p. 32). “Some 6,000 mergers, entailing the disappearance of 25,000 firms, took place; nonetheless, competition, or market concentration, in the U.S. economy was not greatly reduced” (Gaughan, 2002, p. 35).

The fourth merger wave (1984 - 1989) is characterized as the era of the mega-merger and hostile merger takeovers with innovative acquisition techniques and investment vehicles (Gaughan, 2002). According to Weston and Weaver (2001), in this wave, financial innovations and junk bonds made all firms vulnerable to a takeover bid; any company that was not performing up to its potential was subject to be taken over. Although the absolute number of hostile takeovers was not high with respect to the total number of takeovers, the relative percentage of hostile takeovers in the total value of takeovers was large (Gaughan, 2002). The size, prominence, and the dollar value paid for a merger increased tremendously during this time. “The 1980’s became the period of the billion dollar mergers and acquisitions” (Gaughan, 2002, p. 47). During this time, “the number of \$100 million transactions increased more than 23 times from 1974 to 1986” (Gaughan, 2002, p. 47). Also, the deregulation of some industries caused a disproportionate number of mergers and acquisitions to occur in some industries versus others (Gaughan, 2002).

When the airline industry was deregulated, for example, air fares became subject to greater competition, causing the competitive position of some air carriers to deteriorate because they could no longer compete effectively. The result was numerous acquisitions and a consolidation of this industry. (Gaughan, 2002, p. 48)

Also, “the banking and petroleum industries experienced a similar pattern of competitively inspired mergers and acquisitions” (Gaughan, 2002, p. 48). Finally, the “oil and gas accounted for 21.6% of the total dollar value of mergers and acquisitions

form 1981 to 1985. During the second half of the 1980's, drugs and medical equipment deals were the most common" (Gaughan, 2002, p. 48).

In the fifth merger wave (1992-present) mergers became "a worldwide phenomenon, with a large volume of mergers taking place in Europe, and Asia" (Gaughan, 2002, p. 55). Merger activity is "more likely to be motivated by fundamental developments in the rapidly changing economy and reflect more traditional corporate goals of efficiency and competitiveness" (Pitofsky, 1998, p. 1). Merger deals "are pursued by the strategic reasoning that expansion can be more readily achieved through mergers versus through internal expansion" (Gaughan, 2002, p. 51). In this last wave, "fragmented industries were consolidated through larger scale acquisitions of companies that were called consolidators" and "occurred in many industries such as the funeral business, office products, and floral products" (Gaughan, 2002, p. 53). However, again mergers "failed to deliver on promised gains such as lower costs and greater synergies" (Gaughan, 2002, p. 53).

The next M&A boom certainly will be different from the previous ones-they always are. The survey of M&A activity...shows that successive waves have had distinctly different characters. Ignoring the unique issues in each industry, one can be reasonably confident that several forces will have a large influence in shaping the next merger wave: technological change, regulatory change, globalization, and demographic change. (Bruner, 2004, p. 930)

Also, "M&A cycles are significantly associated with the equity market cycle. In both there seems to be herd behavior stimulated by overvalued securities. Until we do, the practitioner should exercise great caution when the heard starts calling" (Bruner, 2004, p. 930).

Merger and Acquisition Effects on Society and Economy

M&A is one of the most aggressive change agents in the business economy: volatile and disruptive. The volume of deals and their dollar value grew explosively over the past 30 years. Journalists, legislators, and consumers have watched this activity with fascination and concern. (Bruner, 2004, p. 3)

Merger and acquisition activities affect both the economy and the society. These activities directly impact the worker, the consumer, and the U.S. economy at large. Certain transactions produce positive outcomes and may lead to the enhancement of a company's effectiveness, to shareholder benefit, and to overall societal wealth (Boston College, 2004). More specifically, mergers and acquisitions play an important role in the economic landscape by being able to: (1) respond effectively to changed business and regulatory climates, (2) discipline ineffective management, (3) integrate management and resource structures, (4) reform out-of-date business practices, and (5) expand markets and services by producing synergies (Boston College, 2004). Mergers and acquisitions create competition which can result in positive economic outcomes by enhancing "research and development efforts by combining complementary talents or technologies" and enabling "a firm to gain market entry with a new product and interject new competition" (Pitofsky, 1998, p. 5). Other merger and acquisition transactions, however, "can restrict research and development efforts and lessen competition" while creating excessive job loss and eventually hurting the consumer (Pitofsky, 1998, p. 5).

Management of Change Models

Theoretical models offer guidance and insight into the understanding of mergers and acquisitions. Management of change theories will provide additional knowledge of the factors that positively affect merger success.

Changing an organization is the process of modifying an existing organization. The purpose of organizational modifications is to increase organizational effectiveness—that is, the extent to which an organization accomplishes its objectives. These modifications can involve changing the lines of organizational authority, the levels of responsibility held by various organizational members, and the established lines of organizational communication. (Certo, 1989, p. 287)

As defined, major organizational change is “any intentional change in the way the organization does business that affects the strategic position of the organization vis-à-vis its competition” (Smith, 2002, p. 1). Mergers involve tremendous change within an organization. Some of these change management dynamics brought on by a merger or acquisition include: (a) growth related challenges, (b) restructuring, (c) re-engineering, (d) questions about where to downsize, (e) problems with retention of personnel, and (f) issues related to employees’ motivation (Galpin & Herndon, 2000).

In 1951, Kurt Lewin proposed a general model of a planned approach to change “consisting of three phases, ‘unfreezing, change, [and] re-freezing,’ in his Field Theory in Social Science; this model becomes the conceptual frame for organizational development” (Shafritz & Ott, 2001, p. 12). This idea of managing change was further refined and embodied in the 1940s Nadler-Tushman Congruence Model of a system undergoing change. The Nadler-Tushman Model is a comprehensive model that specifies inputs, throughputs, and outputs and is consistent with the open systems theory (Falletta, 2005). The premise of the open systems theory is that “organizations are social systems which are dependent upon the environment in which they exist for inputs; a feedback loop connects organizational outputs with renewed inputs” (Falletta, 2005, p. 8). The congruence model is important to the understanding of mergers and acquisitions because it provides a complete view of the transformation process (Nadler & Nadler, 2002).

According to Nadler and Nadler (2002), this model allows leaders and managers to,

Fully grasp the interplay of social and technical forces that shape the performance of each organization, and starts them down the path of working with their own people to design and implement their own solutions to their organization's unique performance problems. (p. 1)

The congruence model is defined by four key components: “the work; the people who perform the work; the formal organizational arrangements that provide structure and direction to their work; and the informal organization, sometimes referred to as culture, that reflects their values, beliefs, and behavioral patterns” (Nadler & Nadler, 2002, p. 1). Positive performance in time of organizational change “rests upon the alignment of each of the components-the work, people, structure, and operating environment with all the others...the greater the congruence, the higher the performance” (Nadler & Nadler, 2002, p. 2). It is possible to use the congruence model to guide the process of a merger. The work, the people, the formal organization, and the culture, that are so important to organizational success, may also contribute to merger success. Nadler and Nadler (2002) stated that,

It's important to view the congruence model as a tool for organizing your thinking about any organizational situation, rather than a rigid template to dissect, classify, and compartmentalize what you observe. It's a way of making sense out of a constantly changing kaleidoscope of information and impressions. (p. 5)

This model allows further understanding of change management and reflects issues and processes of a merger or acquisitions. Elements presented in the congruence model are often seen in merger or acquisition models.

Chris Argyris' (1970) book on Intervention Theory and Methods became the most enduring work of organizational change. The premise of organizational learning is that the better organizations are at learning, the more likely they will be able to detect and

correct errors (Argyris, 1999). Furthermore, “learning is a conscious attempt on the part of organizations to retain and improve competitiveness, productivity, and innovativeness in uncertain technological and market circumstances” (Balasubramanian, 2002, p. 2). Peter Senge (1990) considered by most to be the father of organizational learning further expanded the concept of a learning organization. In his publication, "The Fifth Discipline" in 1990, the rationale for a learning organization is that, in times of rapid change, those that are flexible, adaptive, and productive will excel and for this to occur, it is the organization’s responsibility to discover and energize its employee commitment and capacity to learn at all levels (Senge, 2004). Senge utilizes nature as a metaphor and illustrates how organizations have a life cycle like any organism and are affected by both growth and limiting processes. Learning yields to the creation of a flexible organization with employees who are both committed and have the capacity to learn at all levels. This learning results in organizational adaptation and allows for change to occur (Senge, 2004).

Critical Factors in Organizational Change

Leadership

The role of leadership is the most crucial element in organizational change. Leadership must have a deep personal commitment, an active involvement in the transformation, and an understanding of the change process in order for a merger or acquisition to succeed (Adolph et al., 2001). According to a Booz-Allen and Hamilton research study, the success of a merger begins with the CEO (Adolph et al., 2001). Leadership is a key element to creating the right environment to set the merger or acquisition in a positive motion. The four success factors in leadership are identified as

follows: (a) “communicate a shared vision for value creation, (b) seize defining moments to make explicit choices and trade-offs, (c) simultaneously execute against competing critical imperatives, and (d) employ a rigorous integration planning process” (Adolph et al., 2001, p. 2). Exceptional leaders have a holistic understanding of their organization. They are able to provide clarity of vision and are able to excite, energize, and win the loyalty of large groups of people. Successful leaders are able to influence others and truly believe and act towards a shared vision. Leadership’s role in the change process is to create a fit between the new strategy, the organizational structure, and the human dimension. They are responsible for building organizations where people continually expand their capabilities to understand and make sense of the changes that are taking place. Leadership is the driving force for the creation of the learning organization.

Communication

Whalen (2004) reported that several of the informal communication tools correlated with better outcomes. These informal tools include: communication of “management by walking around, cross-divisional training for managers and employees to create informal interaction, and joint volunteer initiatives, correlated significantly with high outcome levels” (Whalen, 2004, p. 108). Additional findings revealed that “although informal communication plays a stronger role in M&A success than formal tools...informal communication were some of the least used among mergers reported” (Whalen, 2004, p. 108). Communication functions that support and sustain merger success are as follows: (a) maintain experienced permanent integration staff, (b) employee cross functional integration teams with members of both firms, (c) create an M&A manual to retain knowledge learned from previous experiences, (d) create checklist

of potential problem areas to address prior to announcing the merger, (e) conduct pre-merger cultural assessments by a neutral third party, (f) match communication strategies with M&A motive (g) utilize informal communication such as face-to-face and small group communication, (h) utilize professional communicators to assist in planning and implementation, and (i) “firms are consistent with their messages about the nature of the deal when communicating to all stakeholders and are consistent and honest about who will lead the newly merged firm and whether it is really a merger of equals” (Whalen, 2004, p. 109).

Culture and People Issues

The unique culture of an organization is created by its history and its external and internal forces that contribute to the rise of values, beliefs, and practices. At times of organizational change, new strategies may contradict the existing culture and can create barriers to organizational change. According to a Booz-Allen and Hamilton study, another reason why over half of all mergers fail to deliver the anticipated benefits is,

The fact that most companies have a natural tendency to focus on the more tangible aspects of the merger – identifying improvement opportunities, rationalizing sites, designing the new organization chart, developing product migration plans, etc....however in doing so, they often ignore or overlook the critical but less tangible people and culture issues. (Jackson, 2005, p. 1)

Therefore, a consistent trend is that the companies that succeed “place a critical focus on cultural integration and those that failed attributed this primarily to cultural incompatibility” (Jackson & Spence, 2005, p. 1). Additionally, by utilizing Schein’s (as cited in Morgan, 1988) three sources of the operating environment model, cultural analysis can assess whether the current culture will fit with the new strategic direction that is taking place during organizational change. Cultural understanding results from the

analysis of artifacts, values, beliefs, and the underlying assumptions of the organization (Morgan, 1988). Hence, by understanding and analyzing these cultural systems, we can take actions that align organizational changes with cultural changes. Changes in culture are difficult but they can be achieved through actions of leadership, management practices, changing the organizational context, and rewarding individual behavior (Morgan, 1988). Creating a climate that places value on the ability to absorb knowledge, the ability to change, and generally, to develop and promote novel ideas is important in management of organizational change (Morgan, 1988). Deal failure is often attributed to the 'people side' of the deal, resulting from organizational change dynamics created by the merger or acquisition. According to Galpin and Herdon (2000), the dynamics of change can "heighten the resistance that people usually bring to the successful integration of two companies" (p. 1).

Merger and Acquisition Success Factors: Academia

Academic literature review will center in the area of organizational change. A merger or acquisition imposes change within an organizational structure and the same principles that apply in understanding organizational change apply to understanding mergers and acquisitions. According to Don de Camara and Renjen (2004), research in critical success factors offers the following best practice examples,

- (1) Synergies that make the merged company better able to increase revenues and gain market share than either company could on its own;
- (2) the importance of early, detailed planning in conjunction with clean teams, active senior management commitment and an "adopt-and-go" attitude;
- (3) a focus on growing the existing business, companies that apply the 80/20 rule - spend only 20 percent of the time on the merger - don't lose sight of their business and customers;
- (4) communicating early and often to customers, employees, partners, investors and the media with a realistic assessment of the facts rather than being overly optimistic; and
- (5) envisioning the desired culture they are looking to create for

the new entity and building the sense of community among employees of both organizations. (p. 1)

Papadakis (2005) investigated what influences a merger and acquisition towards successful implementation looking at both external and internal factors. Results indicated that,

The existence of a communication program is among the most influential factors in the successful implementation of an M&A. Other determining factors are aspects of the external corporate environment, the formalization of the decision-making process and the consequentiality of the M&A. Results show that the appropriate communications strategy is the area that can significantly improve the odds of success in post-merger integration. (Papadakis, 2005, p. 1)

Regarding the external factors influencing a merger, the more hostile the external environment is, the higher the possibility of post-merger implementation problems (Papadakis, 2005). The degree of technological change and experience in dealing with mergers does not influence merger activity. However, when companies utilized a more formalized process in the post-merger integration process, the merger success rate became higher (Papadakis, 2005). The most significant finding was that an integrated communication program positively contributes to merger success.

Merger and Acquisition Success Factors: Dissertation Reviews

A Pro-Quest search of digital dissertations for “mergers” produced 1,274 citations while a search for “merger” produced 1,810 citations. Over 700 dissertation abstracts were reviewed for their contribution to the research of factors leading to merger success. Phadungtin (2003) examined the relationships among merger relatedness, strategic aggressiveness, capability responsiveness, and merger performance. More specifically, research focused among the differences between mergers and acquisitions and the inverse relationships among culture gap, strategy gap, capability gap, and merger performance.

The differences between mergers and acquisitions were as follows: “(1)...Companies formed by mergers performed better than companies formed by acquisitions.

(2)...Cultures of acquisition partners were greater than cultures of merger partners.

(3)...Sizes of merger partners were greater than sizes of acquisition partners”

(Phadungtin, 2003, p. 1).

Markelevich (2004) examined the motives between two types of mergers and acquisitions: “value-enhancing mergers (conjectured as motivated by synergy) and value-reducing mergers (inferred as motivated by agency)” (p. 1). Results of this research provide evidence that synergy-motivated acquisitions outperform agency-motivated acquisitions. The “best indicator of the motive for the acquisition is achieved by using a combination of the stock market reaction to the acquisition announcement and expected gains data derived from accounting information” (Markelevich, 2003 p. 1).

Hanna (2005) conducted a case study that used a pre-acquisition assessment framework in accessing and predicting the success or failure of mega-mergers. This framework studied two mega-mergers “at a systems level, taking into account three perspectives (strategic fit, organizational fit, and the process of scholarly attempts to explain the underlying determinants of merger and acquisition success” (Hanna, 2005, p. 1). Research findings indicated “that the assessment tool utilized is able to predict outcome and “that strategic fit, organizational fit, and integration process quality are all positively related to merger success” (Hanna, 2005, p. 1).

Bahde (2003) researched and identified challenges that occur during the integration process of a merger. Five key challenges were found to be inherent in the integration process,

(1) Poorly articulated, impractical integration strategies; (2)...fragmented understandings of the overall integration process for many of those involved; (3)...ambiguity and diffuse foci during integration; (4)...conflicting and redundant organizational processes that become apparent as organizations are combined; and (5)...unclear leadership. (Bahde, 2003, p. 1)

The following recommendations are provided to remedy the integration process: “(a) create an integration strategy, (b) engage the whole system in the construction of meaning, (c) focus on creating synergistic combinations of complementary resources, (d) develop socially constructed patterns of synchronized action, and (e) appoint an integration manager to facilitate the construction of meaning” (Bahde, 2003, p. 1). An additional contributor to the success of a merger is the use of a new metaphor to reconstruct the merger.

Frommer’s (2001) case study analyzed two mergers during post-merger integration. Results of the study revealed that the “expectations influence mergers and post-merger integration...what seems to be expected of mergers, post-merger integration, of the management of these processes as well as the involved parties plays a role in the interpretation of and reaction to merger-related occurrences” (Frommer, 2001, p. 1). Hence, “if expectations of the merger are not met, attitudes towards the merger can get increasingly negative” (Frommer, 2001, p. 1). This body of work concluded that a multitude of factors could contribute to merger success.

Phan’s (1993) survey study “investigates the impact of systems integration and the management of the merger process on post-merger firm performance” and utilizes contingency theory to make predictions on systems of integration (p. 1). The following results were reported,

(a) Higher levels of assets and operational integration occur for related mergers less integration for unrelated mergers, (b)...integration was not found to

statistically affect short-term post-merger firm performance, (c)...higher levels of integration were found to lead to higher levels of management layoffs, and (d)...higher levels of management layoffs were found to lead to higher management turnover. (Phan, 1993, p. 1)

Additionally, “management turnover was not found to statistically affect short-term post-merger firm performance” (Phan, 1993, p. 1).

Larsson (1989) conducted a case survey study focusing on the organizational integration of mergers and acquisitions. Findings indicated that high merger and acquisition performance relies on “simultaneous strategic combination, organizational design, and human resource considerations” (Larsson, 1990, p. 1).

