ISCTE Business School
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ENHANCING THE OUTCOMES OF MERGERS AND ACQUISITIONS

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“Every accomplishment starts with the decision to try”

- John F. Kennedy

Abstract

This work is focused on the variables that influence the outcomes of mergers and acquisitions, with emphasis on the ones that can be molded and improved. How companies desiring to perform mergers or acquisitions can learn from past mistakes, adopt better strategies and make wiser decisions to enhance the outcomes of their mergers and acquisitions. By improving the success of such deals, greater economic development can be achieved; mergers and acquisitions can act as powerful strategic movements that rehabilitate entire sectors.

The literature review is focused on the importance of strategic fit and complementarity; culture; communication; speed of integration and human resources management. The research questions were focused on how to improve synergy estimations; the importance of culture, how to address it and improve cultural evaluation; how to extract the value of deals between companies with cultural incompatibilities; the viability of adopting a less standardized approach that tries to seek more and deeper synergetic sources of value and how to prepare companies for the realization of mergers and acquisitions with special prominence on transformational deals.

Fifteen interviews were conducted with experienced professionals in multiple areas of mergers and acquisitions. This enabled to achieve a more complete set of answers and potential solutions while comparing opinions on the same problems from slightly different angles.

There was obtained some evidence to the existence of a managerial hubris, emotional attachment and over-optimism in mergers and acquisitions. There were divided opinions on the importance of culture among respondents. There was a relative support towards standardizing the process of mergers and acquisitions deals, but respondents advise to keep some creativity and flexibility. Multiple advices on these topics and problems are mentioned; this work contributes to the debate about what is going wrong in mergers and acquisitions and offers insights based on multiple perspectives.

Keywords: Mergers and acquisitions; synergies; culture; strategy; process of mergers and acquisitions; performance.

Resumo

Este trabalho está focado nas variáveis que influenciam os resultados das fusões e aquisições, com ênfase naquelas que podem ser moldadas e melhoradas; como as empresas que desejam realizar fusões ou aquisições podem aprender com os erros do passado, adoptar melhores estratégias e tomar decisões decisões mais ponderadas para melhorar os resultados das suas fusões e aquisições. Através do sucesso destes negócios, um maior desenvolvimento económico pode ser atingido; as fusões e aquisições podem agir como poderosos movimentos estratégicos que reabilitam sectores inteiros.

A revisão de literatura está focada na importância do encaixe e complementaridade estratégica; cultura; comunicação; rapidez de integração e gestão de recursos humanos. As questões de pesquisa estão focadas em como melhorar as estimativas de sinergias; a importância da cultura; como abordar e melhorar a avaliação cultural; como extrair valor em negócios entre empresas com incompatibilidades culturais; a viabilidade de adoptar um processo menos standardizado que tenta procurar e extrair mais e mais profundas fontes de valor e como preparar as empresas para realizarem fusões e aquisições com especial ênfase em negócios transformacionais.

Quinze entrevistas foram realizadas com profissionais experientes nas diversas áreas de fusões e aquisições. Isto permitiu atingir um conjunto de respostas e possíveis soluções mais completo e simultaneamente comparar opiniões sobre os mesmos problemas de ângulos ligeiramente diferentes.

Foi observada alguma evidência para a existência de um “hubris” na gestão, envolvimento emocional e sobre-optimismo nas fusões e aquisições. As opiniões foram divididas no que toca á importância da cultura entre os entrevistados. Existiu um suporte geral para a standardização do processo de fusões e aquisições, mas os respondentes aconselham a manter alguma flexibilidade e creatividade. Múltiplos conselhos sobre estes problemas foram mencionados; este trabalho contribui para o debate acerca do que está errado nas fusões e aquisições e oferece conselhos baseados em múltiplas perspectivas.

Keywords: Mergers and acquisitions; synergies; culture; strategy; process of mergers and acquisitions; performance.

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Table of Contents

List of Tables

List of Figures

Chapter I- Introduction

Mergers and acquisitions are very useful tools to the achievement of strategic goals, such as achieving organizational efficiencies, expand to new markets, innovate and achieve financial profit (Barney & Hesterly, 2012).

The mergers and acquisitions literature is quite vast, it is the result of almost half a century of research from multiple disciplinary perspectives. However, despite the abundance of research material the field suffers from lack of connectedness. There is limited comprehension on the complexities of the process of mergers and acquisitions and how the approaches and actions taken are linked to the outcomes of mergers and acquisitions (Gomes *et al.*, 2013).

1.1 Mergers and acquisitions context

Mergers and acquisitions are important strategic moves that capture the attention of business professionals. However, some deals due to their size and implications in the products of the daily life of consumers, also capture the attention of society and they are often covered by the media.

Despite the uncertainty in the context of mergers and acquisitions, there are signs pointing to a surge in activity that is quite ambitious in terms of scope and profile. Even the most experienced professionals in the field of mergers and acquisitions will require new tools for analysis and integration to achieve maximum benefit in all these deals (McKinsey & Company, 2010).

Some authors argue that researchers are not looking at the right set of variables and that the importance of non-financial variables is underestimated in theory and research (Gomes *et al.*, 2013).

There is substantial evidence in McKinsey´s survey that there are new interests and attitudes towards mergers. The respondents showed large interest in using mergers and acquisitions to move beyond the already existing lines of business and into new strategic areas and create research and development portfolios (McKinsey & Company, 2010).

1.2 Investigation problem

The objective of this work, which is to understand what is wrong with mergers and acquisitions and how to enhance their outcomes, is a difficult task. The variables involved in the success and failure of mergers and acquisitions act simultaneously and can have complex interactions among them, at the same time, many variables such as organizational culture can be quite abstract.

Authors point out to the need of conducting multi-disciplinary research that enables to compare multiple perspectives and their linkages across the process of mergers and acquisitions, the goal is to improve the connectedness of research in mergers and acquisitions (Gomes *et al.*, 2013). However, performing such a broad and holistic study is very hard given the limited resources available to perform this investigation. Therefore, the achieved conclusions need to be taken with caution as the study is not broad enough to induce in undeniable conclusions.

It also needs to be taken into account, that the achieved conclusions might be true only for the context upon which they were extracted. Given the complexity of mergers and acquisitions and the connectedness between variables it is possible that the conclusions are only context-related, therefore, generalizations must be avoided.

This study aims at making suggestions rather than to achieve set of mandatory actions. It should make decision makers reflect upon their work and make a small contribution to the big topic of mergers and acquisitions.

1.3 Objectives

The key objective of this investigation is to study the variables that negatively influence the outcomes of mergers and acquisitions and propose a set of actions and best practices to improve their results.

It is vital to first comprehend how mergers and acquisitions are used to achieve strategic goals, which are the most common strategic goals that foster the pursuit of mergers and acquisitions and which are the other drivers behind the realization of deals. After that, the intention is to focus on the most important variables that can be molded and propose a set of actions and solutions to overcome common problems and enhance the outcomes of mergers and acquisitions.

With the intent of achieving the above-mentioned objectives, this investigation is done according to the following five key topics revealed in the next table.

Table 1- Investigation topics and objectives

Investigation topics	**Investigation Objectives**
Variables influencing the pre-deal stage	Study the variables and actions negatively influencing the decisions at the pre-deal stage and achieve a set of recommendations to improve them.
Cultural assessment	Understand how practitioners perceive the importance of culture and if companies are neglecting this variable. Achieve a set of recommendations to improve cultural evaluation
Performing deals on companies with different cultures	Comprehend why companies engage in deals between “incompatible” companies. Develop a set of recommendations on how to extract value on this type of deals.
Approaches when performing mergers and acquisitions	Understand how practitioners perceive the current state of making mergers and acquisitions, if they think the process is too standardized and if there is benefit on investing more time and resources trying to capture more value.

Preparing an organization to make better decisions	Achieve a set of recommendations on how to prevent negative outcomes and how to generate more value through deal-making

Source: Elaborated by the author

1.4 Thesis structure

After the introduction statement (Chapter I), this dissertation will unfold into two key parts- a literature review which is revealed in Chapter II and the empirical study featuring chapters III, IV, V and VI. Chapter II is about reviewing all the relevant literature for the objectives of this study and expose that information in a clear and structured way, while providing insights into the views of the different authors.

The literature study is a very important way to pre-evaluate what is being done wrong in the field of mergers and acquisitions and it will create some direction into what is relevant to study in the empirical research. The literature review starts from the very basics, such as, by defining what is a merger and what is an acquisition. It also analyzes historical data, statistics and mentions forecasts that enable to grasp a general idea of the current state of the field. The process of mergers and acquisitions is then separated into different phases and by the most important variables that take part in each one of them.

In chapter III, the theory contextualization is conducted. It is constituted by the exposition of the research questions which are the result of the literature review and their alignment with the objectives of the study. The chapter IV, which is the methodology, describes the methods on how the investigation is conducted. In chapter V the results are presented, followed by chapter VI which consists of a deep and critical analysis of the results. Chapter VII is the conclusion, it summarizes the most important findings of the study. It also suggests what can be done in future investigations.

Chapter II – Mergers and acquisitions: literature review

2.1. Mergers and acquisitions concept

Mergers and acquisitions, often abbreviated as M&A, are important processes that enable companies to achieve vertical integration and diversification objectives (Barney and Hesterly, 2012). The term mergers and acquisitions, in its broad sense, includes several types of transactions such as mergers, acquisitions, consolidations, hostile takeovers and leveraged buyouts (Nesvold *et al.*, 2007).

The term M&A is often used to describe mergers and acquisitions without distinction, however they are not synonyms (Barney and Hesterly, 2012). It is then important to be careful when using the term mergers and acquisitions in a broad sense.

Mergers and acquisitions are useful processes for the achievement of corporate goals, however they can also be powerful enough to change an entire industry and impact millions of consumers. Regulatory entities are then required to prevent mergers and acquisitions that are likely to reduce competition and lead to higher prices, lower quality goods or services, or less innovation (Federal Trade Commission, 2018).

Mergers and acquisitions are complex processes, they involve and are influenced by many variables. Mergers and acquisitions can be subject to research in many fields, in fact, some authors indicate there is a need for greater cooperation not only within the field of mergers and acquisitions but also with other fields, to expand the understanding of these complex and multidimensional processes (Faulkner, Teerikangas, & Joseph, 2012).

2.1.1. Mergers

A merger occurs when one corporation is combined with another and legally ceases to exist, the company that aggregates it is referred to as the survivor. An exception is a corporate consolidation, which is a special type of merger. In a corporate consolidation both merging companies cease to exist and a new one is created, which is called the successor (Nesvold *et al.*, 2007).

Mergers can be described as a form of cooperative strategy (Faulkner *et al.*, 2012). In mergers, both companies agree to combine forces and create a new combined organization. This can be done by using available cash or through debt to purchase another, however, the underlying assumption is that they will be equal partners, even if one company has purchased the other (Nesvold *et al.*, 2007).

A statutory or direct merger is a type of merger in which the acquiring or surviving company automatically assumes the assets and liabilities of the target, according to the law of the country/state the surviving company is based. In a subsidiary merger the target becomes a subsidiary of the main company and is owned and controlled by it, sometimes the public perceives a subsidiary as the main company because it operates under the same brand (DePamphilis, 2015).

When there is a merger between companies of different sizes, the larger one which typically has a higher financial power can end up dominating the process and what has started as a friendly merger can end up as a less friendly acquisition (Barney and Hesterly, 2012).

2.1.2. Acquisitions

An acquisition is when a firm acquires the stock or the assets of another firm. This purchase can be done through available cash, debt, its own equity or a mix of these options (Nesvold *et al.*, 2007).