Other findings include: (a) synergy potential being significantly related to production similarity; (b) employee resistance was being significantly related to attributed hostility but not to asymmetric change of control; and (c) acculturation being significantly related to socialization efforts but not to initially shared meanings or managerial style similarity. (Larsson, 1989, p. 1)

Finally, the “main implication for both theory and practice is that strategic combination potential, organizational coordination and human resource issues all matter for synergy realization” in mergers and acquisitions (Larsson, 1989, p. 1).

Laribee’s (1998) case study provides a good summation of factors contributing to merger success. “Factors contributing to merger success include high dissatisfaction with the organization, merging at key transitional points in the organizational life cycle, displacing present leadership and other factors” (Laribee, 1998, p. 1). In contrast, “factors contributing to merger failure include satisfaction with the organization, organizational stability, retaining of leadership, a long institutional life, and other factors” (Laribee, 1998, p. 1). Finally, mergers can provide benefits that “include displacing present ineffective leadership, taking the optimal next step in the organizational life-

cycle, adding value to services provided, and acquiring hard assets at greatly reduced cost” (Laribee, 1998, p. 1).

Leadership

Bullock (2004) provides a view of the leadership experience from the perspective of executives in mergers and acquisitions. Through the use of phenomenological inquiry of the executive experience this study took a novel look and examined how executives interpret, perceive, and describe their leadership experience in a merger or acquisition (Bullock, 2004).

The study concluded that the leadership experience in merges and acquisitions is an embodied state of being for others that incorporates the intellectual, mental, and emotional dimensions of an executive in the execution of functional roles involving vision and strategy, communication, culture, change management, and human relations within a given external environment comprised of other companies, industry, and governmental agencies that is marked by the passage of time. (Bullock, 2004, p. 1)

Bartoe (2004) examined the impact of leadership alignment and cultural integration on the success of a merger or acquisition through the testing of a theoretical model. This survey studied the perceptions of the people directly affected by a merger or acquisition. The study revealed that “there is sufficient evidence to show a relationship between leadership alignment and cultural integration on the success of the acquisition” (Bartoe, 2004, p. 1).

Rowlett’s (2006) case study focused on the employees that have been involved in a merger or acquisition, and “obtained their perceptions and lived experience concerning how leadership behaviors and traits might have contributed to the retention of key employees of the merged organization” (p. 1). Rowlett reported that retention is important in maintaining intellectual capital for the newly formed organization since

statistics report that the 25% top performing employees leave within 90 days during major organizational restructuring such as mergers or acquisitions (Rowlett, 2006). Results from the study revealed that “behaviors and traits of the leaders and actions involving communications, employee involvement, culture identification, and key employee identification positively influenced key employee retention during the merger and acquisitions of organizations” (Rowlett, 2006, p. 1).

According to Hayward (1999) there is evidence of acquirer learning in mergers and acquisitions.

Research suggests that acquirers experience better acquisition performance when (1) they are managed by CEO's with longer tenure at the firm; (2) there is a moderate temporal interval since their prior acquisitions; (3) they have previously undertaken acquisitions of different size; (4) they have made small, prior acquisition mistakes; and (5) they do not use investment banking advisors. (Hayward, 1999, p. 1)

In addition, “greater acquisition experience did not increase focal acquisition performance...acquirers learn more from direct than vicarious experience” and “the nature, timing and performance of prior acquisitions, rather than the amount of experience, is beneficial to acquisition performance” (Hayward, 1999 p. 1).

A case study looked at the perceptions of faculty and MBA students “on what leadership practices they perceived to be important for leadership and management in the business merger and acquisition organizational environment” (Brennan-Rowe, 2006, p. 1). Results from this research “indicated that two of the seven leadership practices of Inspire a Shared Vision to be critical for leadership in mergers and acquisitions” (Brennan-Rowe, 2006, p. 1). Both faculty and students had “a good understanding of leadership practices and the special challenges inherent in business mergers and

acquisitions, and they perceived the need for a specialized leader to take responsibility and facilitate a successful integration process” (Brennan-Rowe, 2006, p. 1).

Bodam (2004) explored to what degree an experiential, simulated intervention process will help leadership understand the differences between human capital and culture in a merger and acquisition process. The study “explores the value of leaders’ participation in a merger or acquisition simulation that fosters an attitude receptive to human capital and critical cultural success factors in a controlled environment where participants manage and value intangible business assets” (Bodam, 2003, p. 1). The results “reflected positive changes in participant’s attitudes, knowledge and behaviors toward human capital and culture, enabling them to be more successful in a post-merger and acquisition environment” (Bodam, 2003, p. 1).

Communication

Razi’s (1999) study focused on the creation and perpetuation of cultural knowledge during a merger. According to Razi, “when an existing cultural knowledge pattern is disturbed as a result of a merger, congruent and culturally-diverse groupings begin to form that develop idiosyncratic cultural knowledge patterns and direct the flow of knowledge” (Razi, 1999, p. 1). During the merger, the employees develop their own informal knowledge networks that are transferable to other employees and customers. This informal cultural knowledge becomes more powerful than communication “constructed by management particularly if there is any perceived inconsistency in messages conveyed” (Razi, 1999, p. 2). This cultural knowledge influences “perception, feeling, and behavior” all very important aspects that may affect a merger in a negative or positive direction (Razi, 1999, p. 1).

Culture

Reigle (2003) defined organizational culture as a set of shared basic assumptions and values that the members of a group use to provide a basis for their behavior.

“Culture has been shown to have several effects on an organization: employee retention, technology implementation, innovation, successful mergers, organizational effectiveness, and productivity” (Riegle, 2003, p. 1). In this research, an organizational culture assessment tool was tested and validated for measurement of organizational culture.

Kleppesto (1993) viewed culture as a process versus a state of mind and culture about being versus becoming. This study focused on cultural aspects of integration during a merger and viewed the two merging companies integrating “as engaged in a variety of conflicts about social identity and group self-description...as engaged in a conversation or process of communication wherein they negotiate their own identities and definitions of the situation” (Kleppesto, 1994, p. 1). According to the results of this study, “efforts to achieve cultural uniformity do not necessarily lead to a better integration or cooperation. The differences emphasized by the actors are not primarily the results of different cultures per se but of the integration” (Kleppesto, 1994, p. 2).

Weber’s (1988) study on management of culture during the implementation of mergers and acquisitions found that the higher cultural differences between the two top management teams...the greater is the likelihood for behavioral problems. “These behavioral problems include conflicts, negative attitudes toward the merger and toward undertaking the integration process, and low commitment and cooperation on the part of the acquired top management team” (Weber, 1988, p. 1). Behavior toward the merger contributes to its eventual success or demise.

Liu (2004), using a computational method, provided further insights regarding the social and cultural dynamics of mergers and acquisitions. Relationships between the following four variables were evaluated: “the level of similarities between combination partners, their level of autonomy removal, their strength of institutionalization, and their level of knowledge formalization” (Liu, 2004, p. 1). Results of the study indicated that,

(1)...Similarities do not necessarily reduce resistance but are essential in the case of tacit knowledge; (2)...autonomy removal has a positive effect on merger performance, but only if the parent company is right; (3)...the strength of institutionalization magnifies the effects of similarities and dissimilarities regardless of whether those are positive or negative; (4)...formalization has a general positive effect when it occurs in the acquired firm but exhibits a certain optimal level when it occurs in the parent company. (Liu, 2004, p. 1)

Merger and Acquisition Success Factors: Consulting Companies

In a CEO roundtable discussion on what makes mergers work, top CEOs provided various insights and expert advice on how to increase the odds of success. According to Dennis Kozlowski, acquisitions work best when the main rationale is cost reduction, and the acquisition of products and technologies rather than the acquisition of companies (Carey, 2000). Raj Gupta added that the industry’s need to consolidate, mainly drives merger activity (Carey, 2000). Mackey McDonald suggested focusing on mergers with businesses with which the organization is familiar (Carey, 2000). According to Alex Mandel, mergers and acquisitions are critical strategic tools for success and growth in the new market economy (Carey, 2000). These executives agreed that mergers play a crucial factor in our overall economy and that understanding how they work and what makes them successful is of great interest to everyone involved in the process. However, the factors that contribute to merger success are many and varied. Following is a literature review of what merger consultants consider crucial to merger success.

Current and former CEOs, executives, and consultants in the field of mergers and acquisitions write many books and articles. These professionals are considered experts in their respective fields and their publications offer their own personal experiences of what they consider factors contributing to positive outcomes. Massoudi (2006) offers a comprehensive list of 35 success factors for mergers and acquisitions. The following is a small excerpt from the extensive list of factors.

(1) Measure M&A success based on the creation of competitive advantage and real shareholder value, (2) Gain insights into industry challenges and future trends before pursuing a deal, (3) Pass up acquisitions in non-related businesses, (4) Understand the M&A process and clearly establish owners, deliverables, and timetables, (5) Anticipate and focus on key M&A decisions, (6) Drive every aspect of the M&A deal from the senior leadership level, (7) Be prepared to walk away from a deal that does not show potential, (8) Choose strategic moves that strengthen the company. (Massoudi, 2006)

A Booz-Allen and Hamilton report suggests three critical factors that positively influence merger outcomes. First is the preference to “consolidation oriented transactions, designed to add scale or grow existing business lines within an existing business model” (Adolph et al., 2006, p. 1). Second is stakeholder oversight in “getting involved earlier and moving beyond traditional board-level issues, such as the purchase price and strategy, to such fundamental concerns as the road blocks to successful implementation” (Adolph et al., 2006, p. 1). Third is the pre-merger planning period which takes “anywhere from two to five months before a transaction is actually closed (Adolph et al., 2006, p. 2).

Bain and Company, Global Mergers and Acquisitions, conducted a major study that looked at what makes some acquirers more successful than others and key practices that succeed at deal making. Six rationales were found to positively influence merger and acquisition success: “(a) active investing, (b) growing to scale, (c) building

adjacencies closely related to the company's existing business (d) broadening scope, (e) redefining business, (f) redefining industry, and (g) foundation for success – the right strategic rationale will inform what leadership and communication style to adopt and how to plan for post-merger integration, including cultural intergration” (Gadiesh & Ormiston, 2004, p. 2). Additionally, five causes of failure are provided “(a) poor strategic rationale, or a poor understanding of the strategic levers, (b) overpayment for the acquisition, (c) inadequate integration planning and execution, (d) a void in executive leadership and strategic communications, and (e) a severe cultural mismatch” (Gadiesh & Ormiston, 2004, p. 2).

An executive summary of Watson Wyatt's worldwide 1998-1999 Mergers and Acquisitions Survey, “A Key to Maximizing M&A Deal Value,” stated that the “success of most M&A deals was most often attributed to leadership, well-planned communication, and early management of (me) issues” (Galpin & Herndon, 2000, p. 236). The “me” issues make reference to people issues which include assisting and guiding employees on what is going to happen to them during the merger which, when addressed early on by management, “dispels uncertainty among employees-an essential ingredient of a successful deal” (Galpin & Henderson, 2000, p. 232). “Retention of key talent, communication, and integration of cultures were most often rated as critical activities in the integration plan” while “shareholder value, return on capital employed, and market share were listed as the top three performance measures used to monitor success of the M&A process” (Galpin & Henderson, 2000, p. 233).

“The Complete Guide to Mergers and Acquisitions: Process Tools to Support M&A Integration at Every Level” put forth another list of 10 recommendations for merger success (Galpin & Herndon, 2000). These factors include the following,

- (a) Conduct due-dilligence analysis in the financial and human-capital-related areas, (b) determine the required or desisred degree of integration, (c) speed up decision instead of focusing on precision, (d) get support and commitment from senior managers, (e) clearly define an approach to integration, (e) select a highly repected and capable integration leader, (f) select dedicated, capable people for the integration core team and task forces, (g) use best practices, (h) set measurable goals and objectives, and (i) provide continuous communication and feedback. (Galpin & Herndon, 2000, p. 196)

Additionally, it is highly reccomended that organizations develop written guidelines to assist them in future mergers and acquisitions that include typical elements such as steps, activities, time-frames, and other documented details of previous mergers to assist with forthcoming ones (Galpin & Herndon, 2000).

According to a survey of business executives conducted by Mercer Management Consulting, “barriers to mergers were directly or indirectly related to culture, skills, and organizational architecture” (Dutra & de Grandpre, 2001, p. 2). Booz-Allen and Hamilton’s research also identified similar principles crucial to merger success: “(1) communicate a shared vision, (2) seize defining moments to make explicit choices and trade offs, architecture, (3) simultaneously execute against competing critical imperatives, and (4) employ a rigorous integration planning process” (Adolph et al., 2001, p. 2).

A thorough review of books and academic studies including student dissertations, offer a glimpse of the multitude of factors driving merger and acquisition success. Studies that cluster these success factors from different research studies together were not present in the sources reviewed. Furthermore, no research studies have been identified

that draw comparisons between academic and consultant success factors. This research aimed to combine research from consultants and academicians and create an insightful and unique set of data furthering understanding of the factors that contribute to merger and acquisition success. This investigation was holistic: it involved findings from management consultancy groups as well as those from academic research. The expectation from this study was a meaningful comparison of academia and field expertise.

CHAPTER III

METHODOLOGY

Restatement of the Purpose

The purpose of this qualitative study was to explore success factors that contribute to positive merger and acquisition outcomes from the perspective of academicians and consultants. First, the consultant perspective was explored from research reports on mergers and acquisitions reported from the three top management consulting companies in the U.S. offering services in the area of mergers and acquisitions. Research reports were collected from management consulting companies and reviewed to discover what consultants are publishing about the causal factors of merger success. Second, the academic perspective was explored from textbooks that were collected and reviewed to discover what professors are teaching about the causal factors of merger success. Another purpose of this study was to explore the differences and findings between consultants and academicians using qualitative content analysis to induct factors that contributed to positive outcomes.

Research Methodology and Design

The methodology of this study is inclusive of the research and design in both consultant and academic research. Content analysis was used to investigate success factors in mergers and acquisitions. The inductive approach was used to identify areas of best practices. Merger and acquisition success factors were identified, grouped in tentative categories, and were then deduced. The corpus of the study was obtained from both university textbooks and consultant companies' reports. Next, reliability and validity measures were discussed. Data collection and identification was attained through

web-site information. In addition, results of an initial pilot study assessing reliability is reported.

This study utilized content analysis to investigate factors that positively affect mergers and acquisitions. According to Neuendorf (2002) content analysis is a research tool used to determine the presence of certain words. This study determined the concepts within texts. The presence of these concepts such as *best practices or success factors determining positive merger and acquisition outcomes in all areas of the merger and acquisition process* were analyzed. The sets of texts that were used in this study were multiple pieces of text derived from academic textbooks and corpora derived from consultant reports. Content analysis systematically analyzes message characteristics (Neuendorf, 2002). “By reducing the text to categories consisting of a word, set of words or phrases, the researcher can focus on, and code for, specific words or patterns that are indicative of the research question” (Busch et al., 2005, p. 1).

The data were organized by themes. These themes were representative of factors leading to positive merger and acquisition outcome. Inductive analysis was conducted by the identification of themes and categories that emerged from raw data. This analysis was intentionally used in order to provide freedom for new areas to emerge and for all success factors to be recorded. Success factors were identified by reviewing chapter titles in textbooks and by reviewing titles and abstracts in consultant company publications. In keeping with complexity theory, this study allowed multiple categories to emerge and recorded all factors, however minute, to be included as part of the findings.

Content analysis was used to quantify and tally the presence of “success factors” and the occurrence of these themes in consultant company research studies and academic

books. The use of conceptual content analysis determined the presence of merger success factors from texts written about mergers. In “conceptual analysis, a concept is chosen for examination, and the analysis involves quantifying and tallying its presence... the focus here is on looking at the occurrence of selected terms within a text or texts” (Busch et al., 2005, p. 1). Success factors were entered into the computer using Excel Software and were organized by thematic significance. Academic textbook use and consultant research reports were derived from information as reported from their respective web-sites. A combination of academic and consultant expertise provided an extensive review of factors contributing to successful deal making and provided an analysis from two differing perspectives. This intentional triangulation increased the credibility of the results.

Population and Sample: Corpus

The corpus was obtained from two areas; (a) academic books that are used to teach merger and acquisition classes as reported on the web-sites of the top three business schools in the U.S., and (b) research reports on merger and acquisition success factors reported on the web-sites of the top three management consultant companies in the U.S. These two areas were used to compare and contrast with each other.

Academic Research

The corpus of Academic Research was collected from textbooks used to teach merger and acquisition classes specific to the master’s level and above, from the three top business schools in the United States. This corpus was selected for content analysis in order to provide a representative sample of top educational resources. The three top schools were selected from the *U.S. News and World Report* on America’s Top Graduate

Business Schools for 2007: (1) Harvard University, (2) Stanford University, and (3) the University of Pennsylvania. Stanford University, which ranked second, did not offer any classes in mergers and acquisitions and was replaced by the University of Pennsylvania (Wharton School of Business) and the third-ranked business school was replaced with the Massachusetts Institute of Technology (Sloan School of Management).

Consultant Research

The corpus of consultant research was collected from the three top-ranking management consulting companies in the U.S. This corpus was selected for content analysis in order to provide a representative sample of best practices reported by top management companies specializing in mergers and acquisitions inclusive of the years 2000-2006. The ranking of these top companies came from the *Vault Guide to the Top 50 Management and Strategy Consulting Firms, 2007 Edition*, which surveyed more than 2,700 consultants to generate the rankings of the top management and strategy consulting firms. The survey was based on more than 2,100 industry consultants and provided the following firm rankings for the year 2007: (1) McKinsey & Company based in New York, NY, (2) Boston Consulting Group based in Boston, MA, and (3) Bain and Company based also in Boston, MA (Vault Inc., 2007). Each company's website contained a publication section dedicated to news briefs, industry insights, and industry research reports. These reports were written by company personnel working in the area of mergers and acquisitions in the U.S. and, because these are multi-national companies, around the world. A special search of *Mergers* provided a listing of abstracts containing information on mergers and acquisitions. These abstracts were then reviewed for reports that discussed success factors.

Reliability

Reliability “is the extent to which a measuring procedure yields the same results on repeated trials” (Neuendorf, 2002, p. 112). More specific to content analysis, “is that the measure is not valuable if it can be conducted only once or only by one particular person” (Neuendorf, 2002, p. 112). It is widely acknowledged that intercoder reliability is a critical component of content analysis, and that, although it does not insure validity, when it is not established properly, the data and interpretations of the data can not be considered valid (Neuendorf, 2002, p. 141). Also, "given that a goal of content analysis is to identify and record relatively objective characteristics of messages, reliability is paramount" (Neuendorf, 2002, p. 141).

According to Neuendorf (2002) threats to stability are poorly executed schemes, inadequate coder training, and coder fatigue. Neuendorf (2002) suggests that stability can be attained as follows: “(1) By the researcher by coding a set of data twice at differing points in time to establish some degree of intra-coder reliability, (2) the points may be recommended by a validity panel, (3) reproducibility can be assisted through the recommendations of the validity panel, and (4) accuracy can be attempted through the use of a careful process of classifying the data” (p. 142). Additionally, the alertness of the researcher and the opportunity to work in a quiet space with minimal or no interruptions can aid stability.

Validity

The web-sites of each academic institution were reviewed and four textbooks used in the teaching of mergers and acquisitions were identified. Three of the four textbooks recommended each other for reference in the recommended/additional readings

section. This was a good indicator of validity of the books utilized in this research. A further review of these books identified only two relevant to this research and of the two; only one provided the majority of the success factors. The web-sites of each management consulting company were reviewed for articles making reference to merger and acquisition success factors. Prior to conducting the research, a pilot study was performed to establish validity and acceptance of the research method by the dissertation committee.

Data Collection: Academic Research

The web-sites of the top three business schools were reviewed for information regarding textbook use in the merger and acquisition classes. The textbooks were identified by the universities' web-sites. Sometimes web-sites offered a syllabus with the textbooks that were to be utilized in the merger and acquisition classes; otherwise the bookstore of the university was contacted for verification of textbook use. Professors were very difficult, almost impossible, to reach. Some universities excluded phone numbers and e-mail addresses from the public but made them available to their respective registered students. Once the textbooks were attained, the data was collected from the texts; it was reduced to categories, and was then coded for success factors.

Data Collection: Consultant Research

The web-sites of the top three management consulting companies were reviewed for reports on mergers and acquisitions. The corpus for consultant research was the set of research reports with titles referencing merger success factors, merger determinants of success, how to make a merger right, etc. Any report that referenced best practices, factors of success, and/or determinants of positive merger outcomes was included in the

corpus. Data was collected from the year 2000 to present (2006-7). Also, data was collected only from free posted web-site research reports available from the three top consultant company web-sites.

The coding of data commenced after data reports were collected. Once the data was collected from the texts, it was reduced to categories, and was then coded as follows: (1) word(s) that identify area of merger success; (2) concept in sentences/phrases that further explain why the factor caused merger success; and (3) theory that is used to justify the success (if applicable) as presented in Figure 2.

Figure 2

Data Collection Process



Pilot Study

According to Neuendorf (2002) “reliability should always be assessed with a pilot...a randomly selected sub sample of the total sample message pool before the study begins in earnest” (p. 146). “Reliability assessment in a pilot study of the content under investigation is essential to the development of a valid, reliable, and useful coding scheme” (Neuendorf, 2002, p. 146). A pilot study was performed to assess reliability and to verify the coding scheme. The pilot study used a short report from the Booz Allen and Hamilton Consultant Company titled *From Mergers: Back to “Happily Ever After”* (Adolph, 2006). The factors leading to merger success were selected and a content analysis was performed.

This initial pilot study provided three merger success factors in the areas of consolidations, stakeholder oversight, and pre-merger planning. The first success factor was identified in the area of consolidation. The factor was further broken down into two reasons for consolidation success: (1) consolidation-oriented transactions designed to add scale or grow existing business lines within an existing business model are gaining favor, and (2) because these types of mergers involve an enhancement of the company's core business without the need for a fresh set of operational and strategic skills; they carry far lower execution skills; and, therefore, have a higher success rate.

The second success factor was identified as stakeholder oversight. There was one reason stated for the success factor: boards of directors and stakeholders are getting involved earlier and are moving beyond traditional board-level business, such as the purchase price and strategy, to such fundamental concerns as the roadblocks to successful implementation. The third merger success factor identified was pre-merger planning and two reasons were provided for its success: (1) companies now initiate integration planning or ongoing examinations of the acquisition anywhere from two to five months before a transaction is actually closed and increasingly even before the agreement is finalized and (2) managers from both companies may meet to assess short-and-long-term performance targets; design a framework for the merged organization, including use of resources and staff allocation; draw-up blueprints for integrating corporate networks; and create benchmarks for tracking the planning process. This last pre-planning recommendation can be broken up into several recommendations. This pilot study provided insight into the rich information that is available from consultant reports and the

need to select a computer program that will allow for the gathering and organizing of success factors.

Data Analysis

The same data analysis procedures were used for all research sources both academic and consultant. Academic textbooks and research reports were read and the text was reduced to factors contributing to merger and acquisition success. They were coded as follows: (1) word(s) that identify area of merger success; (2) concepts in sentences/phrases that further explain why the factor caused merger success; (3) theories that are used to justify the success (if applicable) as seen in Figure 2. The results of the coding procedure yielded large lists of success factors which through the inductive process were grouped into areas of best practices.

The first research question, “What do consultants in consulting firms report as the factors contributing to merger and acquisition success?” was answered through the compilation of success factors derived from consultant companies’ research reports. The second question, “What do academicians in the top U.S. business schools teach about factors contributing to merger and acquisition success?” was answered through the compilation of themes derived from academic textbooks used to teach merger and acquisition classes in top U.S. business schools. The third question, “What are the similarities and differences in the findings between consultants and academicians?” was answered by creating tables comprised of success factors to represent the differences between academic and consultant findings.

Researcher Profile

The researcher has a rich background in business both in work experience and in theory. Lena, as a teen, began working for her father's winery in Marathon, Greece, and participated in all aspects of the business and later became assistant director of operations in the areas of marketing, sales, and export. With a bachelor's degree in Biology (with an emphasis in Environmental Studies,) she continued her studies by earning a master's in Public Administration (with an emphasis in Business Administration). During this time, she expanded her knowledge of business by working for World Trade Center in Washington State, as an Interim Executive Director, International Special Projects Manager, Sister Cities Manager, and as a Trade Representative fulfilling contracts for the State of Washington. Lena ventured into creating her own international business consulting company, World Educators in Tacoma, Washington. After getting married and moving to California, Lena became Executive Director of Camp Fire Boys and Girls for Northern California.

This experience has culminated into 20 years of knowledge in business, economic development, public relations, and project management. She has 10 years experience working with non-profit organizations such as City and County Administrations and six years of instructing women and minority-owned businesses in basic business practices, international trade, and protocol issues. Lena has four years experience in teaching both undergraduate and graduate courses in business and international business. Numerous trade journals have published her student's success in their endeavors in international trade. Through her training and multi-experiences, Lena has gained valuable expertise in

intercultural issues and communication. She has trained both outgoing U.S. trade delegations and incoming trade delegations.

With her business-related background, Lena is quite comfortable analyzing business-related texts. Lena has also worked with coding schemes both in accounting and in the designing of computer programs, areas that require a great deal of concentration and attention to detail. Above all, she has the dedication to strive for excellence in her dissertation work.

CHAPTER IV

FINDINGS

Overview

This study, utilizing content analysis, inducted factors that positively affect mergers and acquisitions from both consultant and academic sources. The first research question addressed “what do consultants in management consulting firms report as the factors contributing to merger and acquisition success. An overview of the top management consulting companies includes basic information about the operations and services of McKinsey & Company, Inc., Bain & Company, Inc., and Boston Consulting Group. These top three companies’ web-sites were reviewed for reports on factors that contribute to positive merger and acquisition outcomes. Forty-eight company reports contained information on merger and acquisition success factors and were subsequently utilized as the consultant corpus of the study. These reports provided a plethora of factors contributing to positive merger and acquisition outcomes.

The second research question addressed “what do academicians in top U.S. business schools teach about factors contributing to merger and acquisition success.” The top three business schools identified for this research are Harvard Business School, Wharton School of Business, and Sloan School of Management. The type of pedagogy used in these business schools was discussed and information about Executive Programs focusing on mergers and acquisitions was provided. A review of university web-sites identified textbook utilization in merger and acquisition classes. Four books used for teaching merger and acquisition classes were identified and reviewed for success factors contributing to positive merger and acquisition outcomes. Two of these books contained

information relevant to success factors and were reviewed for the academic corpus of the study. Success factors in academia are focused in leadership related issues.

The third question explored “what are the similarities and the differences in the findings between consultants and academicians.” Textbook content primarily focused on the structural aspects of mergers and acquisitions and finance-related subjects and theory. Similarities were present only in the area of leadership. Differences were found in the areas of ethics and cooperative or win-win deals. In this chapter, the findings are organized by the three research questions.

Data for this study, merger and acquisition success factors, were identified through content analysis’ inductive approach. First, general factors contributing to positive merger and acquisition outcomes were entered into the computer, and second, areas of success were inducted from these data. The success factors from both consultant company reports and university textbooks were then combined to provide a comprehensive list of factors. Factors that were duplicated in research reports were excluded from the data. In complexity theory, even small changes may bring about large affects. Holding true to this principle for data gathering, the factors presented in the results are inclusive of all factors present. The results are presented as they relate to each research question.

Research Question 1

What do consultants in merger and acquisition firms report as the factors contributing to merger and acquisition success?

Overview of the Top Management Consulting Companies

The consulting industry is a multi-faceted, global business sector that is facing many challenges and evolving rapidly. According to Plunket Research (2005) “at the highest level of business is ‘management consulting,’ the segment that advises top executives and boards of directors at Fortune 1000 firms on strategy and organization” (p. 1).

McKinsey & Company, Inc., Bain & Company, Inc., Boston Consulting Group, Inc., and a handful of other companies are the most elite...their suggestions often result in sweeping organizational changes, adding (clients hope) tens of millions of dollars to the yearly bottom line. (Plunket Research, 2005, p. 1)

These three nationally recognized companies offering consulting services in mergers and acquisitions were selected for this study. A thorough review of their research publications offered ample literature regarding success factors leading to positive merger and acquisition outcomes.

McKinsey Company was founded by James O. McKinsey in 1926 and now has grown into a global partnership serving three of the world’s five largest companies and two-thirds of the Fortune 1000 (McKinsey Company, About Us, 2007). The company’s mission is to help clients make distinctive, lasting, and substantial improvements in their performance and to constantly build a great firm that is able to attract, develop, excite, and retain exceptional people (McKinsey Company- What We Believe, 2007).

The Boston Consulting Group (BCG) is an international strategy and general management consulting firm whose mission is to help leading corporations create and sustain competitive advantage through a combination of breakthrough thinking, rigorous analysis, and applied creativity (Boston Consulting Group Background, 2007). The company was founded in 1963 by Bruce Henderson and it is a privately held company

with headquarters in Boston, Massachusetts, with 61 offices in 36 countries (Boston Consulting Group Background, 2007). BCG is “one of the world's leading advisers in post-merger integration” and has worked over the past 5 years “with more than 250 global corporations on their integration challenges, in every industry and geographic region” (Boston Consulting Group Post-Merger Integration, 2007, p. 1). According to BCG, it is estimated that BCG-assisted integrations can generate as much as an additional 25 percent in shareholder returns in the 18 months after the initial announcement of the deal, compared with the average merger (Boston Consulting Group Post-Merger Integration, 2007).

Bain and Company is a leading global business consulting firm. It was founded in 1973, on the principle that consultants must measure their success in terms of their clients' financial results (Bain & Company, About Bain, 2007). With offices in all major cities, serving clients across six continents, Bain has worked with over 3,300 major multinational and other corporations from every economic sector (Bain & Company, About Bain, 2007). Bain assists companies to improve the odds of success in mergers and acquisitions. Bain has screened more than 30,000 acquisition targets, supported more than 1,000 deals with a cumulative value of over \$200 billion, and worked on more than 2,000 private equity evaluations and transactions. Bain-supported investments have performed in the top quartile of all LBO transactions (Bain & Company, About Bain-Client Work, 2007).

Top Consultant Company Findings

A review of the number-one ranked management consulting website, McKinsey, Inc., provided two areas where research reports were found. The first source was in the

Corporate Finance: Mergers and Acquisitions section, *Recent Thinking* section that provided archived articles on mergers (McKinsey Company-Recent Thinking, 2007). Some of these articles were also present in the *McKinsey Quarterly*. The second source, *The McKinsey Quarterly*, provided both paid and free reports. Search results for the key word *Mergers* produced a total of 211 relevant abstracts. After these abstracts were reviewed, 15 articles were chosen for inclusion in this research and are displayed in Appendix A. Success factors were reported in the areas of leadership, new top team or often referred to as deal team, culture, post-merger integration, communication, due diligence, people issues, and market preference, are displayed in Table 1.

Table 1

M&A Results Reported by Ranking #1: McKinsey Company

<u>Areas</u>	<u>Success Factors</u>
Leadership	<ul style="list-style-type: none"> Link their transactions to clear strategic goals. Pursue their transactions as part of a disciplined and ongoing program. Organized for fast decision making and effective implementation. Ensure that in the process the company learns about itself. The CEO needs to rapidly create a cohesive and well-functioning top team. Shaping a strong performance culture. Actively championing the interests of external stakeholders. Developing an inspiring "story" to drive the communications effort. Balancing quick moves with wisdom gained from experience.
New Top Team	<ul style="list-style-type: none"> Create a new top team before the close of the merger. Make it the ultimate template for the integration. Embody characteristics crucial for the success of the merged company. Members signal the kind of company they are creating and their commitment. M & A experience is especially vital at the very top of an organization. The top team must become the new company in the full sense. Early top team appointment is a strong predictor of the long-term performance. Top-team alignment can be reached through open debate. Must become the new company in the full sense.

Table 1 (continued)

M&A Results Reported by Ranking #1: McKinsey Company

Areas	Success Factors
New Top Team	<ul style="list-style-type: none"> Members must be aligned around them. To collaborate effectively, its members must be clear about their individual roles. Reach dispassionate decisions about who remains in the top team. Deal humanely with the people involved. Define role for the leadership team. Must define roles very clearly and quickly - especially the integration effort. Messages, processes, targets must incorporate the new company's aspirations be visible to everyone. Articulate, in a clear way, how and when decisions will be made. Must fashion its own identity vis-à-vis the external world of business partners, competitors, customers, and regulators to reach this level of agreement.
Culture	<ul style="list-style-type: none"> Focus effort on a "performance culture," that is to say the crucial set of attitudes and behaviors that are required to create value in the merged company.
Post-Merger Integration	<ul style="list-style-type: none"> Establish a clean team to support integration efforts. Pricing must reflect true value delivered. Price structures, discount schedules, and payment terms, must be consistent across the combined enterprise. Pricing can contribute 30 % of the value of synergies in a deal - and can destroy value if mishandled. Retaining key talent (employees) is critical to successful integration. They tailor the integration to balance their revenue and cost initiatives. Prior merger announcement analyze all possible sources of cost, revenue opportunities and risks. Planning for growth early in the merger process. Protecting existing revenues first. Explicitly balancing cost and revenues. Instilling a performance culture geared for growth. A focus on growth is a powerful motivator for key talent.
Communication	<ul style="list-style-type: none"> Take the time to communicate personally and to build frontline support. Merger communications is set in the context of the broader corporate story. Communicate company meaning to stakeholders and how they interpret its past, present & future.

Table 1 (continued)

M&A Results Reported by Ranking #1: McKinsey Company

Areas	Success Factors
Communication	<ul style="list-style-type: none"> Articulate, in a clear way, how and when decisions will be made. Withholding information prolongs uncertainty and turmoil that devastate revenue momentum.
Due-Diligence.	<ul style="list-style-type: none"> Reduce top-line synergy estimates. Acknowledge revenue dis-synergies. Increase estimates of one-time costs. Compare projections with realities. Apply outside-in benchmarks to cost synergies. Be realistic about timing. Involve line managers in problem solving and due diligence. Codify experiences.
Retaining Key Employees	<ul style="list-style-type: none"> In time of uncertainty identify & keep key personnel prior to deal announcement. Establish clear guiding principles for selecting managers in the new company. Provide attractive, intelligently structured, financial incentives for those you want to keep.
Sales force	<ul style="list-style-type: none"> The first step is to name the new sales manager Look after existing customers and revenue, retain their revenue-generated talent. Financial incentives may be most important tool for retaining and motivating sales staff. Successful acquirers create a sales war room or interim leadership group. War room works with the sales force to identify and monitor accounts at risk.
Market Preference	<ul style="list-style-type: none"> Companies that focus on their strategic goals. Acquisitions create the most market value overall. Companies that choose acquisitions that complement their distinctive capabilities. If a deal is structured as merger or sale, it has little clear effect on stock prices. Reward acquisitions with long-tenured executives vs. those that lack them. A premium is placed on executives experienced in planning, carrying out, and integrating M&A's. The market apparently prefers deals that are part of an "expansionist" program.

Note. References of McKinsey Company Reports are included in Appendix A.

A review of the number-two ranked management consulting website, Boston Consulting Group, publications section containing *Mergers* (ordered by relevance) yielded 22 relevant research articles. After these abstracts were reviewed, 6 articles were chosen for inclusion in this research and are displayed in Appendix B. Success factors from these articles were reported in the areas of leadership practices, employee and investor issues and people issues, information technology integration, communication, economic climate, pre-merger integration, and integration, are displayed in Table 2.