Regarding the purchase, a company can purchase all of the target´s assets, a majority of those assets (more than 51%) or a controlling share of the assets, which means it holds enough assets to have the power to make all management and strategic decisions in the target firm (Barney and Hesterly, 2012).

The term takeover is used when a firm assumes the control over another, in a friendly takeover, the management and board of director´s recommend shareholder approval. In the case shareholders approve the purchase, usually, the acquiring company must pay a premium over the current share price (DePamphilis, 2015).

When a company sells all or part of a product line to another company for cash or securities, it is said that it has engaged in a divestiture (DePamphilis, 2015). Acquisitions do not have to be done with the consent of both entities and when there is consent, the acquisition is said to be friendly. However when there is no consent from the target to be acquired the acquisition is unfriendly, when this happens and the target firm tries to sabotage the takeover the term hostile takeover can be used to classify the acquisition. (Barney and Hesterly, 2012).

Companies might want to make an unfriendly acquisition look like a friendly merger because of the negative connotation associated with a takeover (Marks and Mirvis, 1992b). As the authors point out, employees get worried with all the uncertainties a takeover brings, regarding this, managers and executives need to alleviate the stress in employees and communicate with them to avoid the spread of negative rumors and protect the future of the company.

2.1.3. Types of mergers and acquisitions

The Federal Trade Commission has divided mergers and acquisitions into in five categories, these categories classify the mergers and acquisitions according to the strategic relatedness between firms (Barney and Hesterly, 2012). Each category represents a possible way for a merger or acquisition to create combinational value.

These categories provide a good classification to the source of value creation and the Federal Trade Commission plays a very important role in controlling and imposing the law in the United States, ensuring that the deals do not create monopoly markets (Barney and Hesterly, 2012). Because of the previous reasons, it is vital to further analyze these categories, in the following figure, these five categories are listed and briefly described – see figure 1.

Figure 1- Federal Trade Commission categories of mergers and acquisitions

Vertical merger	A firm acquires former suppliers or customers.
Horizontal merger	A firm acquires a former competitor.
Product extension	A firm gains access to complementary products through an acquisition.
Market extension merger	A firm gains access to complementary markets through an acquisition.
Conglomerate merger	There is no strategic relatedness between a bidding and a target firm.

Source: Adapted from Barney and Hesterly (2012)

In a vertical merger, a company integrates vertically; it can be backwards and the company will gain control over a supplier and its corresponding strategically important resource for the production process or it is forward and the integration is made to acquire customers and distribution networks (Stuckey and White, 1993).

A vertical integration is particularly beneficial when: the bargaining power of the suppliers or the upstream players is too high, when the market is too unreliable, if integration would create or exploit market power by raising barriers to entry or if the market is underdeveloped (Stuckey and White, 1993). The authors mention that by integrating vertically, the company can get a reliable access and control on essential resources and/or transfer the profit margins to itself.

In a horizontal integration, a firm acquires or mergers with a competitor. In a horizontal merger the value creation opportunity needs to be carefully evaluated, the question is whether there are benefits in integrating both company's activities. Horizontal mergers are a very good way to expand a business when they are done correctly. As the authors point out, for many companies one of the main sources of growth is through consecutive acquisitions of competitors. Examples of companies who became successful using this strategy are Ritz Camera, Avis Rent-A-Car, and Ryder systems (Nesvold *et al.*, 2007).

Horizontal mergers and acquisitions are the type of merger or acquisition that usually pose the biggest threat to the free market functioning, they directly reduce competition and can create monopolized markets. This is why the Federal Trade Commission and other regulating agencies are so concerned and vigilant when it comes to horizontal mergers and acquisitions (Barney and Hesterly, 2012).

In product extension mergers and acquisitions, companies combine products that are inter-related in the same market. The combination of the products enables the increment of clients and profits. Through mergers and acquisitions companies can adapt their product portfolios to better correspond to the advancing costumer needs. When compared with the possibility of simply developing new products, product extension mergers and acquisitions often require less time to reach the same number of consumers because the products are already established and have a reliable base of consumers (Faulkner *et al.*, 2012).

In market extension mergers and acquisitions, companies aim at expanding operations to other geographic regions. Companies can get several benefits from merging or acquiring with companies in the target geographic regions. Already established players can have ready to use facilities, they can provide good connections with business partners and due to their knowledge and experience on the market they decrease the time required to penetrate the market (Faulkner *et al.*, 2012).

In conglomerate mergers and acquisitions, companies have little or none relatedness regarding product-market relationships as well as buyer-seller relationships (Faulkner *et al.*, 2012). The Federal Trade Commission uses this category as residual, if it fails to classify the merger or acquisition into any of the previous categories then it is said to be a conglomerate merger or acquisition (Barney and Hesterly, 2012).

Conglomerate mergers usually do not produce positive financial results, which is compatible with the argument that without any form of strategic relatedness it is difficult to generate synergies (Barney and Hesterly, 2012). However, as the authors point out, there might be benefits such as technical economies, gain in market power and business diversification.

Considering the previous merger and acquisition categories, the following table intercepts the market and production relations between both entities involved in the merger or acquisition deal and consolidates that information – see table 1.

Table 2- Merger and acquisition classification according to market and production relation

		Market relation	
		Same	**Different**
Production relation	**High**	Horizontal M&A	Market extension M&A
	Weak	Vertical backward M&A	Vertical forward M&A
	Unrelated	Product extension M&A	Conglomerate M&A

Source: Adapted from Faulkner et al. (2012)

2.1.4. Why firms engage in M&A

Despite being challenging, mergers and acquisitions provide companies a wide range of transformative and combinational opportunities. These deals offer numerous opportunities such as new organizational efficiencies, market expansion, employee development, product innovation and profit (McKinsey & Company, 2010).

Through mergers and acquisitions, companies can scale their business, improve a target's performance, remove excess industry capacity and these deals can fuel a profitable long-term growth. Mergers and acquisitions will continue to be an important and common strategic move as its numerous potential benefits will continue to appeal to decision makers (Deloitte, 2017a).

Tax benefits can also motivate merger and acquisition deals, these tax benefits include obtaining unused net operating losses, tax credits and asset write ups as well as substitute capital gains for ordinary income (DePamphilis, 2015).

In acquisitions, it is possible that the acquiring firm fails to achieve positive financial returns and the deal can still be classified as a good strategic move if the company is in a better position than it would be if the deal has not been done, these include deals done with the intent of ensuring survival (Barney and Hesterly, 2012). The authors use the current consolidation of the banking sector in the United States of America as an example of mergers and acquisitions with low expected returns that are being done to ensure survival.

Firms can have large amounts of free cash flow and lack good investment opportunities while trying to avoid giving dividends as investors would pay large tax percentages over the returns. A good example of this is the tobacco industry, several regulations limit re-investments in the tobacco business, companies like Philip Morris are forced to canalize investments into other industries and the best alternative they have is to use mergers and acquisitions as a gateway to escape regulations and dividend taxes (Barney and Hesterly, 2012).

Another motive for engaging in non-profitable mergers and acquisitions is that they help to diversify capital investments, which intends to reduce the dependency on a single business sector and reduce the risk of bankruptcy (Nesvold *et al.*, 2007).

Highly innovate industries also use mergers and acquisitions as a gateway to access new technologies and intellectual property, the pharmaceutical and technology industries are examples of industries where mergers and acquisitions are often used in the pursuit of innovation (Deloitte, 2017a).

Deloitte´s 2017 survey on mergers and acquisitions appointed acquiring technology or the pursuit of a digital strategy as the main reasons behind deals (Deloitte, 2017b). In the survey, 12 percent of respondents appointed digital strategy as the reason for the planned merger or acquisition deal in 2018 and acquiring technology or a digital strategy together accounted for a third of the deal motivations.

Management compensation is often linked with the size of the firm they control, therefore, the increment in firm size through a merger or acquisition will produce a higher compensation for managers and it may encourage them to pursue deals regardless of outcomes. This compensation bonus that happens regardless of the profitability of the merger or acquisition can be a problem, when managers and stockholders have conflicting interests, possibilities are open for bad mergers and acquisitions done with the intent of making money for its executives (Barney and Hesterly, 2012).

2.1.5. History, statistics, trends and forecasts in mergers and acquisitions

The history of mergers and acquisitions demonstrates that some economic periods are more prone to foster deal activity than others. By analyzing historical data, it becomes obvious that mergers and acquisitions happen in waves throughout time. Since the early 1900s until the year 2006, six merger and acquisition waves can be identified, each one with its unique drivers and characteristics (Boston Consulting Group, 2007).

In the following table, the six merger and acquisition waves are shown. The name of each wave is suggestive of its nature, that is, the name explains which was the driving force behind the surge in merger and acquisition activity – Table 2.

Table 3- The six merger and acquisition waves between 1897 and 2006

	The merger and acquisition waves throughout history					
	Market consolidation	**Vertical integration**	**Conglomerates**	**Leveraged Finance**	**Internet bubble**	**Industry consolidation**
Peak year	**1900**	**1929**	**1969**	**1990**	**2000**	**2006**
Approximate deal value ($ billions)			100	500	3500	2750
Approximate number of deals	1000	1000	6000	12000	30000	25000

Source: Adapted from Boston Consulting Group (2007)

In the beginning of the twentieth century the driving force was to gain market share, three decades later it was to integrate vertically and gain control of the value chain by acquiring control over suppliers and their raw materials, the production and the distribution (Boston Consulting Group, 2007). The authors also referred to the recent wave that started in 2004, which ended up in 2007 with the financial crisis after the report publication, as a merger and acquisition wave driven by consolidation, an affirmation later confirmed by another report (Boston Consulting Group, 2011).

The financial crisis that began in 2007 originated a major decline both in the number and value of the mergers and acquisitions that lasted two years. In 2009, a slow recovery began and in 2010 the value of deals went up 19 percent, an exponential increase that anticipates a speeding recovery (Boston Consulting Group, 2011).

The drivers of mergers and acquisitions are period-specific, different economic conditions shape deal activity differently, the types, structures and overall characteristics of those deals also differ from cycle to cycle (Boston Consulting Group, 2008; McKinsey & Company, 2010).

Firms are aware that certain economic conditions lead to specific traits in the deals being made, the excitement is about predicting how the current economic shifts will affect the aspects of deal-making so that companies are ahead of the competitors. Deloitte made a survey for the year 2018 and its results anticipate a surge in merger and acquisition activity for the upcoming year. From the US executives being asked, 68 percent expect a rising number and value of deals (Deloitte, 2017b). The same report highlights the importance of technology and digitalization strategies in driving deal activity, it also anticipates both industry and sector convergence with a strong bias towards vertical integration.

The deep changes in technology accompanied by the globalization phenomenon that started in the 1990s continue to modify the way we live and work. These changes prompted companies to adjust and scale the asset ownership structure in the global economy through mergers and acquisitions and it is likely that innovation will continue fostering a high number of deals (Gommes-Casseres, 2017). The author also mentions that during the eleven-year period of 2007-2017 about 500,000 merger and acquisition deals have been made, a number which is higher than any other similar period in recent history.

Over the years, mergers and acquisitions gained strategic importance and shifted from being exclusively practiced by private organizations in industrial and professional sectors to also be regarded as important tools for the state to pursue restructuration in the public sectors such as health and education (Faulkner et al., 2012).

Despite the evidence that mergers and acquisitions have played an important role in the past and will continue to rise in number and value over the next years as a new cycle unfolds, the statistics do not show positive numbers regarding merger and acquisition returns (McKinsey & Company, 2010). On average the buyer pays the target all the value that is generated with the realization of combinational synergies, this value ranges from 10 to 35 percent of the target´s market value (McKinsey & Company, 2004). The same article points out that the expected synergies are also often over-estimated, in 70 percent of the deals the value of synergies end up below expectations.

The numbers show a very dangerous combination between paying too much and overestimating the gains, it then produces alarming failure rate statistics. Some authors point failure rates in the range of 66 to 75 percent (McKinsey & Company, 2010). Other more alarming studies, even put the failure rate of mergers and acquisitions somewhere between 70 and 90 percent (Christensen *et al.*, 2011).

The failure rate of mergers and acquisitions changes from study to study and the very definition of what is a failed merger or acquisition can be variable. Both financial indicators and non-measurable abstract variables are important, and it can be argued that a merger or acquisition is a failure because of negative outcomes or because its results ended-up below expectations (McKinsey & Company, 2004; Boston Consulting Group, 2008; McKinsey & Company, 2010; Christensen *et al.*, 2011).

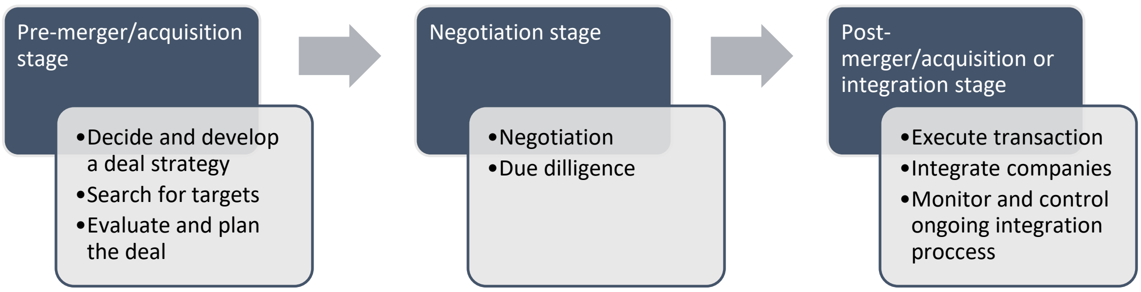
Financial indicators such as the market value of the merged companies are easy to apply and can be used to classify the success or failure of the deal, however they do not account for the whole story as there are other important subjective variables. Good examples are the cultural conflicts that can undermine employee morale, overall firm coordination and damage the business in the long term even when financial indicators are positive (Schraeder and Self, 2003; Lodorfos and Boateng, 2006; Weber and Fried, 2011).

2.1.6. Mergers and acquisitions as a process

In the literature of mergers and acquisitions, it is common to observe authors dividing the process of mergers and acquisitions into three stages or addressing specifically one of them, this division is a concept that has been created for enabling researches and practitioners to refer to a specific part of the merger or acquisition process, these three stages are the pre-merger/acquisition stage, the negotiation stage and the post-merger/acquisition or integration stage (Buono *et al.*, 1985; Epstein, 2004; Lodorfos and Boateng, 2006; Gomes *et al.*, 2013).

Considering these three stages and with the intent of achieving simplification, the following figure has been constructed, it specifies the general steps that often take place in each of these stages – see figure 2.

Figure 2- The three merger and acquisition stages and their usual specific steps



Sources: Buono *et al*. (1985); Epstein (2004); Lodorfos and Boateng (2006); Nesvold *et al*. (2007); Gomes *et al.* (2013).

In the pre-merger/acquisition stage is when the decision to try to merge or acquire is made and with which company the deal should be done. Carefully searching and evaluating potential targets is extremely important, choosing the right target can determine the success of the deal from the very beginning. Taking enough time to deeply understand target´s business and plan accordingly pays off in minimizing the chances of choosing an unfit company and it will help in exploring additional synergy sources (McKinsey & Company, 2010).

In the negotiation stage, the decision to try to make the deal happen has been made. In mergers there are organized meetings and the communication between the parties usually increases to try find a deal that satisfies both entities (Faisal *et al.*, 2016). A common process in the negotiation stage is the due diligence, which is about recognizing the assets and liabilities of the target. In the case of unfriendly acquisitions, it is in this stage that the company being acquired can try to use rebelling tactics and power conflicts can emerge (Barney and Hesterly, 2012).

At the post-merger/acquisition or integration stage, the theoretical reasoning behind the deal is put to test and the integration must start. Organizational restructurings, operational changes and strategic adjustments are done in this stage and they require a high coordination on an environment of uncertainty, stress and of possible power and cultural conflicts (Epstein, 2004; Lodorfos and Boateng, 2006; Bain & Company, 2013).

2.2. Pre-merger/acquisition stage success factors

The first step in initiating a merger or acquisition is to look for a suitable partner. The evaluation of the potential partner should take into account its strengths and weaknesses, investment requirements, quality of the target management and implementation barriers such as cultural differences (Angwin, 2001; Donnelly *et al.*, 2002; Gomes *et al.*, 2013).

2.2.1. Strategic fit and strategic complementarity

The strategic fit stands for the degree to which companies are related. The argument of many scholars is that a high degree of strategic fit increases the possibilities to create economies of scale and reduce redundancies (Capron *et al.*, 2001; Prabhu *et al.*, 2005; Tanriverdi and Venkatraman, 2005; Swaminathan *et al.*, 2008). Despite the evidence from their results, they are not entirely consistent (Bauer and Matzler, 2014).

Strategic complementary has surged as an alternative concept to strategic fit, it might explain why some of the previous studies have found inconsistent results (Larsson and Finkelstein, 1999; King *et al.*, 2004). The authors state that differences between companies can be beneficial in the case they are complementary; their argument is that these complementarities offer valuable sources of value through reorganization and allow companies to explore opportunities that either firm could create alone.

In the consulting field, companies like McKinsey are open about the high failure rate of mergers and acquisitions and mention that the risk mitigation approach towards deals observed in the last decades is not working (McKinsey & Company, 2010). The authors highlight the potential to go beyond close lines of business and explore “transformational opportunities”, therefore building support towards the idea of strategic complementarity.

One recent study in the field of mergers and acquisitions brought extra evidence that strategic complementarity plays a role in the success of deals. The study found that strategic complementarity is decisive for the integration phase and it positively influences the success of mergers and acquisitions (Bauer and Matzler, 2014). The authors, however highlight the importance of building explanation on how strategic complementarity fosters value creation.

2.2.2. Cultural compatibility

Cultural incompatibility is often pointed out as a major reason why mergers and acquisitions go wrong (Bijlsma-Frankema, 2001; Schraeder and Self, 2003; Cartwright and Schoenberg, 2006; Lodorfos and Boateng, 2006; Bain & Company, 2013).

Despite the evidence and the overall consensus among authors and practitioners that culture has a big influence in the outcomes of mergers and acquisitions and that a cultural compatibility evaluation should be done prior to the deal, there is still a lack of organizational efforts to evaluate cultural fit (Schraeder and Self, 2003; Lodorfos and Boateng, 2006; Bain & Company, 2013).

Organizational culture results from the adaptation towards shared beliefs and expectations, it is particular of one firm and it has both a subjective and objective dimension (Buono *et al.*, 1985). Cultures are hard to change and combine because they have unique characteristics that relate to the orientations and goals of the previous separate organizations, they can also evolve and consolidate throughout several years (Gordon, 1991).

A merger or acquisition with a high cultural fit happens when cultures are similar and combine well, there is a reduced need for organizational integration efforts (Bauer and Matzler, 2014). Having a poor cultural fit is bad because the uncertainty that is associated with cultural distances reinforces the need for monitoring and control and can create managerial conflict (Bauer and Matzler, 2014).

Despite being true that very similar cultures enhance the chances for mergers and acquisitions to succeed, it can be incorrect to assume that a perfect culture match gives the best results (Shanley and Correa, 1992). The authors argument that a little degree of disagreement on objectives can be beneficial because when the disagreements are solved based on superior knowledge and experience, synergies are created in the form of complementarity.

2.3. Negotiation stage success factors

The negotiation stage is an ongoing process that consists of three phases: antecedent, concurrent and consequent. The antecedent phase refers to the information gathering and other required preparations to start the actual negotiation, the concurrent phase refers to the negotiation process itself and the concurrent phase refers to the reach of an actual agreement to close the merger or acquisition deal (Faisal *et al.*, 2016).

Regarding the success of negotiations there are some variables of interest that are likely to influence the outcomes of negotiations, such as: communication (Weingart *et al.*, 2004), national cultures (Sebenius, 2002), organizational cultures (Sarala, 2010) and board involvement in negotiations (Demirtas, 2017).

2.3.1. Communication, culture and board involvement in negotiations

Frequent and relevant communication in negotiations, while keeping confidentiality, is of great importance to mitigate rumors and balance the expectations (Faisal *et al.*, 2016). The authors found a direct link between frequent communication and cross border mergers and acquisitions success.

There are some limitations to the positive effects of frequent communication, in the case of large cultural distances, they must be particularly careful in communicating only relevant information and in the appropriate amount (Wiltermuth and Neale, 2011; Faisal *et al.*, 2016). These studies demonstrated that irrelevant information and disproportionate amounts of communication are likely to have negative effects on the deal outcomes, being them particularly negative in cross-border mergers and acquisitions because they are likely to have distant organizational cultures.

When there is lack of communication regarding the future of jobs, it creates feelings of insecurity among employees and allows negative rumors to spread (Konstantopoulos *et al.*, 2009). The authors argue it is a good opportunity to reduce these uncertainties by making the commitment to keep jobs whenever possible, advising only to avoid doing this in the case it could compromise the deal flexibility.

The literature research on target board involvement and target success is still limited, however, a recent article has found a positive correlation between early target board involvement in negotiations and an increase of 6.2 percent in Cumulative Abnormal Returns (Demirtas, 2017). The author theorizes that early board involvement in the negotiation process enables the target to trace better strategies before negotiations take place and these are likely to increase the takeover premium value.

2.3.2. Negotiations in acquisitions

In hostile takeovers, the target company can try to resist being acquired and the negotiations can become a game of offense and defense tactics. These tactics have been coined with iconic terms such as golden parachute, poison pill or Pac-man defense which are among the most common types of retaliations, but there are several more (Barney and Hesterly, 2012).

A golden parachute is a tactic to discourage the acquisition by offering lucrative bonus, in cash or stock, to its top executives in case they are substituted; a Pac-man defense is a counter-attack tactic in which the target company inverts the roles and tries to purchase the acquirer; a poison pill is a movement that consists on making the stock less attractive to the acquirer, it can be a “flip-in” poison pill which consists of diluting the shares hold by the bidder to make their purchase more difficult and expensive or a "flip-over" poison pill which allows stockholders to buy shares at a discount price (Barney and Hesterly, 2012).

In the negotiation stage, there are studies regarding the variables that influence the outcome of negotiations. As in other stages, culture and communication are main variables influencing the process (Faisal *et al.*, 2016). The authors found that national and corporate cultural distances negatively influence the ability to negotiate and that there is a positive effect of communicating, however it decreases with higher cultural distances.

There is a generally agreed set of actions that managers, either in the target or acquirer side, should follow to increase the success in the negotiation phase. In the table below, these actions are summarized.