Table 2

M&A Results Reported by Company Ranking #2, Boston Consulting Group

Areas

Success Factors

Leadership

Companies must define the role of M&A in their corporate strategy.
 Acquisitive growth is used to create sustainable competitive advantage.
 Pursuing a deal only when the expected returns are above the cost of capital.
 Rigorous to valuing and pricing potential deals (high-definition valuation).
 Thorough test the upside potential of the acquisition.
 Assess the internal impact of the deal
 Quantify the costs of inaction.
 Carry out pre-M&A exercises.
 Establish opening and closing bids in advance to avoid the risk of deal fever.
 Conduct original customer research.
 Treat the process in a systematic, "industrial" manner.
 The most experienced M&A players produced the highest returns (12.4 percent).
 The fastest growing acquirers gained market share more rapidly and grew twice as quickly as the fastest-growing organic-growth companies.
 Highly acquisitive companies had the highest median total shareholder return.
 The most successful acquisitive grower outperformed successful organic growers.
 They delivered cash-flow return on investment (CFROI) above the cost of capital before they grew their assets.
 Combined above-average revenue growth with high CFROI no matter what kind of growth strategy they pursued.
 But the highly acquisitive companies grew at nearly twice the rate of the organic companies and gained market share more rapidly.
 There is no inherent disadvantage to growth by acquisition.

Table 2 (continued)

M&A Results Reported by Company Ranking #2, Boston Consulting Group

Areas	Success Factors
Employees	<p>Support of the interests of employees and investors.</p> <p>The most effective way to convince employees of the change, is by presenting a sound business case that demonstrates exactly why the company must make a move and how it will prosper as a result.</p> <p>A fact-based, undeniable argument for change is thus a mandatory first step in gaining employee support.</p> <p>Managers must invest the time and resources to assuage the insecurity by communicating the merger benefits to their worker not just on a broad, corporate level, but on an individual level as well.</p> <p>Talking candidly about the process and the principles that will be applied-fairness, transparency, global balance of job appointments, career paths-is an example of a reassuring and honest approach.</p> <p>Question-and-answer sessions, can be highly effective forums.</p> <p>Management must demonstrate that it knows exactly where it is going and that it will stay the course and make the tough decisions needed for the merger to work.</p> <p>The management of the acquiring company has a lot of people to convince of many things: that change is necessary, that the move in question is the best one to make, that there will be tangible gains for most individuals, and that the project won't be allowed to collapse when the going gets tough. Making these arguments compelling will dramatically increase the chances of achieving a merger that brings long-term value.</p> <p>Handling employees well will enhance employee retention and morale internally, the reputation externally.</p> <p>Establish the necessary human resources support, which is usually considerable.</p> <p>Create transparent, objective, and rapid process for selecting top-level managers on the basis of merit.</p>
Investors	<p>Investors worry immediately about the value of their holdings.</p> <p>They want to know how the merger will lead to profitable growth.</p> <p>Investors worry immediately about the value of their holdings.</p> <p>Precisely outline the cost-reduction potential-commonly up to 15 percent of the total cost base in a local merger.</p> <p>The extent to which the cuts will bolster the bottom line.</p> <p>Offer detailed, year-by-year projections of the cost and revenue effects of the acquisition and of the estimated lift to profits.</p> <p>Having a track record of successful change management that shows investors the company is up to the task.</p>

Table 2 (continued)

M&A Results Reported by Company Ranking #2, Boston Consulting Group

Areas	Success Factors
Investors	<p>Investors need a compelling equity story. If there is no such history to bank on, clearly defining the integration plan and the milestones that investors can look for becomes that much more important.</p>
Information Technology Integration	<p>Information Technology Integration The six golden rules of information technology information. In an acquisition, 1. Choose from the existing systems landscapes-do not build a third. Identify specific or absolutely necessary applications. In a merger of equals, 1. Choose a systems landscape application by application. 2. Choose one entire IT systems landscape. The most effective way, each company's IT team should break down its respective systems into clusters. The merging team can then design the new landscape by choosing clusters from each side. Follow a rigorous selection process.</p>
Communication	<p>Communicate, especially internally. Demonstrate that the merger process is under control. Allay fears of employees, customers, shareholders, and potential investors. Enhance the reputation of the merged entity. Stop the loss of talented employees. Allow managers to disseminate the process and timing of decisions throughout the organization. Agree and provide clear and consistent messages. Communicate message in face-to-face briefings.</p>
Economic down times	<p>Deals during below-average economic growth period had higher success. Weak economy mergers generated more value than strong economy mergers. Over a two-year time frame, they created 14.5 percent more value. Use M& A strategically to buy weaker competitors. Consolidate markets. Gain share. Strengthen competitive advantage. Position to "accelerate out of the turn" as the economy improves.</p>

Table 2 (continued)

M&A Results Reported by Company Ranking #2, Boston Consulting Group

Areas	Success Factors
People Issues	<p>Beware of the tendency among those managing the integration to shrink from layoffs.</p> <p>Deal specifically with remuneration, terms and conditions, layoffs, and employee relations.</p> <p>Provide top-management support for new appointments and sufficient resources for people leaving the organization.</p>
Pre-Merger Integration	<p>Have a structured PMI process with clear objectives and accountabilities.</p> <p>Well defined phases and timetables.</p> <p>Targets with strong incentives to achieve them.</p>
Integration	<p>Manage the merger as a discrete process.</p> <p>Create project teams, separate from the core business, to handle the merger.</p> <p>Carefully design a clear structure and set of principles for the merger:</p> <p>Give managers overseeing the process a mandate to make and implement decisions quickly.</p> <p>Prepare to orchestrate many projects at once.</p> <p>Be wary of line managers who are slow or who obstruct implementation to guard their own narrow interests.</p> <p>Recognize that combining the best practices of each company is easy to talk about but hard to do.</p> <p>Integrate as rapidly as possible.</p> <p>Use all the time after the deal is agreed on but before the merger takes effect to prepare for integration.</p> <p>Contain the merger's short-term destabilizing impact on employees and customers.</p> <p>Make tough decisions and monitor their implementation.</p> <p>Make hard choices and consolidate aggressively.</p> <p>Decide where the head-quarters will be located.</p> <p>Define the new brand and appoint the chief exec and top-officers.</p> <p>Have clear idea of your cost targets, routinely measure yourself against them.</p> <p>Set objectives & dates for achieving operating cost savings, layoff targets, capital expenditure goals.</p> <p>Insist on detailed monthly reports and quarterly forecasts of cost-cutting goals throughout the merger.</p> <p>Define and integrate each company's operating model.</p>

Table 2 (continued)

M&A Results Reported by Company Ranking #2, Boston Consulting Group

Areas	Success Factors
Integration	<ul style="list-style-type: none"> Define each company's operating model and integrate the two models properly. This approach effectively creates a new constitution for the merged business. Manage customer attrition. Devise an approach to keep customer base. Select one information technology system. Don't try to pick the best of both systems, instead choose one. Sacrifice superior technology and consolidate around a single system. Manage the timing and sequence of brand integration. Early cross-functional integration planning Pay as much attention to integration as to the deal itself. Strive to strike a balance between speed and thoroughness in the pre-merger integration process. Conduct pre-merger integration exercises. Learn how to break the compromise between speed and thoroughness. Routinely revisit synergy targets and results in the years after the formal integration is completed. Speed is of the essence. Potential synergies must be realized quickly - in the first 12 to 18 months after the deal-in order to communicate to the market that the merger is on track.

Note. References of the Boston Consulting Group Reports are included in Appendix B.

A review of the number-three ranked management consulting website, Bain & Company provided a publications section written by Bain. The section *Mergers and Acquisitions* industry was selected for review. A total of 55 abstracts were reviewed for success factors. Of these abstracts, 26 dealt with issues that positively affect mergers and acquisitions and were chosen for inclusion in this research as displayed in Appendix C. Success factors were reported in the areas of leadership, CEOs and CIOs, deal teams, due diligence, integration, post-merger integration, are displayed in Table 3.

Table 3

M&A Results Reported by Company Ranking #3, Bain & Company

Areas

Success Factors

Leadership

- Establish and communicate the strategic vision for mergers.
- Make mergers and acquisitions central to core strategies.
- Determine whether an acquisition makes practical and strategic sense.
- Develop rational, well-articulated merger strategies.
- Act as visionaries, spotting great deals and knowing their worth.
- Know core strengths and target deals that enhance them.
- Stay close to the core business.
- Focus, unbiased, unsentimental discipline is crucial.
- Replace emotions with facts.
- Plan rigorously.
- Make tough decisions rapidly.
- Expect the unexpected.
- Nurture M&A as a core competency.
- Build a team to preserve institutional knowledge.
- Organize strategically for deal-making, increase the learning curve.
- Keep lists of companies to buy if the price was right.
- Form investment committees that test the deal thesis prior final decision.
- Target deals according to a sound investment thesis.
- Build their own proprietary, bottom-up view of the target and its industry.
- Demonstrate a match between target and acquirer's investment thesis.
- Create a detailed picture of their target's customers.
- Continually reviewed targets.
- Compare the target company's industry presence with competitors.
- Look for capabilities such as management expertise.
- Prepare carefully to create opportunities.
- Develop contingency plans for when deals inevitably go off track.
- Develop early-warning system that tracks on a day-to-day problems.
- Create a series of check and balances in place to kill deal fever.
- Determine which deals to close and which to walk away from.
- Focus on closing the deal, and this is not a given.
- Set a walk-away price and dispassionately leave the negotiation.
- Exploit both company capabilities through management strength and capabilities.
- Created feedback systems to make sure that they learned from their mistakes.
- Study and learn from mistakes.
- Define the "rules of engagement."
- Crusade for the new entity.
- Give guidance on how to behave and hard and soft targets for performance.
- Lead by example, when crusading for changes in behavior.

Table 3 (continued)

M&A Results Reported by Company Ranking #3, Bain & Company

Areas

Success Factors

Leadership

Captain change by managing the integration of the two entities.
 As soon as the ink is dry, they start driving the actual integration.
 Crusade constantly, reenergizing integration efforts when they lag.
 Maintain morale and enthusiasm among all combined company's stakeholders.
 An 80 percent right solution is almost always better than delay.
 Frequent acquirers succeed because they tend to be expert acquirers.
 They started with small deals.
 The more deals a company made, the more value it delivered to shareholders.
 Build expertise with lots of small friendly deals.
 Focus mostly on small and medium size deals, not blockbusters.
 Pursue mega-deals when it is both strategically and organizationally appropriate.

CEOs & CIOs

Need to have high degree of mutual trust.
 Shared business objectives.
 Effective communication.
 Agree on true savings.
 Think like a customer when choosing architecture.
 Eliminate systems; don't integrate them.
 IT must continue to support the running of the combines business during the transition while merging the IT organizations, operations and platforms into one.

Deal Teams

Build a standing, experienced deal team that gets involved in all acquisitions.
 On corporate deal teams, decision-making roles and responsibilities are crystal clear.
 Evaluates deals and allows the company to strike expertly the right deal.
 Establish a playbook built on years of deal learning so the company can efficiently recognize deals that fit strategically.
 Follow a process we call "planning for opportunity."
 Long before any opportunity arises, the basis of competition is firmly in mind.
 The strategy they need to capitalize on it is carefully considered.
 Think long and hard about what kinds of deals they should be pursuing.
 Work with individuals who are close to the ground in the line organizations to create a pipeline of priority targets.
 Systematically cultivate a relationship with each target so that they are positioned to act in advance.
 Devise clear guidelines for integration of acquisitions.

Table 3 (continued)

M&A Results Reported by Company Ranking #3, Bain & Company

Areas

Success Factors

Deal Teams

Invest months or even years in studying a prospective deal allowing quick action towards making a deal.

Seal the contract.

Due Diligence

The goal of due-diligence is to determine a walk-away price.

Take a highly disciplined and objective approach to the process

Effective due-diligence is about balancing opportunity with informed skepticism.

Place the broader, strategic rationale for the deal under the microscope.

Remove all accounting idiosyncrasies, to arrive at a business' true standalone value.

Look beyond the reported numbers by sending a due diligence team into the field.

Look at the business case in its entirety.

Focus on costs, customers, competition, and capabilities.

Review the numbers deeply and thoroughly.

Check whether the target's competitors have cost advantages.

Find out why the target is performing above or below expectations.

Probe for strengths and weaknesses.

Pay close heed to the results of the investigations and analyses.

Search for unreliable assumptions and other flaws in the logic.

Use due diligence as a counterweight to the excitement to pursue a target.

Prepare to walk away from a deal, even in the very late stages of negotiations.

Check out the competition.

Examine the target's industry presence.

Compare market share, revenues, and profits by geography, product, and segment.

Place emphasis on management expertise not just P&L and a balance sheet.

Verify the cost economics.

Take stock of capabilities.

Ascertain exactly how the target business operated and how it made its money.

Involve line management early in due diligence.

Integration Practices

Focus on activities that will achieve the largest costs savings and revenues gains.

Ensure that both entities continue with day-to-day business.

Differentiate between people leading the integration task forces and managing operations.

Focus most of the resources on keeping the base business running.

Preserve the key assets (employees, partners, and customers).

The integration team has to spin off "quick wins" consistently.

Table 3 (continued)

M&A Results Reported by Company Ranking #3, Bain & Company

Areas	Success Factors
Integration Practices	<ul style="list-style-type: none"> Wrap it up fast to minimize disruption and maintain employee rationale. Define the right integration approach. Choose fast implementation over perfection. Move rapidly and focus on change that drive the most value and to make it happen fast. Prioritize which aspects of the businesses to integrate and which to leave independent. Target those integration opportunities that will generate the most new value Address culture integration early on and actively. Ensure that the majority of people stay focused on the base businesses. Select the best people irrespective of which company they come from. Identify with speed, key people to lead the organization Remove the people likely to block the process. Rationale helps to identify the right target and set boundaries for negotiations. Involve line management, people who end up with the job of absorbing the new company. Get involved early, and often, in all parts of the process. Mergers aimed at extending product, customer, or geographic scope require only selective integration around areas of business or operational overlap. The newly formed unit must enable the merger to meet its business goals, shifting from early focus on cost-cutting to emphasis on helping drive new business opportunities.
Post-Merger Integration	<ul style="list-style-type: none"> Don't rush. Maintain high degree of focus on the bases businesses. Speed is only valuable once leaders have paved a well flagged race course. Deliver bad news quickly. Eliminate uncertainty improves productivity, even if employees lose their job. Disregard the popular principle, for each job select the best person for either company. Don't let systems integration issues dictate the timetable for integration. Integration comes before any efforts to improve efficiency and effectiveness. Processes, facilities, teams and systems can and need to integrate quickly. Select best teams from either organization rather than the best individuals.

Note. References of Bain & Company Reports are included in Appendix C.

Data was initially entered into the computer separately for each company. Then, success factors were grouped for each company as shown in Tables 1 through 3.

Appendices of the reports used to produce these data are referenced in Appendices A through C. Next, these results were combined by thematic clusters and the following areas were developed; (1) leadership, (2) deal team, (3) due diligence, (4) communication, (5) timing, (6) people issues, (7) integration, (8) economic market preference, and (9) culture. It is important to mention that some of these areas overlapped and similar success factors were repeated in more than one area. One example was the factor of fast integration, speedy communication, which was eventually grouped into one area, timing. Additionally, timing was left in some areas such as in leadership when it was linked with another success factor. Each area was reported separately and the success factors were all reported in table format. The areas of leadership, people issues, and integration were further subdivided to include additional sections, as displayed in Table 4.

Table 4

M&A Results Reported by Consulting Companies

<u>Areas</u>	<u>Success Factors</u>
Best Practices	Leadership (strategy, preparation, implementation, learning capabilities)
	Deal Team
	Due Diligence
	Communication
	Timing
	People issues (employee selection, practices, investors, sales force, CEOs, CIOs)
	Integration (pre, post, and information technology)
	Economy (market preference, uncertain economic times, economic downtimes)
	Culture

Note. From McKinsey Company, Boston Consulting Company, and Bain & Company publications.

Leadership

McKinsey Company offers a pragmatic view of the importance of leadership in a merger or acquisition. According to Fubini, Price, and Zollo, (2006a)

Recent thinking about change management no longer emphasizes the pivotal role of the top team and the consensus on how to manage change has shifted to a dispersed approach because too many initiatives designed to cascade down the hierarchy have delivered disappointing results. (p. 1)

These consultants agree “while this may be true in certain circumstances, a merger requires direction from the top because that is the only way to initiate change throughout an organization” (Fubini, Price, & Zollo, 2006a, p. 1). Leadership is the most important element influencing the outcome of a merger or acquisition. Results of this study revealed a myriad of factors describing best practices in leadership pertaining to strategy, preparation, implementation, and learning capabilities.

The most important virtues of leaders according to Gadiesh, Buchanan, Daniell, and Ormiston (2002) is to act as visionaries, spotting great deals, knowing why those deals are worth doing, and articulating their promise to investors, customers, and employees. These leaders are “irrepressible cheerleaders for the investors and other stakeholders, as well as for the teams that will face the hard task of integrating the two companies” (Gadiesh, Buchanan, Daniell, & Ormiston, 2002b, p. 1). Success-oriented leaders are passionate and they focus on delivering the deal. According to Cullinan, Rovit, and Tymms (2003) acquirers should start with small, lower-risk deals, build an organizational capability, institutionalize the processes, and create a feedback loop to learn from their mistakes (p. 2). “Overtime, as companies refine their organization and processes, they can graduate to larger deals and move into opportunities adjacent to the core business” (Cullinan, Rovit, & Tymms, 2003, p. 2).

Studies show that “U.S. frequent acquirers outperformed occasional buyers by a factor of 1.7 and non-buyers by almost two to one” (Rouse, Harding, & Duval, 2007, p. 1). Successful leaders always “set a walk-away price and dispassionately prepare themselves to leave the negotiation, even at the last minute” (Cullinan, Rovit, & Tymms, 2003, p. 182). They “expect the unexpected...what sets world-class acquirers apart is how they prepare for inevitable difficulties and react when the master plan goes awry” (Harding, Rovit, & Lemire, 2004, p. 2). Through the development of “an early-warning system that tracks on a day-to-day basis drawing on customer, supplier, employee, or financial data...in some cases the system will uncover chronic rather than acute problems” (Harding, Rovit, & Lemire, 2004, p. 2). Successful leaders crusade constantly. They re-energize “integration efforts when they lag, and maintaining morale and enthusiasm among all of the combined company's stakeholders” (Gadiesh, Buchanan, Daniell, & Ormiston, 2002b, p. 1). These characteristics embody some of the most important aspects of successful leaders. In this study, the topic of success factors in leadership provided over 60 best practices for deal making. In the area of leadership, success factors were present in the areas of strategy, preparation, implementation, acquirers, and learning capabilities, as displayed in Table 5.