Table 4- Rules for negotiations in acquisitions for bidding and target firms

Rules for bidding firm managers	Rules for target firm managers
▪ Search for valuable and rare economies of scope ▪ Keep information away from targets and other bidders ▪ Operate in "thinly traded" acquisition markets ▪ Avoid winning bidding wars ▪ Close the deal quickly	▪ Seek information from bidders ▪ Invite other bidders to join the bidding competition ▪ Delay but do not stop the acquisition ▪ Pay the right price

Source: Adapted from Barney and Hesterly (2012)

2.4. Post-merger/acquisition or integration stage success factors

There is no such thing as a general integration process, with all its specific steps, that works for every type of deal. The integration should adapt to the type of deal being pursued (Deloitte, 2017a).

In the post-merger or acquisition stage, developing a coherent strategy, having a strong integration team, communicating correctly, implementing at the right speed and create good measurements can be appointed as five fundamental drivers of success (Epstein, 2004).

Deloitte divides acquisitions into four general types: expansion, transformation, add-on and assimilation. The degree of integration and the size of the target are the two variables that characterize the type of acquisition being made and consequently influence the best type of approach (Deloitte, 2017a).

In the figure below, the degree of integration and the size of the target are intersected and result in four general types of mergers and acquisitions; for each it is mentioned the typical/appropriated approach characteristics – see table 4.

Table 5- The four general types of acquisitions and the corresponding best integration practices

	Degree of integration			
	Low		High	
Merger and acquisition type	**Expansion**	**Add-on**	**Assimilation**	**Transformation**
Target size relative to acquirer	Large	Small	Small	Large
Pace	Cautious/ Moderate	Fast	Fast	Moderate
Style	Coordinated	Selective coordination	Directive	Collaborative
Degree of change	Only in key areas	Minimal change	Significant	High

Source: Adapted from Deloitte (2017a)

According to McKinsey, there are three fundamental keys to integrate a merger or acquisition successfully, and they can be divided into twelve best practices (McKinsey & Company, 2012).

Focusing on value creation is the first of the keys which can be achieved through creating and implement an integration approach tailored to the type of deal, looking and exploring beyond combinational synergies, transforming parts of the business and by protecting business momentum to avoid revenue loss (McKinsey & Company, 2012).

Preparing well is the second key to integrate successfully and the four best preparation practices are defining a tailored integration approach and sticking to it, empower the integration team/office and attract top performers and line leaders, giving importance to culture by evaluating and addressing it properly and make the critical decisions at least one hundred days before the completion of the key integration activities (McKinsey & Company, 2012).

The last fundamental key for a successful integration is to execute rigorously by tracking activities and operation metrics in addition to financial metrics, lots of communication and transmitting tailored information to every stakeholder group, not giving the deal ceremony more importance than it needs and build capabilities that can be used in future deals (McKinsey & Company, 2012).

2.4.1. Speed of integration

Integrating at a high speed has many benefits which include a faster synergy exploitation, reduced uncertainty and minimization of time spent in a suboptimal condition (Angwin, 2004; Homburg and Bucerius, 2006).

However, there are some arguments in favor of a slower integration such as to enhance trust building, reduce conflicts and minimize the disruption of existing resources and processes (Homburg and Bucerius, 2006). The authors concluded that the beneficial effects of speed of integration are strong in the case of low external and high internal relatedness, oppositely the impact is strongly negative in the case of high external and low internal relatedness. These results provide a possible explanation to why previous research had conflicting findings.

Choosing the right speed of integration requires a deep and complete understanding of all processes that are relevant for the deal, companies should not choose the speed of integration by intuition (Bauer and Matzler, 2014).

There isn´t a simple answer to how fast a merger or acquisition should be conducted, a careful evaluation of the internal and external relatedness should be done and only after the speed should be chosen accordingly (Homburg and Bucerius, 2006). The findings of the authors demonstrate that there is a cost in being fast, which can be higher than the benefits of a fast integration in certain occasions.

2.4.2. Human resources management, communication and addressing culture

Managing human resources in mergers and acquisitions is very important, since the moment a merger or acquisition is expected, employees can start to feel insecure about the future of their job and the company, some specific types of deals such as hostile takeovers are particularly harmful to employees (Marks and Mirvis, 1992b). Hostile takeovers, usually create a deep sense of insecurity and undermine organizational identity (Marks and Mirvis, 1992b). During their study of a merger between two computer companies, the researchers have identified several fears among employees: loss of control, job relocation, layoffs and loss of peers.

Not enough is done to minimize the impact in employee satisfaction, which negatively influences productivity and creates instability. There is, for example, proof that in acquisitions made by conglomerate companies the integration strategies are usually limited to corporate strategy and financial planning (Chatterjee *et al.*, 1992).

Regarding human resources management, task characteristics, culture, organizational politics and demographic aspects pose the greatest challenges towards a successful integration (Pablo, 1994). Being aware of these common problems and acting to prevent them will increase the chances of success, this is increasingly important with a higher integration degree.

There is consensus among researches about the importance of a good plan in achieving a successful integration. This plan should extend throughout the entire process, include specific dates, financial and non-financial objectives and detailed technical aspects and strategies (Schraeder and Self, 2003).

Communicating well plays a big role in promoting an effective planning and integration of the merger and acquisition strategies and also significantly reduces stress inside the organization (Schraeder and Self, 2003). The authors argue that when the information is relevant and flows steadily throughout the organization there is a significant reduction in employee´s uncertainties which consequently reduce stress and increase the feeling of being an active participant in the merger or acquisition process from the beginning.

Having a feeling of participation and understanding the reasons behind the need for change is imperative, even the individuals that express the largest resistance to change are more likely to support the deal (Schraeder and Self, 2003). Getting employees into feeling involved in the merger and acquisition process is vital to make them more cooperative with the organization's strategies and consequent actions, a good way to achieve this is by dividing people into teams and creating a feeling of excitement about the future (Marks and Mirvis, 1992a).

Having trust in top management is a key factor into stimulating obedience and positive action in employees towards the deal. A good leader should inspire, be competent and transmit credibility into others. When top management builds a relationship of trust and induces a feeling of security it is much easier to get employees into cooperating with actions that will somehow affect them (Schraeder and Self, 2003). Managers should deal with employee concern issues as fast as possible to destroy the negative rumors, however, it is not advised to make commitments or statements that the company might not keep (Morrison and Robinson, 1997).

Cross-functional seminars made by supervisors and keeping members updated about the integration process are activities that should be included in a good culture integration strategy (Gundry and Rousseau, 1994). The authors argue these actions are important from a functional point of view because they guide employees into doing the right things but they also increase the feeling of security in employees by addressing employees concerns and problems from the beginning.

Organizational culture is a deep and subjective part of an organization that possibly evolved through several years, therefore it is hard to change and the new habits to form (Marks and Mirvis, 1992a). The authors highlight the use ceremonies to symbolize the transition into the new phase, these events help employees detaching from the past and embracing change.

People respond differently to the changes being imposed during the integration process, it is up for top management to recognize these discrepancies and try to have some degree of flexibility. Even in the case of high cultural compatibility, employees who had good relations with those who were victims of downsizing often feel stressed (Cartwright and Cooper, 1993).

The mere perception of the employee that the organization is supportive towards him/her is enough to create a substantial positive influence in the quality of the relation between the employee and the new company (Eisenberger *et al.*, 1990).

2.5. Reasons why mergers and acquisitions fail

A better understanding of the reasons behind so many mergers and acquisitions failures is likely to help in conducting better deals and reduce the chances of failing. One example is the failed merger between the auto makers Daimler and Chrysler which has increased the awareness towards the importance of cultural compatibility in mergers and acquisitions (Badrtalei and Bates, 2007).

Managerial hubris, which is the false belief of some managers that they can control the assets of other companies in a better way than their current managers, is sometimes appointed as one of the failure causes in mergers and acquisitions (Barney and Hesterly, 2012). Managerial hubris is dangerous because it can lead companies to make deals without a solid strategic reasoning.

One McKinsey study concluded that almost 70 percent of merger and acquisition deals failed to meet the predicted levels of gross sales and revenue synergies (McKinsey & Company, 2004). The article highlighted the fact the biggest estimation errors were on the revenue side, which is concerning since many deals are done with the argument of achieving revenue synergies.

Failing to account enough revenue dis-synergies is another cause of mergers and acquisitions failures. It is almost inevitable that some areas will face increased costs due to the disruption of previous activities, sometimes these dis-synergies result directly from trying to reduce costs. The lesson to learn is that companies should pay more attention calculating revenue dis-synergies and learn from past similar deals as there is a wide range of data that can be used to create more accurate predictions (McKinsey & Company, 2004).

Despite on average mergers and acquisitions don´t create much value, some deals turn out to produce very good financial results, reduce financial risk through diversification, increase the number of strategic opportunities, among other benefits. These successful mergers become very popular and provide bold successful examples that motivate and enhance the likelihood of managers to go after bad merger and acquisition deals (Barney and Hesterly, 2012).

Most experts in the field of mergers and acquisitions agree that organizational culture is a variable that plays an important role in the outcome of deals (Cartwright and Cooper, 1993; Schraeder and Self, 2003; Lodorfos and Boateng, 2006; Badrtalei and Bates, 2007; Weber *et al.*, 2009; Sarala, 2010; Weber and Fried, 2011; Bain & Company, 2013).

In a Bain & Company survey, the number one cause appointed by executives on why deals fail to deliver the promised value was a cultural clash (Bain & Company, 2013). Despite the evidence supporting the importance of a proper cultural assessment and management, culture is still found to have been neglected in a substantial percentage of deals (Schraeder and Self, 2003).

Another McKinsey survey concluded that 92 percent of executives believe a greater cultural understanding prior to the merger would have substantially benefited the outcomes of the deal. In the same survey, 70 percent of executives admitted too little attention is given to culture during mergers and acquisitions integrations. A part of the problem comes from the belief that since the two merging companies operate very similar businesses they must have the same cultures (McKinsey & Company, 2010).

One of the common challenges in mergers and acquisitions is to balance the interests of employees, managers, shareholders and stakeholders of both companies in a neutral way and while avoiding conflicts of interest (Barney & Hesterly, 2012). These conflicts and uncertainties destabilize employee performance and can impact the vision and cultural identity of the company (Marks & Mirvis, 1992a).

Failing to properly communicate with key line managers and give them a chance to be involved in the decision-making process can have replications throughout the entire organization. They often are the closest superior for many baseline employees and if they express discontent and uncertainty towards the merger or acquisition it will negatively impact employee morale and performance, these key line managers can also provide important information to make more accurate estimations and their involvement is likely to build support for post-merger/acquisition initiatives (McKinsey & Company, 2004).

2.6. Perspectives on value creation: risk mitigation approach and value-seeking approach

During the last decades in the merger and acquisition field the typical practice is to avoid risk and make a careful evaluation and avoidance of most risks, this is done with templates, process control and through careful management decisions. The bias towards risk avoidance might come from the fact that so many mergers fail, however, this traditional approach based on risk minimization still creates failure rates of 66-75 percent (McKinsey & Company, 2010).

In a risk avoidance strategy, the managers, the merger and acquisition teams and external consultants focus on preventing bad events from happening. The analysis and decisions are made quickly and one of the usual assumptions that make the deal profitable is the cost savings associated with merging the companies (McKinsey & Company, 2010). These cost savings often involve cutting the less profitable operations and downsize the number of employees, this practice has negative implications towards employee morale and cultural conflicts often emerge (Weber and Fried, 2011).

McKinsey distinguishes between two types of value that can be generated through a merger: combinational and transformational. The combinational value is the value that the traditional approach often captures, through cost reductions and operational synergies. The transformational value is harder to capture and requires a more open and risky approach to be extracted, the transformational value is about the potential to go beyond the previous business activities and explore new profitable opportunities that emerge from the deal (McKinsey & Company, 2010).