Leadership is responsible for the development of strategic planning, a key element in the outcome of mergers and acquisitions. Strategic planning takes into consideration, the firm's environment through a continuous analysis of its industry, competitors, social, and political climate. This is where leadership makes the hard choices regarding strategic posturing and the use of mergers or acquisitions. According to Cools, Gell, and Roos (2005), the strategic focus should be on growth areas versus targets. First, according to

Cools, King, Neenan, and Tsusaka, (2004) a company must define a growth strategy and determine the role of M&A in achieving it - in advance of bidding on any particular deal. Key success factors in strategic planning are the following: clearly defining the role of the merger and acquisition in the corporate strategy, targeting deals that enhance the core business, and developing experience in making small friendly deals.

Preparation and implementation steps play a significant role in the outcome of a merger or acquisition. Successful leaders place great value in preparing prior to signing a deal. These leaders conduct original customer research and carry out pre-M&A exercises. They develop early warning systems that track day-to-day problems and they develop contingency plans for when deals inevitably go off track. Another key success factor is the opening and closing bids in advance to avoid the risk of deal fever. Successful leaders have the ability to dispassionately leave a negotiation and walk away from a deal. Treating the implementation stage of a merger or acquisition, in a timely, systematic, “industrial manner” with the development of an inspiring “story” drives communications throughout the organization and results in positive outcomes.

Another important element that contributes to the successful outcome of mergers and acquisitions is the ability to learn. Creating means to preserve institutional knowledge of past experiences in mergers and acquisitions is another important area that contributes to positive outcomes. In this area, results of the study revealed the following success factors in learning capabilities. First, creating a feedback system that allows learning to take place from both successes and mistakes. Second, studying and learning from these mistakes. The third and most important factor is building a deal team that accomplishes this task. Success factors in leadership are displayed in Table 5.

Table 5

M&A Results Reported by Consulting Companies

Leadership

Success Factors

Strategy

- Act as visionaries, spotting great deals and knowing their worth.
- Companies must define the role of M&A in their corporate strategy.
- Acquisitive growth is used to create sustainable competitive advantage.
- Pursue a deal only when the expected returns are above the cost of capital.
- Know core strengths and target deals that enhance them.
- Make mergers and acquisitions central to core strategies.
- Stay close to the core business.
- Develop rational, well-articulated merger strategies.
- Determine whether an acquisition makes practical and strategic sense.
- Pursue their transactions as part of a disciplined and ongoing program.
- Start with small deals. Build expertise with lots of small friendly deals.
- Focus mostly on small and medium size deals, not blockbusters
- Pursue mega-deals when strategically and organizationally appropriate
- The more deals a company made, the more value it delivered to shareholders.
- Experienced M&A players produced the highest returns (12.4 percent).
- There is no inherent disadvantage to growth by acquisition.

Preparation

- Demonstrate a match between target and acquirer's investment thesis.
- Compare the target company's industry presence with competitors.
- Look for capabilities such as management expertise.
- Prepare carefully to create opportunities.
- Continually review targets.
- Thoroughly test the upside potential of the acquisition.
- Develop contingency plans for when deals inevitably go off track.
- Develop early-warning system that tracks on a day-to-day problems.
- Create a series of check and balances in place to kill deal fever.
- Determine which deals to close and which to walk away from.
- Focus on closing the deal, and this is not a given.
- Set a walk-away price and dispassionately leave the negotiation.
- Exploit both company capabilities through management strength and capabilities.
- Create a detailed picture of their target's customers.
- Assess the internal impact of the deal
- Quantify the costs of inaction.
- Carry out pre-M&A exercises.
- Establish opening and closing bids in advance to avoid the risk of deal fever.
- Conduct original customer research.
- Keep lists of companies to buy if the price was right.

Table 5 (continued)

M&A Results Reported by Consulting Companies

Leadership	Success Factors
Preparation	<ul style="list-style-type: none"> Get involved early, and often, in all parts of the process. Form investment committees that test the deal thesis prior final decision. Build their own proprietary, bottom-up view of the target and its industry. Replace emotions with facts. Plan rigorously. Expect the unexpected. Organize for fast decision making and effective implementation.
Implementation	<ul style="list-style-type: none"> Define the "rules of engagement". Crusade for the new entity. Give guidance on how to behave on hard and soft targets of performance. Lead by example, when crusading for changes in behavior. Captain change by managing the integration of the two entities. As soon as the ink is dry, start driving the actual integration. Crusade constantly, reenergizing integration efforts when they lag. Maintain morale and enthusiasm among all combined company's stakeholders. An 80 percent right solution is almost always better than delay. Frequent acquirers succeed because they tend to be expert acquirers. Treat the process in a systematic, "industrial" manner. Balance quick moves with wisdom gained from experience. Shaping a strong performance culture. Actively championing the interests of external stakeholders. Developing an inspiring "story" to drive the communications effort. The CEO needs to rapidly create a cohesive and well-functioning top team.
Learning Capabilities	<ul style="list-style-type: none"> Create feedback systems to make sure that they learned from their mistakes. Study and learn from mistakes. Build a team to preserve institutional knowledge. Organize strategically for deal-making, increase the learning curve. Ensure that in the process the company learns about itself.

Note. From McKinsey Company, Boston Consulting Company, and Bain & Company publications.

Deal Team

The merger and acquisition experience is especially vital at the top of an organization. An early appointment of the top team often referred to as the deal team, is a strong predictor of the long-term performance of the organization (Dobbs, 2005). According to Fubini, Price, and Zollo (2006), one of the best practices for leaders is the creation of a deal team that aspires to become and function as the new company. This new team “must become the new company in the full sense...its messages, processes, and targets must deeply incorporate the aspirations of the new company in a way that is visible to managers, employees, and even outside observers” (Dobbs, 2006, p. 1). Members of the top team must signal the kind of company they are creating and through “the projected image, messages, processes, and targets must deeply incorporate the aspirations of the new company in a way that is visible to everyone both inside and outside the company” (Fubini, Price, & Zollo, 2006a, p. 1).

The deal team can also function as the core learning organization for the company at large. According to Rouse, Harding, and Duval (2007) a deal team lends to the success of mergers and acquisitions by preserving institutional knowledge. “The deal team...works from an established playbook built on years of deal learning so the company can efficiently recognize deals that fit strategically, evaluate them, seal the contract, and then successfully integrate the acquired business” (Rouse, Harding, & Duval, 2007, p. 1). The function of a tenured deal team is to preserve learning gained through years of experience and use this knowledge to make informed decisions that yield positive merger and acquisition results. A complete listing for creating a deal team, and best practices for deal teams is displayed in Table 6.

Table 6

M&A Results Reported by Consulting Companies

<u>Deal Team</u>	<u>Success Factors</u>
Best Practices	<ul style="list-style-type: none"> Build a standing, experienced deal team that gets involved in all acquisitions. On corporate deal teams, decision-making roles and responsibilities are clear. Evaluates deals and allows the company to strike expertly the right deal. Follow a process we call "planning for opportunity." Long before any opportunity arises, the basis of competition is firmly in mind. The strategy they need to capitalize on it is carefully considered. Think long and hard about what kinds of deals they should be pursuing. Work with individuals in the line organizations to create priority targets. Cultivate relationships with future target and act swiftly. Seal the contract. Devise clear guidelines for integration of acquisitions.

Note. From McKinsey Company, Boston Consulting Company, and Bain & Company publications.

Due Diligence

Conducting due diligence is a legal and accounting procedure that takes into consideration business and management practices. According to MacArthur and Haas (2006) the overall and most critical goal of due diligence in a merger or acquisition is to determine the walk-away price. Cullinan, Roux, and Weddigen (2004) agree that successful companies view diligence not only as an exercise in verifying data but also as a counterweight to the excitement that builds when managers begin to pursue a target. Leaders, deal team members, and others involved in the decision-making process “look at the business case in its entirety, probing for strengths and weaknesses and searching for unreliable assumptions and other flaws in the logic” of the deal (Cullinan, Roux, & Weddigen, 2004, p. 351). Comparing projections with realities is a key success factor. This can be achieved by acknowledging revenue dis-synergies, increasing estimates of one-time costs, and comparing projections with realities. Leaders in the due-diligence

process, “take a highly disciplined and objective approach to the process, and their senior executives pay close heed to the results of the investigations and analyses - to the extent that they are prepared to walk away from a deal, even in the very late stages of negotiations” (Cullinan, Roux, & Weddigen, 2004, p. 351).

Involving management in the due diligence process also attributes to positive merger and acquisition outcomes. According to MacArthur and Haas (2006) another step in improved due diligence is involving line managers in problem solving. By including line managers in the process, the quality of estimates improves and builds support for post-merger integration initiatives. Research is another major success factor influencing due diligence. The best way to arrive at true numbers and performance prior to acquiring or merging with a company is by sending a due diligence team into the field. Each company should conduct research on their own, and not rely on secondary sources such as investment bankers to do the job for them. Some of the areas that need careful research are the target’s costs, customers, competition, and capabilities including strengths and weaknesses.

Leadership’s capacity to create feedback systems to make sure that they learned from previous experiences in mergers and acquisitions is also important in the due diligence process. Christofferson, McNish and Sias (2004) suggest that it is of great importance in due diligence to codify experiences. Companies with access to reliable data can develop sound benchmarks for estimating realistic synergies and finding insights into the sources and patterns of error in estimating them. Codifying experiences and creating feedback systems in due diligence allows for learning capabilities to develop.

This learning lends to better decision making and to the positive outcomes of mergers and acquisitions. A complete listing of best practices for deal teams is displayed in Table 7.

Table 7

M&A Results Reported by Consulting Companies

Due Diligence

Success Factors

Best Practices

- Take a highly disciplined and objective approach to the process
- Balance opportunity with informed skepticism.
- Place the broader, strategic rationale for the deal under the microscope.
- Remove all accounting idiosyncrasies, to arrive at a business' standalone value.
- Look beyond the reported numbers by sending a due diligence team into the field.
- Involve line management early in due diligence .
- Look at the business case in its entirety.
- Focus on costs, customers, competition, and capabilities.
- Review the numbers deeply and thoroughly.
- Check whether the target's competitors have cost advantages.
- Find out why the target is performing above or below expectations.
- Probe for strengths and weaknesses.
- Pay close heed to the results of the investigations and analyses.
- Search for unreliable assumptions and other flaws in the logic.
- Use due diligence as a counterweight to the excitement to pursue a target.
- Prepare to walk away from a deal, even in the very late stages of negotiations.
- Reduce top-line synergy estimates.
- Acknowledge revenue dis-synergies.
- Increase estimates of one-time costs.
- Compare projections with realities.
- Apply outside-in benchmarks to cost synergies.
- Involve line managers in problem solving and due diligence.
- Codify experiences.
- Check out the competition.
- Compare market share, revenues, and profits by geography, product, and segment.
- Examine the target's industry presence.
- Verify the cost economics.
- Take stock of capabilities.
- Ascertain exactly how the target business operated, how it really made its money.

Note. From McKinsey Company, Boston Consulting Company, and Bain & Company publications.

Communication

Communication is a key area driving the process of a merger or acquisition.

Duck, Sirower, and Dumas (2002) suggest that leadership during time of change has to communicate many things to many people. Some of the important factors that need to be communicated are the following: that change is necessary, that the move in question is the best one to make, that there will be tangible gains for most individuals, and that the deal will not be allowed to collapse when the going gets tough. In order to respond to all of these factors, according to Fubini, Price, and Zollo (2006b), leaders need to ensure that the merger or acquisition communications is set in the context of the broader corporate story. That is, how they interpret it's past and present, as well as how they anticipate its future. Furthermore, according to Gadiesh, Buchanan, Daniell, and Ormiston (2002) the leader must establish and communicate the strategic vision for the mergers by clearly articulating "why we are doing this" and "what we plan to achieve," both externally and internally and by explaining the top four or five sources of value in a deal" (p. 1).

To successfully communicate the vision and business logic of the deal, according to the Bain & Co. abstract, the development of an inspiring story is necessary to drive the communications effort. Bekier, Bogardus, and Oldham (2001) suggest that if the focus of the story is on growth, it becomes a far more attractive proposition and a more powerful motivator for retaining key talent on both sides of a merger. Additionally, Cools, Gell, and Roos (2006) advocate face-to-face meetings and the use of clear and consistent messages. Bekier and Shelton (2002) warn that withholding information prolongs the uncertainty and turmoil that devastates revenue momentum. Gadiesh, Buchanan, Daniell, and Ormiston (2002b) suggest that in a merger whose main objective is to enhance

revenue, the approach should rely heavily on communication. The leader in this case, needs to listen to employee's concerns, explain the individual roles required to make the new company successful, and spend significant amount of time in face-to-face contact with people than he would in a simple scale transaction. Hence, the type of transaction and communication, as well as the delivery method, are important to the merger and acquisition process. A complete listing of best practices in communication is displayed in Table 8.

Table 8

M&A Results Reported by Consulting Companies

Communication

Success Factors

Best Practices

- Establish and communicate the strategic vision for mergers.
- Ensure merger communications is set in the context of broader corporate story.
- Developing an inspiring "story" to drive the communications effort.
- A fact-based, undeniable argument for change is #1 in gaining employee support.
- Focus on growth is a powerful motivator for key talent
- Articulate, in a clear way, how and when decisions will be made.
- Articulate “why we are doing this” and “what we plan to achieve.”
- Communicate four or five sources of value in a deal.
- Agree and provide clear and consistent messages.
- Communicate, especially internally.
- Take the time to communicate personally and to build frontline support.
- Communicate message in face-to-face briefings.
- Demonstrate that the merger process is under control.
- Allay fears of employees, customers, shareholders, and potential investors.
- Enhance the reputation of the merged entity.
- Allow managers to disseminate the process and timing of decisions throughout the organization.
- Communicate company meaning to stakeholders and how they interpret its past, present & future.
- Communicate merger benefits on broad corporate level, an individual level too.

Note. From McKinsey Company, Boston Consulting Company, and Bain & Company publications.

Timing

Another theme of best practice in mergers and acquisitions is speed. According to Cools, King, Neenan, and Tsusaka (2004) “time is of the essence.” The key is the ability of leadership to balance speed with thoroughness in all areas of the merger or acquisition. The creation of well-defined phases and timetables can assist greatly in the process. Potential synergies must be realized quickly, preferably in the first 12 to 18 months after the deal in order to communicate to the market that the merger is on track. Vestring, King, Rouse, and Critchlow (2003) and Vestring and Booker (2001) suggest that leaders of successful mergers plan rigorously and make tough decisions rapidly. Harding and Lemire (2005) also suggest that a leader has to integrate quickly where it matters and expect the unexpected. Overall, there is a feeling of urgency to put the merger or acquisition on track and deal with issues as quickly as they arise. Even the delivery of bad news should be done quickly according to Vestring and Booker (2001) in order to eliminate uncertainty which improves productivity, even if employees lose their job. A complete listing of best timing practices is displayed in Table 9.

Table 9

M&A Results Reported by Consulting Companies

<u>Timing</u>	<u>Success Factors</u>
Best Practices	
	Speed is of the essence. Don't rush.
	Learn how to break the compromise between speed and thoroughness.
	Choose fast implementation over perfection.
	Move rapidly and focus on change that drives the most value.
	Speed is only valuable once leaders have paved a well flagged race course.
	Don't let systems integration issues dictate the timetable for integration.
	Give managers a mandate to make and implement decisions quickly.
	Prepare well defined phases and timetables.

Table 9 (continued)

M&A Results Reported by Consulting Companies

Timing	Success Factors
	Deliver bad news quickly. Wrap it up fast to minimize disruption and maintain employee rationale. Processes, facilities, teams and systems can and need to integrate quickly. Manage the timing and sequence of brand integration. Potential synergies must be realized quickly.

Note. From McKinsey Company, Boston Consulting Company, and Bain & Company publications.

People Issues

People issues play a pivotal role in the selection and treatment of employees, including other key players such as the investors, the sales force, and the leaders of departmental executive branches. Retaining key and talented employees is a major factor in the positive outcome of a merger or acquisition. Measures that increase the probability that these important people stay with the company are first their identification and second their reward with financial incentives prior to the deal announcement. Again, speed is very important in identifying key people to lead and support the organization. The selection of these employees is also a critical success factor. Vestring and Booker (2001) suggest that it is optimal to select “the best teams from either organization rather than the best individuals” because it results in a “much more rapid and smooth integration” due to the fact that “it avoids mixed teams of people who have previously not worked together” (p. 2). However, Harding, and Rouse (2006) suggest that “selecting the best people irrespective of which company they come from” is the most critical factor in integration success (p. 1). This contradiction in opinion is important to note since keeping valued employees is so important in the positive outcome of a deal.

The sales force is another area of people to consider in the process of a merger or acquisition. The importance of keeping the sales force intact is critical because it is the driver of both revenue and growth for the company. Bekier and Shelton (2002) suggest that leaders take the time to communicate personally in order to build frontline support, and to provide financial incentives as a tool for retaining and motivating the sales staff which in turn will result in the retention of customers, encouraging cooperation and the sharing of knowledge with new sales colleagues, and promoting the cross-selling of each company's products. Of equal importance is paying attention to the companies' investors during deal making.

Duck, Sirower, and Dumas (2002) suggest best practices to alleviate investors worries about the value of their holdings after the announcement of a merger or acquisition are: providing a clear message on where savings will come from and when, presenting savings initiatives, outlining the cost-reduction potential-commonly up to 15 percent of the total cost base in a local merger, providing year-by-year projections of the cost and revenue effects, and defining the integration plan and the milestones that investors can look forward to. Finally, Shpilberg, Phillips, and Israelit (2004) suggest that leadership needs to display a high degree of mutual trust, shared business objectives, effective communication, and agree on true saving among other factors in order to achieve positive outcomes in a merger or acquisition. A complete listing of best practices in people's issues is displayed in Table 10.

Table 10

M&A Results Reported by Consulting Companies

People Issues

Success Factors

Employee Selection

- Retaining key talent (employees) is critical to successful integration.
- Select best teams from either organization rather than the best individuals.
- Identify with speed, key people to lead the organization
- Identify key employees before a deal is announced.
- Don't select the best person from either company but best team.
- Select the best people irrespective of which company they come from.
- Remove the people likely to block the process.
- Differentiate people leading the integration task forces and managing operations.
- Be wary of line managers who are slow or obstruct implementation.
- Involve line management who end up with the job of absorbing the new company.
- Establish clear guiding principles for selecting managers in the new company.
- Provide top-management support for new appointments.

Employee Selection

- Create transparent, objective and rapid process for selecting top-level managers on the basis of merit.
- Provide attractive, intelligently structured, financial incentives for those you want to keep.

Practices

- To move efficiently in a merger employees must believe that they have to change.
- Demonstrate vision, willingness to stay the course and make the tough decisions.
- Provide new vision and the tangible gains for most individuals.
- Eliminating uncertainty improves productivity, even if employees lose their job.
- Ensure that the majority of people stay focused on the base businesses.
- Contain the merger's short-term destabilizing impact.
- Handle employees well and enhance retention, morale internally and reputation.
- Establish human resources support, which is usually considerable.
- Beware of tendency among those managing the integration to shrink from layoffs.
- Deal with remuneration, terms, conditions, layoffs, and employee relations.
- Provide sufficient resources for people leaving the organization.
- Question-and-answer sessions, can be highly effective forums.
- Deal explicitly with people issues.
- Handling employees well enhances employee retention and morale internally, and the company's reputation externally.
- Establish the necessary human resources support, which is usually considerable.
- Deal with remuneration, terms and conditions, layoffs, and employee relations.

Table 10 (continued)

M&A Results Reported by Consulting Companies

People Issues

Success Factors

Investors

- Close alignment and the support of employees and investors is essential.
- Investors need a compelling equity story.
- Precisely outlining the cost-reduction potential—commonly up to 15 percent of the total cost base.
- Inform of the extent to which the cuts will bolster the bottom line.
- Offer detailed projections of cost and revenue effects of the acquisition and of the estimated lift to profits.
- Provide track record of successful change management.
- Clearly define integration plan and milestones that investors can look for.

Sales force

- The first step is to name the new sales manager
- Look after existing customers and revenue, retain their revenue-generated talent.
- Financial incentives are important tools for retaining and motivating sales staff.
- Create a sales war room or interim leadership group.
- War room works with the sales force to identify and monitor accounts at risk.
- Fashion its own identity vis-à-vis the external world of business partners, competitors, customers, and regulators to reach this level of agreement.

CEOs & CIOs

- Need to have high degree of mutual trust.
- Shared business objectives.
- Effective communication.
- Agree on true savings.
- Think like a customer when choosing architecture.
- Eliminate systems; don't integrate them.
- IT must continue to support the running of the combined business during the transition while merging the IT organizations, operations and platforms into one.

Note. From McKinsey Company, Boston Consulting Company, and Bain & Company publications.

Integration

Many research articles focused specifically on the area of integration addressing numerous success factors leading to positive merger and integration outcomes. Reporting focused mainly on post-merger integration. However, some gave emphasis to pre-merger acquisition and information technology applications. According to Bain & Company

(Bain Brief 2003), “a survey of 250 global executives involved in mergers and acquisitions indicated that two of the top-four reasons for failed corporate marriages relate to poor integration” (p. 1). Gadiesh, Buchanan, Daniell, and Ormiston (2002) suggest that the successful leader,

Captains change by managing the integration of the two entities...owns the action plan that outlines milestones and deliverables for the teams responsible for integration... defines the rules of engagement - the basis on which the two companies will start to work together. (p. 1)

A Bain Brief (2003) adds, that mergers of equals in integration, require a balanced approach and action plan in order to preserve the winning characteristics of both companies. Rovit and Lemire, (2004) suggest that when a large acquirer buys a smaller company, the acquirer's business model should be used as to not “destroy the assets hidden in the smaller company as it gets rapidly folded into the acquiring company” (p. 3). Harding, Rovit, and Lemire (2004) suggest that “mergers aimed at extending product, customer, or geographic scope require only selective integration around areas of business or operational overlap” (p. 3).

Overall, Viner, Rhodes, Dumas, and Ivanov (2000) provide the following guidelines for a successful integration effort; manage the merger as a discrete process, make tough decisions and monitor their implementation, deal explicitly with people issues, define and integrate each company's operating model, manage customer attrition, select one information technology system, and manage the timing and sequence of brand integration. Heap, Israelit, and Shpilberg (2003) suggest additional successful practices in integration: “following the ‘money’ by targeting those integration opportunities that will generate the most new value, stress fast implementation over perfection, and focus most of their resources on keeping the base business running smoothly-particularly early

in the transition” (p. 3). Vestring and Booker (2001) focus on the integration of information technology systems and suggest that this systemic integration should not dictate the timetable for integration because the time line for integrating systems often takes one to two years. According to the Bain Brief (2003) all of the previously stated

Imperatives for effective integration do not come naturally to most organizations. Rather, they are learned and developed...frequent acquirers master these imperatives and generate returns that are up to 50 percent higher than average... they build repeatable, internal capabilities and practices for successful integration.
(p. 1)

Again, the concept of learning is important in all aspects of a merger or acquisition and the more experience a company has attained over the years, the more successful the efforts will be in deal making. Also, according to Cools, King, Neenan, and Tsusaka (2004) best merger and acquisition practices include routinely revisiting synergy targets and results in the years after the formal integration is complete. A complete listing of best practices in pre- and post- merger integration issues is displayed in Table 11.

Table 11

M&A Results Reported by Consulting Companies

Integration

Success Factors

Pre-Merger

- Have a structured PMI process with clear objectives and accountabilities.
- Targets with strong incentives.
- Conduct pre-merger integration exercises.
- Set objectives, dates for achieving operating cost savings, layoff targets, and capital expenditure goals.
- Recognize that combining best practices of each company is hard to do.
- Address culture integration early on and actively.
- Carefully design a clear structure and set of principles for the merger:
- Define the right integration approach.
- Conduct early cross-functional integration planning
- Define and take time to integrate each company's operating model.
- Target those integration opportunities that will generate the most new value

Table 11 (Continued)

M&A Results Reported by Consulting CompaniesIntegrationSuccess Factors

Pre-Merger

Manage the merger as a discrete process.

Mergers aimed at extending product, customer, or geographic scope require only selective integration around areas of business or operational overlap.

The newly formed unit must enable the merger to meet its business goals, shifting from early focus on cost-cutting to emphasis on helping drive new business opportunities.

Use all the time after deal is agreed on but before merger takes effect to prepare for IT.

Post-Merger

Integration comes before any efforts to improve efficiency and effectiveness.

Pay as much attention to integration as to the deal itself.

Plan for growth early in the merger process.

Protect existing revenues first.

Have clear idea of your cost targets and routinely measure them.

Tailor the integration to balance revenue and cost initiatives.

Analyze all possible sources of cost, revenue opportunities and risks.

Focus on activities that will achieve the largest costs savings and revenues gains.

Explicitly balance cost and revenues.

Maintain high degree of focus on the base businesses.

Focus most of the resources on keeping the base business running.

Ensure that both entities continue with day-to-day business.

Rationale helps to identify the right target and set boundaries for negotiations.

Prepare to orchestrate many projects at once.

Make tough decisions and monitor their implementation.

Make hard choices and consolidate aggressively.

Decide where the head-quarters will be located.

Define the new brand and appoint the chief exec and top-officers.

Keep detailed monthly reports, quarterly forecasts of cost-cutting goals throughout the merger.

Routinely revisit synergy targets and results in the years after the formal integration is completed.

The integration team has to spin off "quick wins" consistently.

Manage customer attrition.

Devise an approach to keep customer base.

Pricing must reflect true value delivered.

Consistent price structures, discount schedules, and payment terms.

Pricing can contribute 30 % of value of synergies in a deal or can be destroyed.

Table 11 (Continued)

M&A Results Reported by Consulting Companies

<u>Integration</u>	<u>Success Factors</u>
Information Technology (IT)	The six golden rules of information technology information. In an acquisition,
Information Technology	Choose from the existing systems landscapes-do not build a third. Identify specific or absolutely necessary applications. In a merger of equals, Choose a systems landscape application by application. Choose one entire IT systems landscape. Each company's IT team should break down its respective systems into clusters. The merging team designs new landscape by choosing clusters from each side. Follow a rigorous selection process. Select one information technology system. Don't try to pick the best of both systems, instead choose one. Sacrifice superior technology and consolidate around a single system.

Note. From McKinsey Company, Boston Consulting Company, and Bain & Company publications.

Economy

Another area consultant research covered was how the market responded to mergers and acquisitions in general, during uncertain economic times, and during economic down times. The market prefers companies that acquire. Bieshaar, Knight, and Wassenaer (2001) suggest that acquisitions create the most market value overall and that the market prefers deals that are part of an expansionist program, in which a company seeks to boost its market share by consolidating, by moving into new geographic regions, or by adding new distribution channels for existing products and services. Acquisitions gained market share more rapidly and grew twice as quickly as the fastest-growing organic-growth companies. They also outperformed their organic-growth companies. These companies had the highest median total shareholder return and

overall were the most successful. Acquisitions create the most market value overall. According to Bieshaar, Knight, and Wassenaer (2001), if a deal is structured as a merger or a sale, it has little clear effect on stock prices. In addition, according to Dobbs (2006), markets respond and reward the acquisitions of companies that have long-tenured executives who have experience in planning, carrying out, and integrating mergers and acquisitions.

According to Toit and Aboaf (2002), periods of economic turbulence can be opportune for making aggressive moves when companies are on solid financial footing, and when a transaction strengthens the buyer's core business. The following recommendations are made for four different types of companies;

(1) companies that are strong financially and strategically should acquire weaker players, (2) companies in weak financial and strategic positions should dispose of anything not essential to survival and find a merger partner that can help shore up their core business, (3) financially weak companies that are stronger strategically should divest non-core assets to raise cash, rebuilt the balance sheet and focus on core competencies, and (4) Companies with good financial resources but a weaker strategic position should become smart underdogs and acquire selectively to dominate their most successful niches. (Toit & Aboaf, 2002, p. 1)

Deals made during economic down times had a higher likelihood of success. According to Kotzen, Neenan, Roos, and Stelter (2003), “weak economy mergers generated considerably more value than strong economy mergers; over a two-year time frame, they created 14.5 percent more value” (p. 6). Additionally, this type of economy was an opportune time to strengthen competitive advantage, consolidate markets, and gain share. A complete listing of best practices and the economy is displayed in Table 12.

Table 12

M&A Results Reported by Consulting Companies

Economy

Success Factors

Market Preference

Companies that focus on their strategic goals.

If a deal is structured as a merger or a sale, it has little clear effect on stock prices.

Reward acquisitions of companies with long-tenured executives than those that lack them.

A premium is placed on executives experienced in planning, carrying out, and integrating M&As.

The market apparently prefers deals that are part of an 'expansionist' program in which a company seeks to boost its market share by consolidating, by moving into new geographic regions, or by adding new distribution channels for existing products and services.

Companies that choose acquisitions that complement their distinctive capabilities.

Acquisitions create the most market value overall.

The fastest growing acquirers gained market share more rapidly and grew twice as quickly as the fastest-growing organic-growth companies.

The highly acquisitive companies had the highest median total shareholder return.

The most successful acquisitive grower also outperformed the organic growers.

They delivered cash-flow return on investment (CFROI) above the cost of capital before they grew their assets.

Combined above-average revenue & high CFROI regardless of growth strategy.

Uncertain Economic Times

Financially & strategically strong companies should acquire weaker players.

Financially & strategically weak companies should dispose anything not essential to survival and find a merger partner that can help shore up their core business.

Financially weak companies that are stronger strategically should divest non-core assets to raise cash, rebuild the balance sheet and focus on core competencies.

Companies with good financial resources but a weaker strategic position should become smart underdogs and acquire selectively to dominate their most successful niches.

Economic down times

Deals during below-average economic growth had higher likelihood of success.

Weak economy mergers generated more value than strong economy mergers.

Over a two-year time frame, they created 14.5 percent more value.

Use M&A strategically to buy weaker competitors.

Consolidate markets. Gain share. Strengthen competitive advantage.

Position to "accelerate out of the turn" as the economy improves.

Note. From McKinsey Company, Boston Consulting Company, and Bain & Company publications.

Culture

According to Harding and Rouse (2006), “over 80% of the executives that were surveyed recognized that addressing culture integration early on and actively” is one of the most critical factors contributing to merger and acquisition success (p. 1). Research indicates that 75 percent of deals failed on an inability to assimilate culture versus 64 percent of the successful deals that tackled cultural issues early and actively (Harding & Rouse, 2006). Vestring, King, Rouse, and Critchlow (2003) agree that “success in the new world of mergers and acquisitions means elevating cultural concerns to the same level as strategy and quantifying synergies when assessing and implementing an M&A transaction” (p. 70). According to Harding and Rouse (2006), in every deal, there is a financial acquirer and a cultural acquirer that are not necessarily the same company.

The key to cultural success is that the financial acquirer does not make the mistake to buy something and then make it look like the parent company, but to recognize who the cultural acquirer is, and then allow that entity to drive the decision making (Harding & Rouse, 2006). Harding and Rouse (2006), also warn against managing as if the deal is a merger of equals and picking the best employees from each group but suggest that the majority of appointments go to the cultural acquirer. Fubini, Price, and Zollo (2006) suggest focusing on a "performance culture," that is to say, the important attitudes and behaviors that are required to create value in the merged or acquired company. A complete listing of best practices and the economy is displayed in

Table 13

M&A Results Reported by Consulting Companies

Culture

Success Factors

Best Practices

Focus on a "performance culture" crucial set of attitudes, behaviors required to create value in the merged company.

Make distinction between cultural acquirer and financial acquirer.

Publicly recognize entity which is the cultural acquirer and let that drive decision making.

The major share of the appointments go to the cultural acquirer.

The cultural acquirer's unique capabilities and cohesive business model need to be managed to their full potential.

Avoid managing as if the deal is a merger of equals.

Instill a performance culture geared for growth.

Teamwork and trust combine to create a winning culture.

Put in place a comprehensive system to propel the new culture throughout the organization.

Good culture is actively managed and not as a byproduct.

Note. From McKinsey Company, Boston Consulting Company, and Bain & Company publications.

Research Question 2

What do academicians in top U.S. business schools teach about factors contributing to merger and acquisition success?

Teaching Methodologies

Prior to answering what academicians teach in the top business schools, an answer to how they teach became equally important. Preliminary research on what academicians in the top three U.S. business schools teach about factors contributing to merger success revealed important information regarding the type of pedagogical methodologies that are being used. The overall pedagogical methodology that is used in our nation's top schools to teach mergers and acquisitions is the case method approach. The following is an overview of teaching methodology, followed by Executive Education in mergers and acquisitions, areas that provide a complete academic overview of mergers

and acquisitions. The next section will discuss the results of merger success factors in academic textbooks.

Pedagogy

In Harvard University, the majority of the classes in the business school including the teaching of mergers and acquisitions “are taught via the case method, a practical approach to learning where students work under the guidance of a faculty member to address real business problems in all their innate complexity and ambiguity” (President & Fellows of Harvard College, 2007, p. 1). The case study method,

Places the student in the role of the decision maker. There are no simple solutions; yet through the dynamic process of exchanging perspectives, countering and defending points, and building on each other's ideas, students become adept at analyzing issues, exercising judgment, and making difficult decisions—the hallmarks of skillful leadership. (President & Fellows of Harvard College, 2007, p. 1)

These case studies “are written by Harvard Business Faculty, who produce more than 350 new cases per year (12 times more than any other business school)... allowing faculty to keep the curriculum in tune with continuing developments in the global marketplace” (President & Fellows of Harvard College, 2007, p. 1). In reviewing merger and acquisition case studies,

students work together—often drawing on their own diverse backgrounds and experience—to sift through incomplete and conflicting data and perspectives in order to determine a clear course of action... refine their analytical skills, develop their skill in decision making and judgment, strengthen their ability to work with others, and build a framework of knowledge and experience that they can maintain throughout their careers. (President & Fellows of Harvard College, 2007, p. 1)

The teaching philosophy at Harvard University is through the case method, believed to be “the best way to prepare students for the challenges of leadership” (President & Fellows of Harvard College, 2007, p. 1). Stanford University also predominately uses case

studies in their teaching of mergers and acquisitions. The other two universities, the University of Pennsylvania, The Wharton School of Business, and The Massachusetts Institute of Technology (MIT) Sloan School of Management uses a combination method of academic books and case studies. This pedagogical method allows for a merging of knowledge of industry and academia.

Executive Education Programs

Another avenue of educating students and professionals is through Executive Education Programs in the field of mergers and acquisitions offered at all universities in this study. Executive Education at Harvard Business School is a separate School which offers classes geared to executives but also available to students. Executive Education offers a four-day program in “Corporate restructuring, mergers and acquisitions: Creating value in turbulent times” that “is designed to help corporate managers not only learn to identify and respond to potential restructuring opportunities, but also to gain insight into which approaches are the most successful” (Harvard Business School Executive Education, 2007, p. 1). Participants of this educational workshop specifically learn how to,

Identify the best option for restructuring a company faced with a particular problem, challenge or opportunity. Use financial valuation and credit analysis to measure the potential value gains available through restructuring. Manage the complicated accounting, tax, legal, and regulatory challenges that stand in the way of a restructuring. Design an optimal negotiation strategy for dealing with the firm’s stakeholders to ensure the ultimate success of a restructuring. Execute decisively a restructuring plan. (Harvard Business School Executive Education, 2007, p. 1)

This particular program offers additional insights and opportunities to learn about mergers and acquisitions.