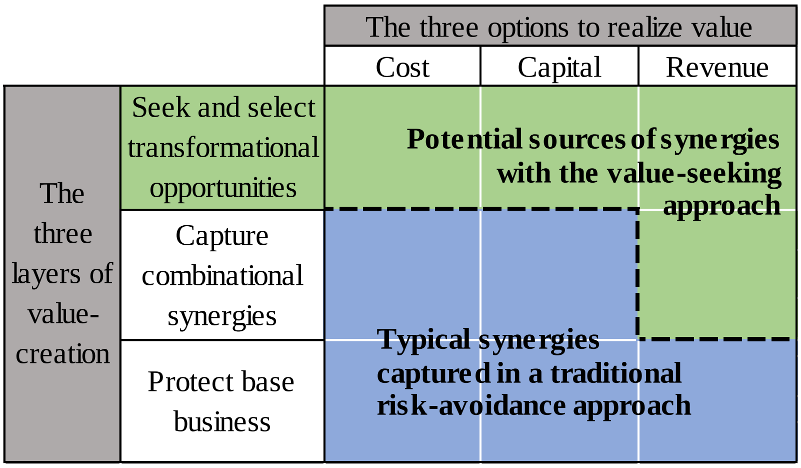
The value-seeking approach is an approach that aims at identifying both combinational and transformational value from the merger. Capturing most value of the merger or acquisition can be translated into thinking about the value that can be created once the asset is owned (McKinsey & Company, 2010). According to the authors, taking this spread-out search will increase the value creation opportunities value between 30 to 150 percent.

Deloitte also highlight the importance of changing approaches and start searching for sources of value beyond the similarity zone and to explore what could be done in terms of innovation rather than just combinational value that could bring a large amount of value (Deloitte, 2017a).

The returns on the investments made in transformational areas (areas with new markets, new customers and new products) are, on average, much higher than the investments made in core business areas. However, companies invest 70 percent of their innovation investments in core areas in which they achieve average returns of only 10 percent. At the same time, merely 10 percent of the innovation investments are made in transformational areas and these generate average returns of 70 percent (Deloitte, 2017a). The authors highlight that synergies are not just about cost reduction, oppositely, the statistics show the highest returns happen when companies exchange best practices, create new products and access new markets.

In the next figure, it is possible to see that companies can approach mergers and acquisitions in different ways, each approach has the potential to generate value unalike the others. It is of particular relevance to observe how much value can be generated, which is typically not achieved, by capturing transformational opportunities - Figure 3.

Figure 3- McKinsey´s traditional and potential synergy sources framework



Source: McKinsey & Company (2010)

In dark blue color are represented the typical/traditional ways of capturing synergies, which consist in protecting the base business and capture synergies through cost reduction and capital efficiencies. In light blue color are represented the areas where the risk-mitigation approach usually fails to act but the transformational approach can capture value. Therefore, the benefits of taking a more open-minded view of opportunities to create value (McKinsey & Company, 2010).

2.7. Literature review conclusion

Mergers and acquisitions are very common strategic moves, between the eleven-year period of 2007-2017 around 500,000 merger and acquisition deals have been made (Gommes-Casseres, 2017). However, despite their popularity and the numerous strategic achievements mergers and acquisitions make possible, the failure rate of mergers and acquisitions is still too high (McKinsey & Company, 2004; McKinsey & Company, 2010; Christensen *et al.*, 2011).

An inaccurate synergy estimation is often one the causes why merges and acquisitions fail. As McKinsey´s study concluded, almost 70 percent of merger and acquisition deals failed to meet the predicted levels of gross sales and revenue synergies (McKinsey & Company, 2004).

With accurate synergy estimations better decisions are made and many failures in mergers and acquisitions are avoided. At the light of this investigation, I consider of major importance to further analyze what is failing in the estimation of synergies and what could be done to improve their accuracy.

Culture has impact in every merger and acquisition stage and is a variable with great influence on the success of mergers and acquisitions (Bijlsma-Frankema, 2001; Schraeder and Self, 2003; Lodorfos and Boateng, 2006; Susan *et al.*, 2006; Bain & Company, 2013).

Despite being unquestionable that a proper cultural evaluation made by qualified professionals should be conducted on every deal. Many authors point to a lack of organizational efforts to evaluate cultural fit, also there is a misconception that when companies have a high strategic similarity they must have similar cultures (Schraeder and Self, 2003; Lodorfos and Boateng, 2006; Bain & Company, 2013).

There is consensus that a greater cultural compatibility diminishes the likelihood of cultural conflicts, however it can be incorrect to assume that perfect culture similarity is better than slight differences (Shanley and Correa, 1992). As the authors mention, not all aspects of culture affect the deal in the same way and when disagreements are solved with rationality, there is room for improvement in the form of cultural complementarity.

Reflecting on the prior statements, I consider important to further investigate why cultural evaluation is failing and what can be changed to improve it. It is also crucial to study if companies are incapable of conducting that cultural evaluation or as some of the research points, that there is just too much negligence and lack of attention towards culture.

Given the fact companies still often ignore the importance of culture (Schraeder and Self, 2003; McKinsey & Company, 2010), it is expectable that many cultural problems and conflicts will keep emerging due to cultural negligence.

The process of going through a hostile takeover, by itself, can be stressful and leave marks in employees which affect their productivity due to the uncertainties regarding the future of their jobs and the rapid changes that occur (Marks and Mirvis, 1992b).

Because of the strategic importance of mergers and acquisitions (Deloitte, 2017b), the high value they can bring (Deloitte, 2017a) and their usage as escape routes (Barney and Hesterly, 2012), it is also expectable that some deals will be realized independently of the existence of cultural problems.

Taking the prior statements into account, I believe a better understanding on how to address expected cultural problems and incompatibilities is a fundamental topic for further investigation.

The traditional risk-mitigation approach is producing too high failure rates. If it is true that the failure rate is between 70 and 90 percent (Christensen *et al.*, 2011), it is a very alarming statistic that should make executives and practitioners profoundly reflect and learn from past mistakes.

There is already evidence of the benefits of a more holistic approach on value-creation, and the numbers indicate an increase in value creation between 30 and 150 percent (McKinsey & Company, 2010). However, it might be difficult to convince managers and shareholders of the value of investing more time and resources in the search and planning of these sources of value.

Deloitte highlights the disparity between the distribution of the investments and the returns they produce. Companies invest 70 percent of their innovation investments in core areas in which they achieve average returns of only 10 percent. In contrast, the innovation investments that are made in transformational areas, which account for only 10 percent of the total, generate average returns of 70 percent (Deloitte, 2017a).

At the light of this investigation, I consider important to further investigate if there is consensus on the importance and value of changing approaches and how to balance time and resources consumption with the need to make a more extensive research and evaluation in the value-seeking approach.

Many practitioners point out the benefits to seek more transformational value and adopt a less rigid approach to mergers and acquisitions (McKinsey & Company, 2010; Deloitte, 2017a). Some researchers also agree the literature field of mergers and acquisitions needs improvement and greater cooperation among researchers (Faulkner *et al.*, 2012).

It might be counter-intuitive, but adopting a risk minimization approach with rigid templates, process control and careful management decisions might be contributing to the high failure rate of mergers and acquisitions because it fails to achieve transformational synergies. According to McKinsey, taking a more holistic approach on making deals can improve the value creation of deals between 30 to 150 percent (McKinsey & Company, 2010).

Deloitte also supports the argument to change approaches and start searching for sources of value beyond the similarity zone (Deloitte, 2017a). The authors mention it can be very beneficial to explore innovation opportunities that could bring a large amount of value rather than just combinational value.

The benefits of changing the approach have increased with the changes in the digital age we are living, the digital age it is offering plenty of opportunities to disrupt industries and create tremendous amount of value for the companies who have the courage and capability to successfully expand through transformational sources of value (Boston Consulting Group, 2011; Dettmar *et al.*, 2017; Bain & Company, 2017).

Reflecting on the previous statements, I consider essential to continue investigating how to prepare an organization to better adapt to transformational deals and integrate to extract most value with minimal risk.

Chapter III - Theory contextualization

The literature review enabled a deeper understanding on the topic of mergers and acquisitions, they are complex and multidimensional phenomena which are still not fully understood. With the intent of studying and understanding which variables influence the outcome of deals and how it happens, these variables were analyzed and the authors´ and practitioners´ views exposed and confronted.

From the literary review also arose several investigation questions. These questions were formulated and selected according to the attributed relevance and the expected value for the field of further studying them.

Predicting accurate synergy values is surely crucial to make right decisions, not only they are important to conclude if the deal should go forward or not, at a more precise level the expected synergy values at different areas influences when making smaller decisions.

As concluded by McKinsey´s study, many deals were already condemned from the start as they would not generate enough synergy value to make the deal worth (McKinsey & Company, 2004). Even though we need to consider that having inaccurate synergy estimations do not translate automatically into a reason for the failure of a merger or acquisition, over-estimations negatively influence a deviation from the expected result. As much as 70 percent of merger and acquisition deals fail to meet gross sales and revenue synergy levels (McKinsey & Company, 2004).

With more accurate synergy estimations better decisions can be made and many failures can be avoided. If the perceived value is correct, all the unnecessary time and resources spent on the subsequent stages are avoided, as well as the final failure and all its implications.

Considering the importance of achieving consistent and accurate synergy estimations and the present high failure rate of synergy estimations, it is of importance to further investigate the topic, therefore, the first investigation question emerges.

IQ 1: What is failing in the estimation of synergies and what could be done to improve their accuracy?

Despite the multiple comments from authors in the field of mergers and acquisitions that culture is a variable with influence on the outcome of deals (Bijlsma-Frankema, 2001; Schraeder and Self, 2003; Lodorfos and Boateng, 2006; Susan *et al.*, 2006; Bain & Company, 2013), on the other hand, authors and practitioners point fingers towards the negligence organizations demonstrate when they handle cultural problems (Schraeder and Self, 2003; Lodorfos and Boateng, 2006; Bain & Company, 2013).

The results from McKinsey´s survey are very clear. The results point out that 92 percent of executives believe a better cultural understanding before the deal took place would be beneficial and 70 percent of executives agree too little attention is given to culture (McKinsey & Company, 2010). However, several questions emerge: are companies being just negligent towards the importance of culture or is there also a need for a structural change in the way cultural evaluation is conducted. It can also be argued some companies might lack experts capable of properly conducting cultural evaluations, in such case, the doubt arises if they should seek help from an external entity or not.

Cultural negligence is translating into big loses and contributes for a higher merger and acquisition failure rate. A deeper investigation on the causes and possible solutions for this problem should be conducted, raising the second investigation question specified below.

IQ 2: Are companies neglecting the importance of culture and that translates into a bad cultural evaluation and/or do they lack internally the capability to evaluate culture? What can be done to improve cultural assessment?

Mergers and acquisitions can promise to deliver a lot of value (Deloitte, 2017a). When this happens, the temptation to do the deal regardless of cultural problems can be hard to avoid. Mergers and acquisitions also have a very big strategic importance and can be used for several strategic purposes (Deloitte, 2017b). There are several other reasons to why companies engage in mergers and acquisitions, such as the existence of a managerial hubris and the use of mergers and acquisitions as a way to avoid bankruptcy and achieve financial diversification (Barney and Hesterly, 2012).

History, statistics, the existence of a managerial hubris and other variables make us consider that unless more importance is given to culture and a true change in the way culture is managed occurs, we can expect to see merger and acquisition failures due to cultural problems keep happening.