Executive Education at Stanford also offers a six-day seminar for professionals, “Mergers and acquisitions: Creating and claiming shareholder value.” The program “examines all of the major components of combining organizations: target selection, valuation, deal negotiation, and organizational integration” (Stanford School of Business, 2007, p. 1). The content of this seminar includes topics such as,

Alternative valuation and pricing models, negotiation strategies, integration planning, and the retention of human and intellectual capital. Using business cases and simulations to provide practical examples, the program's curriculum explores topics from the perspectives of all key stakeholders in the M&A process, including the board of directors, top executives, line managers, and employees. (Stanford School of Business, 2007, p. 1)

This is a program targeted for executives who want to gain insights into “the critical leadership competencies needed for successful post-merger integration and performance” and “tools to identify and assess the opportunities and risks inherent in merger target selection” (Stanford School of Business, 2007, p. 1).

At the University of Pennsylvania, The Wharton School of Business offers two complementary Executive Programs that are geared towards understanding mergers and acquisitions. The Strategic Alliances seminar is a four-day course geared toward furthering knowledge of executives. The course provides insights on how to form, implement, evaluate, and sustain successful partnerships. In addition, this program is complementary to the Mergers and Acquisitions Executive seminar that focuses more on valuation and legal issues (University of Pennsylvania, 2006). The Mergers and Acquisitions seminar is an eight-day course that provides strategies that assist in the development of successful strategies for mergers and acquisitions (University of Pennsylvania, 2006). “Faculty provide a broad, strategic perspective along with a detailed examination of key elements of the M&A process... determine a rationale, select

acquisition targets, value them, and evaluate the long-term potential of the partnership” (University of Pennsylvania, 2006, p. 1).

Data Findings

The web-sites of the three top business schools were reviewed for information on merger and acquisition class offerings and textbook utilization. Stanford University did not offer any classes specific to mergers and acquisitions and was replaced by the Massachusetts Institute of Technology (MIT), the Sloan School of Management MBA Program, which had the next ranking, fourth in nation for the year 2007 which did provide textbook information.

TextBook(s)Used in Top U.S. Business Schools to Teach M&A's

Harvard Business School

The Harvard Business School offers a Mergers and Acquisitions course number 1410 which focuses on: “how to value and analyze opportunities, how to design and value consideration and deal protection measures, and how to initiate and defend against hostile bids” (President & Fellows of Harvard College, 2006, p. 1). This is an “advanced course which teaches the financial techniques and institutional facts that are relevant to corporate mergers, institutions and alliances” (President & Fellows of Harvard College, 2006, p. 1). The book utilized for the merger and acquisition class, according to the Masters of Business Administration (MBA) bookstore, is titled *Barbarians at the Gate: The Fall of RJR Nabisco* authored by Bryan Burrough and John Helyar.

The book *Barbarians at the Gate: The Fall of RJR Nabisco* is a business narrative that illustrates the dynamics of contested acquisitions. It “arose from the authors’ coverage in The Wall Street Journal of the fight to control RJR Nabisco in

October and November 1988” (Burrough & Helyar, 1990, p. xi). Both authors, Bryan Burrough and John Helyar, were reporters for the Wall Street Journal and provided a detailed account of the largest takeover in Wall Street history with a gripping account of the frenzy that overtook Wall Street in October and November of 1988. The book details the story of deal makers, in strategy meetings and in boardrooms, providing not only a detailed look at how financial operations at the highest levels are conducted, but also providing a richly textured social history of this take-over (Burrough & Helyar, 1990, 2003). Although the book makes excellent reading geared for the practitioner in mergers and acquisitions, it did not provide content relative to merger success factors.

Stanford School of Business

The Stanford Graduate School of Business does not have a course devoted entirely to Mergers and Acquisitions. According to the Associate Dean of Stanford’s Academic Administration Office, the topic of mergers and acquisitions is typically handled within other finance courses, and there would not be any book ordered for this purpose. Additionally, the use of textbooks in general is limited within the School of Education where much or most of the reading is done through recent articles that are much more up-to-date than a book that took time to write, print, and publish.

Wharton School of Business

The Wharton School of Business provided several courses in Mergers and Acquisitions: Management 721 (Corporate Development: Mergers and Acquisitions) which studies mergers and acquisitions from the perspective of a business development executive or a management consultant; Finance 750 (Venture Capital and the Finance of Innovation) covers a part of private equity investing by focusing on venture capital; and

Finance 751 (The Finance of Buyouts and Acquisitions) studies mergers and acquisitions from the perspective of a principal investor (buyout fund/corporation) or their agent (investment bank) and takes a financial view (The Wharton School, 2006, p. 1). The class most closely aligned with this research was the “The Finance of Buyouts and Acquisitions” course number 251/751 which was taught from two books.

In the first book, “*Applied Mergers and Acquisitions*”, Robert Bruner (2004) provides information on the key themes in mergers and acquisitions, including an overview of a framework for M&A success and best practices including strategy, diligence, valuation, accounting, and other relevant topics. Bruner (2004) utilizes SWOT analysis as a planning tool to develop strategy and provides a model of the drivers of merger outcomes. Bruner’s theoretical model combines SWOT with a success framework for M&As which suggest that “(1) one must first assess the structure of the business environment and deal opportunity, (2) the structure will suggest the outlines of a deal design, (3) the thoughtful practitioner must tailor a deal development process and conduct the process in ways that achieve an attractive outcome” (Bruner, 2004, p. 9). Bruner’s book offers a way for business practitioners and students in mergers and acquisitions to organize and execute good deal development leading to successful M&A results.

The second book, *Mergers and Acquisitions and Corporate Restructuring* by Patrick Gaughan (2002), is a revised third edition that won the Book of the Year Award in its category from the Association of American Publishers. Gaughan (2002) focuses on every type of corporate restructuring in use today and discusses the financial aspects of these transactions, the economic, legal, tax, and regulatory considerations. It is a manual

of organizational restructuring in which useful information is provided for the understanding of mergers.

Sloan School of Management

The Massachusetts Institute of Technology (MIT) Sloan School of Management offered numerous classes on mergers and acquisitions. The most relevant course for this study is course number 15.545 Mergers and Acquisitions: The Market for Corporate Control (MIT Sloan Course Fest, 2006, p. 1). The course examines “three aspects of the mergers and acquisition process: the strategic decision to acquire, the financing decision of how much to pay, and the financing decision on how to fund the acquisition” (MIT Sloan Course Fest, 2007, p. 1). According to the Massachusetts Institute of Educational Services, the book utilized for this course is the *Principles of Corporate Finance* by Richard A. Brealey, Steward C. Myers, and Franklin Allen. The book focuses on finance issues with a short chapter dedicated to mergers and acquisitions.

Textbooks and M&A Success Factors

A review of textbooks for factors positively influencing merger and acquisitions focused mainly on the area of leadership. After careful review of the textbooks listed above, two textbooks Gaughan’s and Bruner’s provided specific chapters dedicated to merger success factors. The other books mentioned failed to provide material relevant to this research. The majority of the contributions were made by Bruner’s distinctive sections on merger success factors. Another area of interest was the desirable factors or characteristics of targets in mergers and acquisitions. Success factors were derived from Gaughan’s book as displayed in Table 14. In the area of leadership, a complete listing of best practices and leadership offered by academia is displayed in Table 15.

Table 14

M&A Results Reported by Academics

Financial Characteristics of Targets	Success Factors
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Desirable Financial Characteristics of Targets

- Rapidly growing cash flows and earnings.
- Low price relative to earnings.
- Market value less than book value.
- High liquidity.
- Low leverage

Note. From Text-book by P. A. Gaughan.

Table 15

M&A Results Reported by Academia

Leadership	Success Factors
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Best Practices

- Objective grasp of M&A to serve as an anchor amidst the emotional froth.
- Develop a clear definition of success.
- Develop a guideline for action.
- Perform rigorous analysis of the economics of an opportunity.
- Bring rigor and discipline to analysis, negotiation, and deal design.
- Understand mission and strategy
- Perform careful assessment of the environment.
- Assess counterparts in the merger setting.
- Identify the key bets or assumptions in the setting.
- Perform research necessary to form your own opinion.
- Focus on the creation of value for shareholders with integrity.
- Think like an investor.
- Perform critical analysis of the strategic positions of the buyer and target.
- Devote serious attention to the organizational profiles of the two firms.
- Adopt a rigorous and comprehensive point of view.
- Aim to create value rather than claim value.
- It is possible to design deals that create value for both sides (win-win transactions).
- In the long run, the best reputations are associated with win-win deals.
- Look for joint gains; takes strong analytical capabilities and a creative mind-set.
- Take a "whole deal" perspective.

Table 15 (Continued)

M&A Results Reported by AcademiaLeadershipSuccess Factors

Best Practices

- Wealth creation should top the list.
- Strive to find trade-offs that make both the buyer and seller better off.
- Study payoffs and costs to all the participants as a way to guard against hidden wealth transfers.
- Devote serious attention to the post merger integration.
- Seek to create and preserve brand value.
- Understand the sources of the counter-party's brand.
- Ask what is our legal exposure in this situation and how we can manage it.
- Consciously address the ethical dimensions in deal development.
- Assiduously avoid taint that might accrue from an ethical lapse.
- Use options thinking as a lens through which to view and M&A strategies.
- Resist earnings management and momentum-acquiring.
- Resist using very aggressive assumptions; they can create unsustainable expectations.
- Temper determinism with behaviorism.
- Focus on recruiting, organizing, motivating, compensating, monitoring, and leading employees.
- Focus on process, then outcome.
- Effective deals begin with listening to markets, and companies.
- Perform research, due diligence, valuation, deal design, and negotiation.
- Seek opportunities to leverage beneficial interactions among these processes.
- Master the tools and concepts, but also get help.
- Utilize assistance of specialists in different fields.
- Practice with integrity and elevate the profession by example.

Note. From Text-book by R. F. Bruner.

Research Question 3

What are the similarities and differences in the findings between consultants and academicians?

Similarities

The similarities in the factors that contribute to merger and acquisition success derived from textbooks and consultant reports were almost identical in the area of leadership. Basic areas of success factors in strategy, preparation, and execution were

included by both consultants and academicians. Textbooks were very limited both in the discussion and the reporting of success factors. Hence, similarities only were observed and reported in the area of leadership.

Differences

Evident differences were found in the style of the writing. Regardless of whether the consulting companies writing sounded more like a reporting piece, the textbooks read more formally and explicitly. The reporting of success factors from management consulting companies was highly repetitious with a research study being told over and over again through different lenses and different countries and/or CEOs or department heads. The textbooks described process while the consultant reports focused on the outcomes of these processes. Consultants reported explicit details of success factors while academia discussed them only peripherally and hence yielded fewer results. Nevertheless, both are equally important in the understanding of critical success factors.

The textbooks added another important dimension to the successful practices in leadership by providing a “win-win” transaction alternative where value could be created for both the buyer and the seller. According to Bruner (2004), “it is possible to design deals that create value for both sides,” however, “to look for joint gains takes strong analytical capabilities, and a creative mind-set” (p. 927). Bruner (2004) suggests “in the long run, the best reputations are associated with win-win deals” (p. 927). Gaughan (2002) provided the following desirable financial characteristics of targets in mergers and acquisitions: rapidly growing cash flows and earnings, low price relative to earnings, market value less than book value, high liquidity, and low leverage. Another area unique to textbook success factors influencing mergers and acquisitions is the use of optionality.

According to Bruner (2004), “because options thinking is in its infancy in M&A and not widely applied, thoughtful practitioners who can wield options concepts in framing their M&A strategies may gain a meaningful advantage over those who don’t” (p. 927).

Another factor that contributes positively to merger success is the ability of leaders to resist earnings management and momentum-acquiring. According to Bruner (2004), “policies allowable under GAAP are wide enough to permit reporting the firm’s financial results under very aggressive assumptions. While some of these practices may be perfectly legal, they can contribute to the creation of unsustainable expectations” (p. 927). Finally, textbooks provide an ethical dimension to mergers and acquisitions, something rarely reported by consulting companies’. According to Bruner (2004), merger and acquisition activity is full “with opportunities to improve your own standing through unethical behavior” and “sometimes this is met with a shrug of the shoulders and a ‘that’s business!’ attitude...however best practice is not to confirm the way things are, but rather to show who we might become” (p. 927). A complete listing of best practices reported by textbooks and not reported by consultant reports is displayed in Table 16.

Table 16

M&A Results Uniquely Reported by Academia

Leadership

Success Factors

Best Practices

It is possible to design deals that create value for both sides (win-win transactions).

Strive to find trade-offs that make both the buyer and seller better off.

Look for joint gains, takes strong analytical capabilities, creative mind-set.

In the long run, the best reputations are associated with win-win deals.

Think like an investor.

Table 16 (Continued)

M&A Results Uniquely Reported by Academia

Leadership

Success Factors

Best Practices

- Practice with integrity and elevate the profession by example.
- Focus on the creation of value for shareholders with integrity.
- Ask what is our legal exposure in this situation and how we can manage it.
- Consciously address the ethical dimensions in deal development.
- Assiduously avoid taint that might accrue from an ethical lapse.
- Use options thinking as a lens through which to view and M&A strategies.

Note. From Textbooks by P. A. Gaughan and by R. F. Bruner.

Summary of Findings

The pedagogy used in the teaching of mergers and acquisitions in the top business schools is mainly comprised of the case method. The case method utilizes current industry cases for the discussion of issues and areas affecting mergers and acquisitions. The case study method was solely used in Harvard, while the other universities utilized textbooks for the teaching of finance strategies and the structural understanding of mergers and acquisitions. Additional avenues of learning more about mergers and acquisitions were the Executive Programs provided by all three universities in this study. The case method was used in teaching these programs. Of the four books that were reviewed for content relative to positive factors affecting mergers and acquisitions, only two books provided success factors. These success factors were limited in the area of leadership and in area of financial characteristics of targets. The results were not extensive but were important in that they offered differences in the perceptions of what constitute best practices in leadership. Textbooks providing information regarding mergers and acquisitions focus on theory and structure.

In contrast, results from consultant companies provided a wealth of factors contributing to merger success. The audience of management consultant companies

specializing in mergers and acquisitions is their present and prospective clientele. Hence great emphasis is placed on reporting factors that positively affect deals as a way to advertise their expertise. Consultant companies provided a very pragmatic grasp of the issues at hand and best practices to succeed. In fact, the amount of literature on success factors covered every area of the merger process from its infancy to its completion.

This comparison provided two key factors contributing to merger and acquisition success that were unique to academia. First factor is the concept of a win-win deal where both parties involved strive to find trade-offs and joint gains conducive to buyer and seller. Companies and CEOs involved in these win-win deals are associated with best reputations. Second factor deals with practicing with integrity, elevating the profession by example, and infusing ethical dimensions in deal development. This was the first attempt at trying to draw comparisons between the two areas. Probably, examining more universities would have yielded a greater amount of books and hence contributed to multiple comparisons between academia and consultant companies. This novel first ever comparison provided a verification that differences do exist between academia and consultants in their respective publications of factors contributing to positive merger and acquisition outcomes. The results of this study provide a multitude of success factors that may lead to wide-ranging applications.

CHAPTER V

CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

Conclusions through the Lens of Complexity Theory

The impetus for this study was to achieve a comprehensive and holistic understanding of the factors leading to merger and acquisition success stemming both from academia and management consultants as well as the subsequent prescriptions for the successful management of mergers and acquisitions. The use of complexity as a metaphor for understanding organizational change and the factors that lead to deal success provides a new set of tools to the organizational practitioner that helps open up new models and ideas, and creates the possibility for new actions. An organization involved in a merger or acquisition seen organically has the capacity to respond to the environment, seek benefits from any situation, and produce many different actions and reactions (McMillan, 2003).

Viewing an organization through the lens of complexity theory reveals new elements about mergers and acquisitions that may not have been considered before. Included in this chapter is an organic view of mergers and acquisitions, a discussion of environmental factors influencing successful outcomes, organizational learning, open systems and communication, networks and affiliated departments, fractals in organizations, phase transitions, non-linearity (complex entities behaving in non-linear ways), ethical dimensions and our inseparable connectivity. The application of complexity metaphors to strategic management provides an emphasis on building systems that can evolve to create novel ways to produce positive merger and acquisition outcomes.

An Organic View of Mergers and Acquisitions

Complexity theory provides a view of organizations undergoing strategic changes in organic terms. The theory describes systems such organizations, as living, independent agents, with people, who self-organize and continuously fit themselves, individually and collectively, to the ever-changing conditions in their environment (McElroy, 2003). This study views mergers and acquisitions as *complex adoptive systems*, living entities, which “continuously fit themselves to their environments by determining how well competing strategies for survival work for them in practice, and then by choosing their future behaviors accordingly” (McElroy, 2003, p. 149). That is, organizations that are experiencing mergers and acquisitions are operating as open systems that are subject to diverse external and internal forces, the combination of which gives birth to chaotic organizational dynamics (McElroy, 2003). “The purpose of the environmental reassessment is to provide the firm with a choice among strategic alternatives...the firm then considers whether its current goals and policies are appropriate to exploit industry opportunities and to deal with industry threats” (Weston & Weaver, 2001, p. 49).

Companies, both on national and global levels, are driven to respond to their environment. In a highly competitive and sometimes volatile market economy, organizations use restructuring activities such as mergers and acquisitions. Environmental factors such as competition and the need to expand are key drivers of companies practicing mergers and acquisitions. Organizational *autopoiesis* allows companies to evolve and shape themselves within the presence of an ever-changing

economic environment. In this study both internal and external factors were considered and their respective influences on merger and acquisition outcomes.

Environmental Factors Influencing Successful Outcomes

Results stemming from consultant companies provided success factors in several environmental areas specific to economic influences and market preference. Consultant companies suggest that during uncertain economic and economic down times companies should not be discouraged but promote strategic mergers and acquisitions. During uncertain economic times, financially strong companies are advised to acquire weaker players. While financially and strategically weak companies should dispose of anything not essential to survival and find a merger partner that can help shore up their core business. Financially weak companies that are stronger strategically are advised to divest non-core assets to raise cash, rebuild the balance sheet, and focus on core competencies. At the same time, companies with good financial resources but a weaker strategic position should become smart underdogs and acquire selectively to dominate their most successful niches. During economic down times, companies are advised to use mergers and acquisitions strategically to buy weaker competitors, consolidate markets, gain share, strengthen competitive advantage, and position to “accelerate out of the turn” as the economy improves. Deals made during below-average economic growth had a higher likelihood of success and generated more value than strong economy mergers. Overall, companies most successful at creating long-term shareholder value tend to be constant acquirers through boom and bust.