Culture is inseparable from any deal because it is embedded in both organizations (Buono *et al.*, 1985; Gordon, 1991), so it would be great to overcome the cultural problems barrier and find a way to make the deal happen well by addressing and/or dodging the cultural problems.

At the light of this investigation, it is imperative to conduct further research on cultural problems and the possibility to minimize their negative impact. Consequently, the third investigation question is created.

IQ 3: If cultural problems are expected but the deal must go forward, what can be done in terms of integration stage agenda, organizational structure and others to minimize their negative impact?

The approach towards deals observed during the last decades, referred to by many practitioners as the traditional risk-mitigation approach, is producing too many failures (Christensen *et al.*, 2011; Faisal *et al.*, 2016). There is substantial support towards the idea of a broader approach to value creation, referred to as the value-seeking approach. The numbers indicate an increase in value creation between 30 and 150 percent (McKinsey & Company, 2010).

Despite being the results undeniable on the benefits of a broader approach, it hasn´t changed yet (Deloitte, 2017a). In the literature review, the doubt emerged if most authors and practitioners agree with this idea. Maybe this concept can be hard to grasp and perhaps it is due to the apparently illogical argument from this new perspective that avoiding risk can be bad. The argument is that by being too careful and inflexible, the deals are blocking the exploration of sources of greater value. These is also a need for executives and shareholders to become convinced and be cooperative on the necessity to spend more time and resources on searching for transformational opportunities.

A deeper understanding of the value-seeking approach on mergers and acquisitions is required, it also has the purpose of confirming the information found during the literature review. It is vital to know if average practitioners are aware of this type of approach and what they think about it. At the light of this research, the need to raise the fourth investigation question is verified.

IQ 4: Is it true that deals would benefit of changing towards a less standardized and more flexible approach as some practitioners point out? If yes, how to optimize time and resources consumption with the need to make a more extensive research and evaluation in the value-seeking approach?

Being prepared for conducting evaluations and negotiations smoothly and without errors, is important and it will help getting things right. If the predictions are based on trustable data and the arguments that support the idea of value creation are solid, it is going to be easier to get approval from managers and shareholders and of course the risk of having wrong predictions diminishes (McKinsey & Company, 2004; McKinsey & Company, 2010).

Transformational deals are different from the very start, they require more attention and a deeper look into the value creating aspects that can make a certain deal generate astounding value generation (McKinsey & Company, 2010). The doubt that appeared during the literature review is whether there are preparations and activities that can help in such event. Ideally, companies should be able to form a deep bond and keep power wars away from the negotiation and overall integration process (Bauer and Matzler, 2014).

If there exist specific approaches, structural changes and preparations that can help, they might contribute to a deeper sense of security in an apparently riskier new type of approach and the event will have more organizational support, and therefore, more probability to succeed due to increased cooperation.

As concluded in the literature review, transformational deals can generate a lot more of value when compared to typical deals (McKinsey & Company, 2010), it is then important to know more about the ways to better adjust to this type of deal and how to manage risk and value generation. Therefore, creating the fifth investigation question.

IQ 5: How to prepare an organization to more easily integrate in transformational deals and extract maximum value with minimal risk?

Chapter IV – Methodology

4.1. Investigation model

Investigation methodology is a discipline which is prevenient from logic and has as an objective, the study of the scientific method (Tarski, 1977). Methodology can be described as a set of best practices, which are approved by the scientific community, these are important because they enable to achieve validity and recognition in a scientific context.

We can therefore say that the method or scientific process is a set of practices used and accepted by the scientific community as being valid for the exposition and confirmation of a given theory. By using these practices, we have created good sources of knowledge that help us question and analyze reality, and the results are valid because they followed the accepted investigation process (Vilelas, 2009).

Taking in consideration the classification criteria proposed by Vergara (2006) and Vilelas (2009), there are two approaches to methodology, one is oriented by the goals and the other is oriented by means. The goals refer to the applied and exploratory research while the means refer to bibliographic and field research.

Qualitative research aims at assessing the contextualization of a phenomenon regarding its interaction with the main actors (Creswell, 2007). The present research is classified as qualitative.

There are several steps which can be used to divide the overall process of elaboration of this dissertation. The work started with a broad choice of topic, mergers and acquisitions, which was later on narrowed to the variables that influence success and failure in mergers and acquisitions. After the choice of topic, a literature review took place, it started by the reading of books to grasp general knowledge on the topic and was later followed by the reading and exploration of articles and reports on the subject.

In Chapter III, the research questions were formulated according to the gaps and interesting topics found during the literature review, they were evaluated and accepted by the specialized supervisor. The research questions are the foundation blocks for the following work. After the topics of investigation are clear and the questions are well formulated, the following research is conducted through interviews.

Table 6- Relating the investigation objectives to the interview questions and the studied authors of the literature review

Investigation objectives	**Interview questions**	**Literature review authors**
Study the variables and actions negatively influencing the decisions at the pre-deal stage and achieve a set of recommendations to improve them.	What is failing in the estimation of synergies and what could be done to improve their accuracy?	Bijlsma-Frankema (2001); Schraeder and Self (2003); Cartwright and Schoenberg (2006); Lodorfos and Boateng (2006); McKinsey & Company (2010); Barney & Hesterly (2012); Bain & Company (2013).
Understand how practitioners perceive the importance of culture and if companies are neglecting this variable. Achieve a set of recommendations to improve cultural evaluation	Are companies neglecting the importance of culture and that translates into a bad cultural evaluation or do they also lack internally the capability to evaluate culture? What can be done to improve cultural assessment?	Cartwright and Cooper (1993); Schraeder and Self (2003); Lodorfos and Boateng (2006); Badrtalei and Bates (2007); Weber et al. (2009); Sarala (2010); Weber and Fried (2011); Bain & Company (2013)
Comprehend why companies engage in deals between "incompatible" companies. Develop a set of recommendations on how	If cultural problems are expected but the deal must go forward, what can be done in terms of integration stage agenda, organizational structure	Bijlsma-Frankema (2001); Schraeder and Self (2003); Cartwright and Schoenberg (2006); Lodorfos and Boateng (2006); McKinsey & Company (2010);

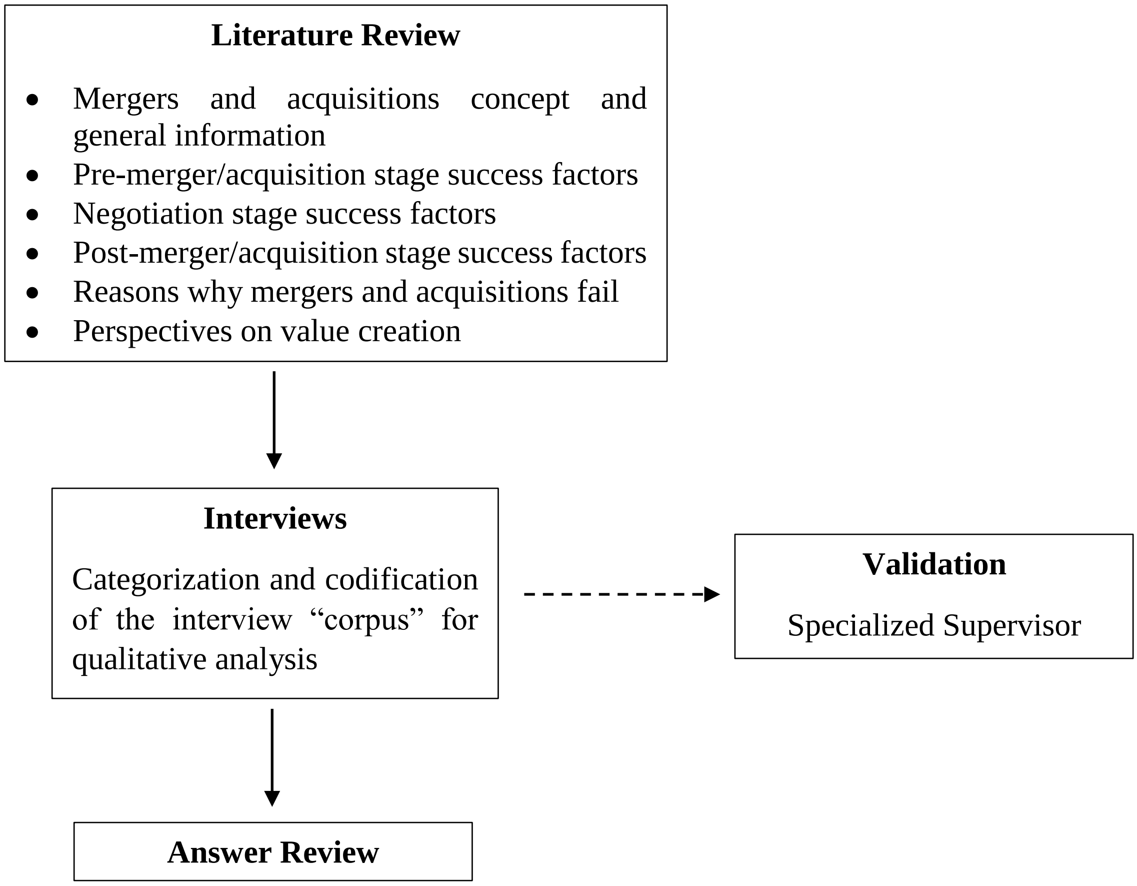
to extract value on this type of deals.	and others to minimize their negative impact?	Barney & Hesterly (2012); Bain & Company (2013).
Understand how practitioners perceive the current state of making mergers and acquisitions, if they think the process is too standardized and if there is benefit on investing more time and resources trying to capture more value.	Is it true that deals would benefit of changing towards a less standardized and more flexible approach as some practitioners point out? If yes, how to optimize time and resources consumption with the need to make a more extensive research and evaluation in the value-seeking approach?	McKinsey & Company (2010); Weber and Fried (2011); Christensen *et al.* (2011); Bauer and Matzler (2014); Faisal *et al.* (2016); Deloitte (2017a).
Achieve a set of recommendations on how to prevent negative outcomes and how to generate more value through deal-making	How can organizations prepare, and which actions can they develop to more easily integrate in deals and extract maximum value with minimal risk?	McKinsey & Company (2004); McKinsey & Company (2010); Bauer and Matzler (2014).

Source: Elaborated by the author

In order to conduct interviews with quality and credibility while extracting valuable information, an interview “corpus” is defined and validated by the supervisor. After the interviews are conducted, comes the last step in the work which is the analysis of the answers from the interviews and the achieved conclusions.

The investigation model is important as it depicts the structure of the investigation on a step by step approach, below the scheme of the investigation model is shown- see figure 4.

Figure 4- Scheme of the Investigation Model



Source: Elaborated by the author

Referring to this present investigation, it is described as non-probabilistic and was conducted through a sample chosen by convenience and according to the availability of the elements (Carmo & Ferreira 1998), in this case by people with enough expertise to provide meaningful comments on the topic. These people include CEO´s, directors, heads of mergers and acquisitions, managers and consultants with experience and expertise on mergers and acquisitions. Fifteen people were interviewed through phone calls, these phone calls have been recorded with the consent of the interviewed and later transcripted- see the appendix.

On a first stage, a search for relevant people inside a near geographical area was done. This approach consisted of trying to achieve first-person contact by visiting, trying to get references and calling people directly after looking for their contacts; it was very time consuming and produced no results.

On a second stage, the social-working platform LinkedIn was used. The search for people was conducted very meticulously, after all, only the best professionals could provide the best information with the most assertiveness.

Even though online data collection is not as detailed and flexible as a person to person interview, it enabled to reach high profile specialists that otherwise would be very hard to interview. On total, around five hundred LinkedIn invitations were sent (on three separated occasions) accompanied by a message asking for a brief phone call, of which resulted the fifteen participants. The search was tuned to show the most relevant people only, because the results were being shown by relevance, only the most skilled professionals were shown. The search terms also included keywords such as "Head of M&A" or "M&A Director" to refine the results.

At first, the message that accompanied the invitation was detailed and personalized for every individual after a meticulous investigation on the person, but this method consumed too much time and, as later proven, a standardized type of message produced almost the same percentage of positive results and required much less time. This standardized methodology enabled to send hundreds of invitations in a much shorter amount of time. For the people who accepted the invitation but did not answer the message, a more personalized contact was then also made.

According to Vilelas (2009), the number of interviews is said to be in an acceptable interval when it is located between 15 to 20 interviews. In total fifteen interviews were conducted. Even though the number of interviews is in the acceptable interval, the results of this research should be taken with caution. The interview sample was intentional and was selected according to several requirements; such as their expertise and experience and their functions in mergers and acquisitions. In geographical terms, the sample is mainly restricted to Portugal and Germany, this is a big limitation and therefore generalizing should be avoided.

However, from the start of this investigation achieving a generalization was not the primordial objective. The main purpose was to discover and represent the reality of mergers and acquisitions and explore the views of researchers and practitioners on what could be done to improve the success of such deals. In this context, the verification and demonstration criteria in terms of investigation had implicitly a nature of exploration and application to the studied topic. The application nature results on the fact this investigation is trying to study a contemporary phenomenon of the real life (Yin, 1994).

This investigation has an exploratory trait, which is somehow the result of the current failure rate on mergers and acquisitions and the overall agreement between researchers and practitioners that something must change to improve the value created in the deals. This is also the reason why this investigation focuses on validating the already existing theories regarding solutions and achieving new ones, rather than just describing the present reality of the sector.

Regarding the interviews, there was a clear and standardized interview guide. However, with the purpose of enriching the content of the person to person interviews a more flexible dialogue took place, which was done in such a manner that would not induce sample bias in the results.

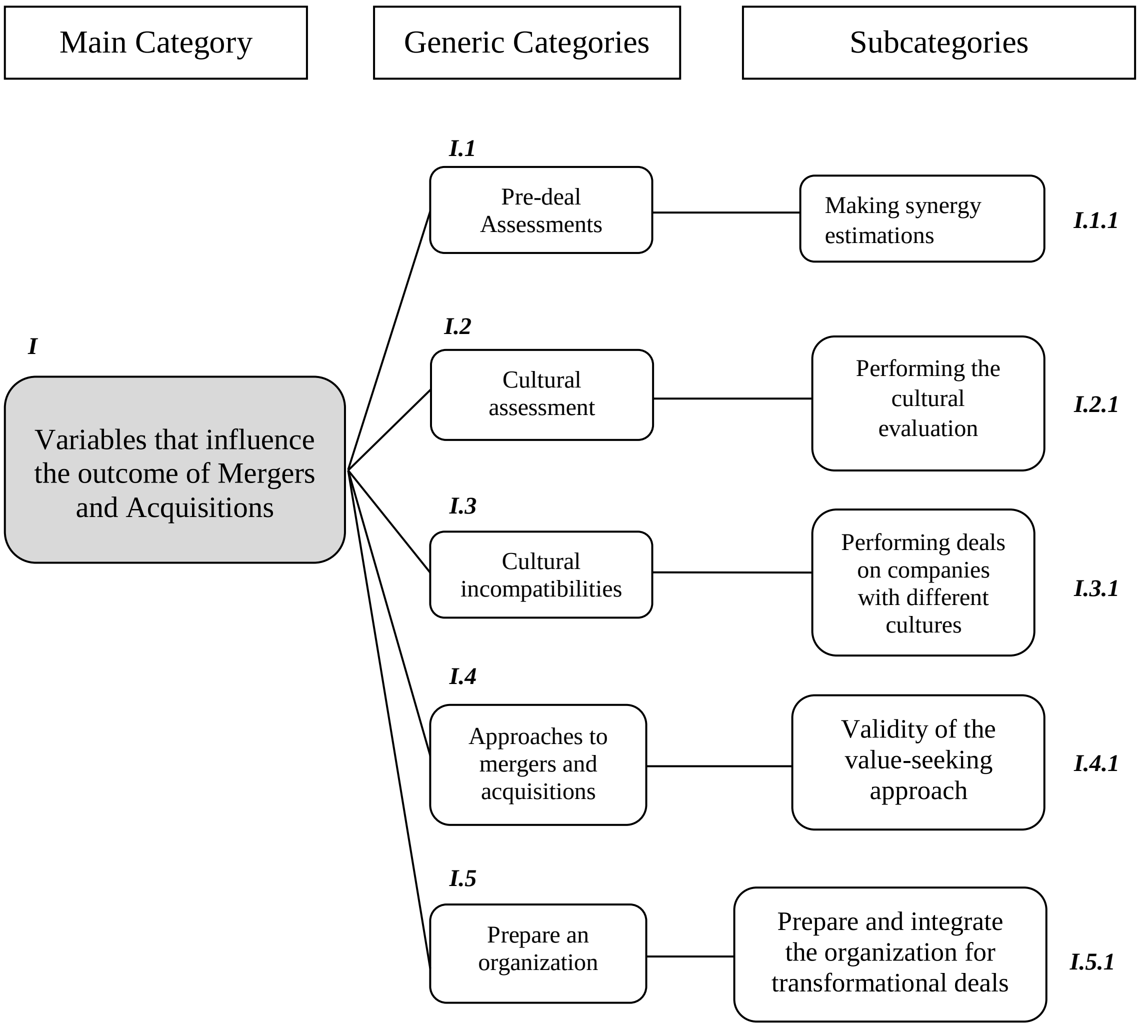
All interviews were conducted via phone call, most participants accepted being recorded with the promise that the recording would only be used for information transcription purposes. Recording the interviews also lowered the required amount of time to conduct the interview since no time for writing was required. Many participants preferred to be either anonymous or semi-anonymous, however, these also agreed that their identities could be revealed with caution for the evaluation committee in case there was scrutiny over the validity of the interviews.

The interviews tried to measure mergers and acquisitions while considering the social dynamic and the individual and holistic characteristics of the human being. The study tried to understand the meaning people attribute to this phenomenon more than just interpret it. This is because words, actions and gestures have their own context and therefore they must be interpreted using induction (Vilelas, 2009).

In terms of the qualitative analysis technique used for the data interpretation in the interviews, this can be resumed to an analysis of content that tried to relate the semantic and sociologic structures in such a way that the answers are interpreted and put into context with the factors that determine their characteristics, such as the psychosocial variables, cultural context and ways of reproducing the message (Duriau et al., 2007).

In the figure below, the interview "corpus" is shown. This scheme illustrates how the objectives of the research translate into the interview questions. The broad topic of the variables that influence mergers and acquisitions ramifies into the generic categories and later into the subcategories. This ramification is the result of the literature review and can be interpreted as going deeper and deeper into the subject- Figure 5.

Figure 5- Categorization and codification of the interview "corpus" for qualitative analysis



Source: Elaborated by the author

The interviews were recorded with an app with the consent of the respondents, or transcripted during the call for those participants that did not accept being recorded. Later-on they were documented in written texts. The process of clarification, systematization and content expression of the messages was organized in conformity with the three chronologic pillars of Bardin (1977). The steps of this approach consist firstly on organizing and systematizing the ideas, secondly on exploring all the information and thirdly on the treatment of the respective interpretations and the obtained results.

The interviews were chosen as the preferred method to gather information because even though there is an inherent subjectivity in the information collected by using this method, it allows the collection of information from the very own social actors with the possibility to dynamically adjust the direction of the speech as the interview flows (Carmo & Ferreira, 1998).

The semi-structured technique that was used was developed on an organized and standardized set of questions, however, it was implicit that the direction of the conversation would flow naturally and, in some occasions, questions were generated as the interview run and a deeper clarification on a target concept was necessary. This spontaneous nature of the interview has contributed for a lot of information that would otherwise be missed or left unclear (Werr & Styhre, 2002).

As defended by Vilelas (2009), this flexible way of conducting the interviews has abolished the need for rigid criteria that would damage the level of detail collected in the investigation. Regarding the disadvantages of having such flexibility is that the results were not standardized and there was a high degree of difficulty and required time when it came to organize, compare and reach conclusions on the results – Appendix 1.

4.2. Sample characterization

In the table below, a characterization of the research sample has been consolidated. For more details about each respondent consult the interviews transcript in the appendix. Some participants preferred to stay anonymous or semi-anonymous, therefore the lack of detail for some of these participants.

Table 7- Characterization of the sample of participants in the interviews

Nº	Participant	Function	Company	Country	Gender
1	*	Financial Director	*	Portugal	Male
2	*	Head of M&A	*	Germany	Male
3	Katharina Rosenbohm	Director of M&A	Bayer	Germany	Female
4	Abhijeet Gupte	Senior Consultant	Ernst & Young	Germany	Male
5	Christoph Kattenfeld	Head of Acquisitions	Peach Property Group	Germany	Male
6	Damien Bassant	Senior Expert of Field Development M&A	DEA Deutsche Erdoel	Germany	Male
7	*	M&A Associate Advisor	*	Germany	Male
8	Patricia Crazzolara	M&A Communications Lead	SAP Deutschland	Germany	Female
9	Miguel Tavares	M&A Expert	Unilabs	Portugal	Male
10	*	M&A Director	*	Germany	Male
11	*	M&A Partner	*	Germany	Female
12	*	Strategy & Investments Senior Manager	“Large French Media Group”	France	Male
13	Kristo Van Holsbeeck	Owner of MNA	MNA	Belgium	Male
14	Mathias Nebel	CEO and M&A Consultant	Ventrada Corporate Finance	Germany	Male
15	*	M&A and Strategy Responsible	“Large German Bank Group”	Germany	Male

*The respondent did not authorize the public disclosure of this information.

Source: Elaborated by the author

Chapter V – Results presentation

5.1. Synergy estimations: problems and solutions

Five respondents pointed indirectly to a managerial hubris as a cause for the inaccuracy of the synergy estimations. This managerial hubris might be particularly strong in SME´s because leaders have always used their intuition to reach their success. As observed in the literature review, it can also interest management to grow through mergers and acquisitions to receive bonuses and to gain reputation. However, some respondents mentioned the lack of technical capabilities of companies to correctly estimate synergies.

Several respondents also mentioned the emotional attachment of people for the realization of the deal to why companies over-estimate synergies. These people can be quite emotionally driven and even be willing to manipulate numbers in order to promote a positive decision of the board of directors towards the realization of the deal.