This research also revealed that, within the economic environment in which organizations operate, there is a market preference for certain attributes that create

positive expectations. There is a preference for both leadership and strategy. Capital markets have preference and reward the acquisitions of companies that have long-tenured executives versus those made by companies that lack them. A premium is placed on deals made by executives with experience in planning, carrying out, and integrating mergers and acquisitions. The success factors reported by consulting companies and academics alike are generous in the area of leadership. The most important element that is valued most by the market is the experience created by years of conducting business in the field of mergers and acquisitions.

The economic environment responds positively to companies who choose acquisitions that complement their distinctive capabilities and focus on their strategic goals. The market has a preference for deals that are part of an expansionist program, in which a company seeks to boost its market share by consolidating, by moving into new geographic regions, or by adding new distribution channels for existing products and services. The fastest growing acquirers gained market share more rapidly and grew twice as quickly as the fastest-growing organic-growth companies. The most successful acquisitive grower also outperformed the organic growers. The economic environment did not respond either way when a deal was structured as a merger or sale, and had little clear effect on stock prices. Clearly, environmental influences allow for positive acquisition outcomes with the provision of experienced leadership.

Organizational Learning

Organizations or complex adaptive systems have the capacity to learn from experiences with their environment. They “continuously fit themselves to their

environments by determining how well competing strategies for survival work for them in practice, and then by choosing their future behaviors accordingly” (McElroy, 2003, p. 149). Optimal functioning organizations have the ability to detect conditions in their environments, and to further formulate strategies in response (McElroy, 2003). “Once experienced in the form of practice, the relative merits of different strategies are then assessed, after which they are either repeated, discarded or modified for future use, depending on the kind of feedback received by the system” (McElroy, 2003, p. 150). Learning capabilities provide the tools that lead to success. According to the results of this study, learning capabilities were a key success factor in the positive outcome of a merger or acquisition. Areas such as leadership, deal team, and timing were identified as important in the process of learning and contributed to the positive outcome of a merger or acquisition. Using of these practices, organizations have the capacity to detect conditions in their environments and to formulate successful strategies accordingly.

Strategies associated with merger and acquisition success, included pursuing a deal only when the expected returns were above the cost of capital, knowing the organization’s strengths and targeting deals that enhance them, and pursuing these transactions as part of a disciplined and ongoing program. Successful practices in preparation for a deal included the demonstration between target and the acquirer’s investment thesis, comparison of the target company’s industry presence with competitors, and creating contingency plans for when deals inevitably go wrong. In preparing for a deal the cost of inaction is also something that needs calculation into the strategy equation. Success factors in implementing the deal included defining the rules of engagement, crusading for the new entity, and leading by example. Additional factors

positively influencing deals in implementation include treating the process in a systematic, “industrial” manner; maintaining morale and enthusiasm among all combined company’s stakeholders, and crusading constantly, re-energizing efforts when they lag. McElroy (2003) suggests that “knowledge is self organizing...people in organizations tend to self-organize around the production, integration, and use of new knowledge” (p. 29). Hence, knowledge occurs at all levels and throughout the organization with everyone involved.

Due diligence is an accounting and environmental scan of the opportunities available to the organization. It is part of strategic planning and vital to the positive outcome of the deal. Success factors in due diligence include taking a highly disciplined and objective approach to the process, placing the broader strategic rationale for the deal under the microscope, and removing all accounting idiosyncrasies, to arrive at a business’ standalone value. Best practices include looking beyond the accounting sheet and sending a due diligence team into the field to gain first-hand knowledge, checking whether the target’s competitors have cost advantages, and finding out whether the target is performing above or below expectations. Additional assessment of environmental factors, include comparing market share, revenues, and profits by geography, product, and segment. Also, examining the target’s industry presence and probing for strengths and weaknesses is important in this process. Due diligence is an accounting and environmental assessment of the deal’s worth.

Another area in leadership contributing to merger success is associated with learning capabilities. These capabilities include creating feedback systems to ensure that the organization studies and learns from its mistakes, taking steps towards increasing the

learning curve, and building a deal team to preserve institutional knowledge. Deal teams serve the purpose of preserving institutional knowledge in their organizations and assisting leadership with evaluating deals and strategic planning. Learning feedback systems and experienced deal teams provide the organization with the power to make informed decisions based on years of learning and subsequently reward the organization with more positive outcomes. Another aspect of responding to the external environment is having the knowledge of when to take appropriate action. Timing is a crucial element in the employment of strategic moves and contributes positively when applied appropriately. The overall theme for accomplishing tasks in a merger or acquisition is that “time is of the essence” and learning capabilities which provide the experiences that allow for the important balance between speed and thoroughness.

Open Systems and Communication

An *open system* allows for the maintenance of the organization through the ongoing flow of information and communication that is necessary for the organizational change process. An organization in the process of merger or acquisition, an *open system*, depends on communication to provide information throughout and within all levels of the organization. Communication is vital both externally and internally. The primary task is to establish and communicate the strategic vision for the merger or acquisition. External communication enhances the reputation of the merged entity and provides a positive signal to the market place that in response reacts positively to the deal. Internal communication increases overall understanding of “why we are doing this” and “what we need to achieve” in the case of merger or acquisition. These simple and short

explanations of “why” and “what” that describe the general direction of the merger or acquisition are enough information to have successful communication.

Best practices for delivering information to the organization, are through the establishment and the communication of the strategic vision. The strategic vision should be set in the context of the broader corporate story. The story should be told using an organic metaphor focusing on growth and drive the whole communications effort. A focus on growth serves as a powerful motivator for talented employees to stay with the company. In the communication of the story, an undeniable argument for change and benefits of the merger or acquisition should be included as well. The delivery of communication should be done on a personal basis. Leadership should take the time and communicate through face-to-face briefings in order to build frontline support, and provide information that allays fears of employees, customers, shareholders, and potential investors. Communication to stakeholders should include information on how leadership interprets the company’s past, present, and future.

The timely dissemination of information plays a key role in the successful implementation of mergers and acquisitions. By allowing managers to communicate time frames and new processes in the organization, employees will be better able to understand and to participate in the organizational change efforts. Speed of action is another equally important factor. A speedy communication effort will create a positive path towards merger success. Beyond certain basic practices of communication, the rest should be left to complexity: to the flexibility, adaptability, and creativity of the system as the context of the organization continually changes.

Networks and Affiliated Departments

Complex adaptive systems are a network within networks constantly acting and reacting to what the other agents are doing (McMillan, 2004). Extensive *networks* exist and operate within an organization and can be of great assistance to management in identifying and correcting problems during mergers and acquisitions. Networks exist in the area of people's issues that include employees, sales force, investors, and executives. Keeping these networks intact with the most qualified personnel is crucial during times of restructuring. The way to achieve this is by selecting, retaining, and rewarding, the best teams from each company.

Fractals in Organizations

The examination of an organization using the fractal perspective provides a view of repeating patterns on different levels and on different scales of space and time. Fractals help explain that the microcosm reflects the macrocosm, at every level. This means that the finer and finer versions of the same pattern repeat at every level (Goerner, 1999). "In fractals, a subtle thread of relatedness runs throughout the whole" (Goerner, 1999, p. 123). This is helpful in understanding organizations. It provides a way of discovering, representing, and interpreting the complex non-linear dynamics of an organization in a way that is not achievable by prevalent linear approaches. "Some organizations are using fractal principles in order to operate more effectively by attempting to stand back from studying separate aspects and focusing on overall shapes, themes, and patterns" (McMillan, 2004, p. 21).

A fractal can be the reflection of one department in a merging or acquiring organization which mirrors what other departments are experiencing. The close

examination of one department and the difficulties it may be experiencing during times of change is indicative of what other departments are experiencing throughout the organization. Hence, close examination of one department will allow a glimpse of issues being experienced in other departments as well. It is possible to make inferences by understanding the overall shapes, themes, and patterns of one department as reflected in the entire organization. This ability to detect both positive and negative issues, by selecting a fractal of the organization for study, will lend to a quick overview of the issues facing the organization as a whole. Creating opportunities for positive changes in one department can positively affect the organization as a whole.

Phase Transitions

During a merger or acquisition, phase transitions allow for new forms of relationships and organizational structure to emerge. Possible phase transitions can be experienced in relationships between the organization and the environment, between departments, between managers and employees, employees and customers, and many other areas. Since these entities are dynamic, the phase transitions or changes in the organization, allow fitness peaks to occur. The activity of organizational restructuring allows for opportunities of creativity and the emergence of new forms. A merger or acquisition provides the stimulation for changes to occur inside and outside the organization; awareness of success factors will better the chances of the operating structure.

Complex Entities Behave in Non-Linear Ways

In complexity theory, complex entities behave in non-linear ways. According to All systems including organizations are exceptionally sensitive to their initial or starting

conditions and small variations over a period of time can lead to major changes in non-linear system. This signifies that small changes may bring about large effects and that large changes do not necessarily produce changes of equal effects. The methodology of this study was true to the theory of complexity and allowed all factors to be included in the results section regardless of how critical or minute they might have been. In the people's issues section, for example, a perceived positive factor of conduct between CEOs and CIOs is the need to have high degree of mutual trust. According to Ralls and Webb (1999) trust expedites and strengthens strategic business relationships. "Trust is the underpinning to our feelings about others, it influences the choices we make about how much we depend on others, what energy and resources we will put into a relationship, and where we will go in the future with others" (Ralls & Webb, 1999, p. xiii). Finally, "what is accomplished in business relationships can be lost or strengthened as the dynamics within trust affect the status of relationships" (Ralls & Webb, 1999, p. xiv). In the view of the whole merger strategy, the issue of trust may seem as a small detail, but in the implementation stages of Information Technology, it can have large negative outcomes affecting the organization as a whole.

On the other hand, large initiatives for major restructuring efforts may have minute results. For example, a success factor in due diligence, such as taking an objective and disciplined approach to the merger or acquisition might not have such large implications as face-to-face meetings with employees to explain the new company strategy. The personal message, delivered from leadership directly using an organic metaphor that makes employees truly believe in the restructuring effort, may have far reaching results than an extensive fact and figure gathering effort. Additionally,

McMillan (2004) suggests that “the butterfly effect explains how so many energetic new leaders are able to create wholesale changes in an organization” (p. 86).

Changes may have more to do with the dynamic feedback web of the organization than the energies and charisma of a new leader...that person does not have to be in a position of formal authority or leadership, but if they are then they are especially able to make an impact. (McMillan, 2004, p. 87)

Employees also have the power, according to the complexity approach, to make small changes in their own spheres of influence and the power to affect and transform the organization at large.

Ethical Dimensions and Our Inseparable Connectedness

Finally, complex adaptive systems exist only as part of a nested inseparability or connectedness. The essence of complexity theory in ethical thought is best summarized by the idea that “in a world view embracing complementarity there is no separation of self and other” (Bloch, 2005, p. 10). The essence of complexity theory is the actuality of our inescapable connectivity. This is evident in the case of a merger or acquisition where everyone involved directly affects the outcome. The economy as a whole drives CEOs to make the decision towards a merger or acquisition. The economy in turn reacts to this restructuring depending on the experience and tenure of the CEOs involved in that decision. The way leadership responds to the employees, sales force, investors, and everyone else involved, relies on the success or demise of the deal. Both employees and sales force have direct access to buyers of product or services and are able to affect sales, revenue, and the outcome of the deal at large.

Academicians recommend the ethical dimensions relative to mergers and acquisitions. Bruner (2004) suggests that leadership should practice with integrity and elevate the profession by example. He adds that deals can be designed that create value

for both sides through win-win transactions. After all, according to Bruner (2004), in the end the best reputations are associated with win-win deals. Consultants also understand the value of good practices. Success factors in the area of people issues included treating all employees well, those that were leaving the company and those that were staying. In addition, dealing with employee relations and providing sufficient resources for people leaving the organization were factors positively affecting the deal. Caring and handling people issues with respect, enhances retention, morality internally and reputation externally. Complexity theory allows us to understand how people as adaptive systems, exist only as part of a nested inseparability, and how peoples' ethical actions can improve the quality of their connectivity. Finally, Dimitrov and Fell (1996) provide these concluding thoughts.

The ability of participants in an organization mutually to inspire and ignite imagination, to warm hearts and awaken hopes and aspirations, to radiate joy and stimulate new thoughts and vision - this is what fires organizational autopoiesis If this happens with honesty and humility, good will and the sincere desire to help and support, organizational autopoiesis will liberate the potential of people and organizations for creativity and growth. (p. 1)

Implications

The results of the study provided success factors in all areas of a merger and acquisition transaction. The implications of these results are important to the practitioner, the educator, and the student because more knowledge about the factors influencing deals positively will lead to a greater understanding of the process and may even result in better outcomes. Experience in leadership is the key factor that drives the overall success in a merger or acquisition. The implication for leadership is two-fold. First, successful leadership depends on experience in leading merger and acquisition deals. According to Rovit and Lemire (2003a) frequent acquirers - those that made more than 20 deals in 15

years - outperformed non-buyers by a factor of almost two. Second, successful experience comes with a plethora of deal making. Experienced executives in mergers and acquisitions who conducted many deals receive a positive response from the stock market, which is also a crucial element for overall success in the deal. For the novice leader, it is best to seek small-sized, friendly deals and gain experience by doing many of them. According to Cullinan, Rovit, and Tymms (2003) leaders should focus on doing little deals that can slowly lead to bigger deals and bigger results (p. 181). For both the experienced and the non-experienced leader, the creation and presence of a deal team to provide support and guidance is highly recommended. An invaluable source is the tenured deal team which has preserved institutional knowledge. Successful deal teams create feedback systems that allow the company to acquire the skill of learning. This learning is the key ingredient to positive merger and acquisition outcome.

In the area of due diligence, the implications for best practices is to take a highly disciplined and objective approach to the process with the inclusion of knowing when to walk away from a deal, even at last stages of negotiations. Best practices in due diligence includes: that a company performs its own research versus depending on second sources and the comparison of projections with realities. Occasionally a clean team is used to look at the numbers and decide whether to pursue a deal or not. Due diligence, in short, balances opportunity with informed skepticism.

In the area of communication, there are implications for the type of communication including amount, delivery mode, and story telling. The success of a deal depends on the timely delivery of appropriate information both inside and outside the organization. Communicating the strategic vision of a merger or acquisition should be

done internally through face-to-face meetings, articulating the why and how of the merger or acquisition with a story that is based on growth. The story telling is also necessary to people who will be let go because they will have a clear understanding of where the company is going. Another implication of communication is that it dilutes the fears of employees, customers, shareholders, and potential investors. Timing here is the key factor. The faster information becomes available, in a personal way, the less stress and resistance occurs.

Concerning people issues, the implication for best practices is vital in the area of employee selection, practices, investors, sales, and inter-departmental associations. One of the most valuable assets that companies have is their employees. Best practices in keeping the best employees is by identifying them prior to a merger announcement, give them financial rewards to stay with the company, and pick the best teams (not people) from each company. The sales force which is crucial to sustain revenue and growth should be rewarded as well. On the other hand, ample resources should be provided for the people who will leave the company. The alignment of investors and employees is almost identical. The same care, information, and personal attention will bring positive results. The implication here is not to forget who is supporting the pillars of the company and make sure that they are taken care of prior to closing any deal.

Integration and best practices for pre- and post-initiatives have received a great deal of attention from consulting companies' research. Understanding the need to conduct pre-merger integration exercises, targeting integration opportunities that will generate the most new value, and meeting business goals are some of the key success factors indicated by research. In post-merger integration, protecting existing revenues,

and managing customer attrition, are some of the key factors contributing to merger success. In the area of integrating information technology, best practices include choosing from the existing systems landscapes versus building a third; following a rigorous selection process of systems; and sacrificing a superior technology and consolidating around a single system. Integration is one of the areas most fragile and most difficult to implement. This implication rests on knowledge preserved and gained through organizational learning in all integration stages of the merger or acquisition process.

Recommendations for Future Research: Management Consulting Companies

Another type of research that could be conducted is utilizing only actual research studies conducted by research companies versus using the reporting articles of these studies. These would eliminate duplicate research reporting and focus on a few. Additionally, by focusing on fewer research reports from each company, the opportunity would arise to research more management consultant companies. This would allow the researcher to increase the amount of companies used and include at least the top 10 management consulting companies. Another area worthy of investigation is comparing quality models such as the GE Capital Services with similar models that took years and time to create and perfect. These models can in turn be compared with theoretical approaches that are being used by academia.

Recommendations for Future Research: Academia

Merger success factors could be derived from dissertations written on factors contributing to merger success. Many of the success factors reported by the top consulting companies were echoed in dissertations written by graduate students. This is

yet another area in which distinctions can be made between consultant reports and the dissertation results provided by students. Another area that would greatly improve the theoretical understanding of mergers and acquisitions is to conduct research on the theoretical approaches used to teach mergers and acquisitions. Gaining insights into the theoretical approaches used at the top universities will further enhance understanding and teaching in the area of mergers and acquisitions.

Concluding Thoughts

Bruner (2004) uses the phrase “terra incognita” to refer to a region beyond our knowledge and places our current understanding and knowledge of mergers and acquisitions on a border between *cognita* and *incognita* (p. 928). The success factors and best practices offered in this study provide a glimpse into the vast and intricate area of the processes influencing mergers and acquisitions. This study provided information about what consultant companies offer as factors contributing to positive merger outcomes and what academics offer in educating their students in the area of mergers and acquisitions. The use of complexity theory complemented the study of mergers and acquisitions because it offered a new metaphor from which new understanding can take place. Both consultants and academic findings were complementary. Professors used textbooks to teach both structural and case studies of deal making. These professors often have experience in the field and are sometimes consultants in management consulting companies. Management consultant companies who provide merger and acquisition services have exemplary reporting that academia often uses in their case study method. These areas converge to provide a cyclical view of how to employ best practices in the deal process. These include the novel idea of win-win practices for both companies and

ethical perspectives relative to human connectivity. Knowledge about the successful implementation of mergers and acquisitions raises more questions. This demands openness to new ideas, and a critical view of them, and a striving for better understanding.

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