Table 8- Evidence for a managerial hubris/emotional involvement

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Interview 1 (Anonymous)	I have a very well-formed opinion about this… I think that there is clearly a Hubris and it is constant in this type of businesses. This hubris happens very often on the buyer side.	**I.1**	**I.1.1**
Katharina Rosenbohm	When they want to buy a company, they make high estimations, because they are excited and want to buy it.	**I.1**	**I.1.1**
Christoph Kattenfeld	Probably also that the people who are making the acquisitions are too aggressive (…), and over-optimistic.	**I.1**	**I.1.1**
Miguel Tavares	The main factor that influences this gap is the excess of optimism from the buyer´s side and overconfidence in the capacities to execute. There is pressure to execute the transaction and to achieve certain growth objectives, the management can also have interest in growing and protecting itself.	**I.1**	**I.1.1**
Kristo Van Holsbeeck	On one hand I would say it is the eagerness to acquire and on the other hand the pressure that is	**I.1**	**I.1.1**

	put on management to grow, they tend to reason on a way that is favorable to acquire. (…). I would say that a bit more over fifty percent (of SME´s) does not reason correctly and a little less than fifty percent does reason correctly.		
Mathias Nebel	Mergers and acquisitions are many times driven by heart and not by facts, I would say.	**I.1**	**I.1.1**

Source: Elaborated by the author

Another mentioned factor that adds to the over-estimation of synergies is that in the most exciting deals, there is many times a lot of competition to acquire the business, a conservative bidding proposal based on conservative synergy estimations is unlikely to win against the competitors.

Companies need more time to make accurate estimations, but there are often strict time constraints. In case companies wish to go deeper into studying these synergies in a realistic and detailed way, they need to take much more time and it increases the risk of the deal never happening because another competitor can step-in and the target can react to difficult the process.

In a general way, over-optimism can be appointed as a reason to why estimations end up being short of what was expected. But as six respondents directly mentioned, synergies can be difficult to estimate, and people often work with imperfect data. When trying to extract information from the target or a potential partner companies face several obstacles. The information they are seeking can also be confidential, one of the respondents pointed to confidentiality as a reason to why he often is confronted with difficulties in calculating synergies.

Table 9- Evidence for the difficulty in making accurate synergy estimations

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Katharina Rosenbohm	What we try to do is to quantify these synergies bottom-up. Yes, they are still much based on assumptions, but we do try to quantify each	**I.1**	**I.1.1**

	synergy as much as possible and always ask how high is the likelihood that this is going to happen.		
Abhijeet Gupte	The synergies are an initial estimation, yes, it is really hard to achieve the exact estimated amount in the first place, this is primarily due to two things: the first is that there is always a realization loss, in the process of execution you might incur in some dyssynergias (…). The second reason is execution, mergers often fail because it is very difficult to execute, the reason could be anything, there could be cultural clashes, delay in the implementation or improper execution on the operational part of the advisors or even the target company.	**I.1**	**I.1.1**
Christoph Kattenfeld	I think it is difficult to estimate the synergies, really, these are cost savings and specially going forward. Most of the time you are working with imperfect data, so you need to make some assumptions. If you are trying to acquire a big company, you can know a lot of people, but you can never know each individual which you will let go or keep and exactly what that person earns, that would be too much data. At the end of the day, I think it is a data problem, because you are working with imperfect data.	**I.1**	**I.1.1**
Damian Bassant	When it comes to acquire something and realizing what it is. Again, there are a lot of unknowns and it all has to do with the amount of data available at the time of this decision to move into this asset.	**I.1**	**I.1.1**
Interview 10 (Anonymous)	I don´t think you can improve the estimations. What you can do is to prepare a wider arrange of variants. In many cases you get a wrong estimation because you didn´t know things in advance. If you are more conservative you can reduce the failure rate, on the other hand it also lowers your chances of closing the deal because your offer is lower than competitors.	**I.1**	**I.1.1**
Interview 12 (Anonymous)	As an M&A director you often need to get permission to discuss the details with the operational people, because that is confidential information. You cannot ask for bottom-up analysis, so then you have to do top-down analysis and rely on statistics.	**I.1**	**I.1.1**

Source: Elaborated by the author

Two respondents pointed fingers at banks and how they operate with rules of thumbs, others mentioned that companies are not really worried into making these estimations and they are just used to justify what they have already emotionally decided. One of the critiques respondents gave to banks is that they have expertise in finance, and it is something they are really good at; but they lack the operational expertise to be able to accurately estimate synergies. In question four some respondents also touched the point of the current practice of banks as being the result of an adaptation towards efficiency and that this is unlikely to change because this is the result of many decades of experience and a deviation from current practices is likely to induce more mistakes and increase the risk of not realizing deals.

Three respondents mentioned the importance of making bottom-up synergy estimations as opposed to top-down synergy estimations. In bottom-up synergies estimations, companies calculate the impact change will have on the micro and detailed aspects of the business and then arrive at the final result by multiplying that for the scale that synergy is repeated. According to respondents, making top-down synergy estimations is more abstract and opens room for biased perspectives with lack of reality. However, they also mentioned that due to lack of information, lack of time and/or confidentiality issues it can be impossible to perform this ideal bottom-up approach.

Table 10- Evidence for the preference for making bottom-up synergy estimations

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Katharina Rosenbohm	Indeed, I think that many companies don´t do it in this diligent way. Often times, the synergy targets have been made by investment bankers, advisors or by the top management in a top-down manner. What we try to do is to quantify these synergies bottom-up. Yes, they are still much based on assumptions, but we do try to quantify each synergy as much as possible and always ask how high is the likelihood that this is going to happen.	**I.1**	**I.1.1**
Miguel Tavares	Firstly: when those are synergies out of sectors that we know, we must have particular attention. This difference in knowledge between sectors	**I.1**	**I.1.1**

	makes all the difference when it comes to the capacity to make calculations. When we are dealing with a horizontal acquisition, then things are much easier, and the estimations must be done in a bottom-up manner.		
Interview 12 (Anonymous)	As an M&A director you often need to get permission to discuss the details with the operational people, because that is confidential information. You cannot ask for bottom-up analysis, so then you have to do top-down analysis and rely on statistics. (refering to that as a less accurate method)	**I.1**	**I.1.1**

Source: Elaborated by the author

A fact that is appointed by some respondents and that is later indirectly confirmed by an analysis of the responses and how the work of the respondents is performed is that many times the team that is responsible for making the deal happen is different from the team that is responsible for the integration of the company and all the strategic aspects. This might be contributing for the lack of sense of urgency in employees to perform on the deal that was appointed by some respondents, one of them even mentioned that it happens that mergers and acquisitions are often looked at as a burden to day to day activities.

One of aspects that makes companies not achieve the results they predicted is that they also fail to account for revenue dis-synergies. These revenue dis-synergies can happen for the very fact the deal is realized, one of the respondents gave the example that a company acquired another and achieved a big market share in the region. As a consequence, one of the previous clients decided to break the contract because the monopolization of the market from this company was making it concerned about being overly-dependent on the firm.

Other respondents pointed that simply there can exist truly unpredictable events in execution that delay the implementation of the plan, increase the costs of the deal or erase some percentage of the synergies.

Table 11- Several appointed problems regarding synergy estimations

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Interview 1 (Anonymous)	The separation of property and management has advantages and disadvantages. One disadvantage is that if the team is not good, it won´t care about the business because it´s not theirs. On the other side, they can manage it more independently and without power interferences.	**I.1**	**I.1.1**
Abhijeet Gupte	(…) there is always a realization loss, in the process of execution you might incur in some dis-synergies. (…) Mergers often fail because it is very difficult to execute, the reason could be anything, there could be cultural clashes, delay in the implementation or improper execution on the operational part of the advisors or even the target company. (…) In a nutshell, sound execution of the merger is essential keeping all parts involved in the first place helps for sure, then is also helps the dedication, most often is happens that mergers and acquisitions are considered as a burden, so it´s not a day to day business. If I would be a finance guy, I would be in finance and controlling but merging a company is not my day-to-day business. So, there needs to be a sense of urgency among all employees that they have to deliver on the merger. Having that sense of importance on the merger is a very important factor for success.	**I.1**	**I.1.1**
Damian Bassant	When it comes to acquire something and realizing what it is. Again, there are a lot of unknowns and it all has to do with the amount of data available at the time of this decision to move into this asset.	**I.1**	**I.1.1**
Interview 7 (Anonymous)	The full process of M&A takes a long time. A long time after the acquisition is done, a new team which is responsible for executing the integration takes place and I think it is because these teams are separated. (referring to what is failing in synergies estimations)	**I.1**	**I.1.1**
Interview 10 (Anonymous)	In many cases you get a wrong estimation because you didn´t know things in advance. If you are more conservative you can reduce the failure rate, on the other hand it also lowers your chances of closing the deal because your offer is lower than competitors.	**I.1**	**I.1.1**

Interview 12 (Anonymous)	There is also an effect of not being able to predict the future. In a company, when you do a strategic plan, you do a lot of mistakes because macro-economic effects are not predictable.	**I.1**	**I.1.1**

Source: Elaborated by the author

Some appointed solutions include having an experienced and neutral team, that has minimal emotional attachment to the realization of the deal. When there is enough time and resources, to calculate synergies in multiple ways and compare those perspectives to check for asymmetries. Using available databases of past synergies that were achieved in similar circumstances also provide another way to check if the estimations are realistic.

Holding people accountable for the achievement of predicted synergies and incentivize them with money to achieve the expected results is another appointed way to force people into making accurate predictions and achieving them.

Other appointed ways to help improve the accuracy of estimations include having a solid plan B in case something goes wrong, so that it minimizes the negative impact of a deviation from the expected results. To hire external experts (consultants) to help with synergy estimations, while keeping in mind that it will increase the costs of the deal. And to excite the leader of the target company to achieve more collaboration.

Table 12- Appointed solutions to improve synergy estimations

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Interview 1 (Anonymous)	I think that for this, clearly is to have independent teams. That independent teams enter these businesses. I believe that they are often despised by the business owners, the business leaders are not “dumb” but they have a lot of incompetence’s.	**I.1**	**I.1.1**
Katharina Rosenbohm	It´s important to have a check for example from the board of management or in our case the M&A department that are not emotionally involved in the deal and takes a really realistic view to cross-	**I.1**	**I.1.1**

	check if this makes sense. So, what you can do is: calculate things bottom up, have neutral teams checking and cross-checking assumptions and challenging the views of teams on these assumptions and you can also run cross references.		
Damian Bassant	You can´t just have "plan A", you need to have plan A, B, C… sometimes.	**I.1**	**I.1.1**
Interview 7 (Anonymous)	McKinsey or BCG would do this better, they have large databases for synergies. They go to the databases and they have collected percentages. You also have to do really profound work and from my personal view, bankers don´t do this. If management can´t do this, they should employ experts. To make it better I would say to hire consultants.	**I.1**	**I.1.1**
Miguel Tavares	(…), in terms of what is needed, will vary from sector to sector, but I would say having a team and a department focused on improving the business internally. It is a team that is focused on improving the company in various valences and in this type of situations it will be very useful to help, because they know very well how things work and will know to identify in the target company what are the key points and will know how to quantify synergies.	**I.1**	**I.1.1**
Kristo Van Holsbeeck	In an acquisition, and certainly in a competitive acquisition, the time to calculate these things is often too short to go deeply into these issues. I would advise to build an internal team or hire external experts. Too often the team that is in charge of the M&A is not large enough.	**I.1**	**I.1.1**
Interview 15 (Anonymous)	During the due diligence process, you can adjust your synergy expectations. If you after all see they have very different infrastructures, then you should include a discount on your synergy expectations. Whereas they have the same systems you can see those synergies can be achieved. The due diligence will enable you to see if the synergies make sense and to sharpen the predictions.	**I.1**	**I.1.1**

Source: Elaborated by the author

5.2. Cultural assessment: importance, problems and solutions

This question has received very wide and conflicting answers. Six respondents strongly defended the importance of culture, sometimes pointing fingers and blaming the negligence companies have when it comes to cultural variables. Three respondents showed no agreement to the statement that culture is important, several others were in a neutral opinion zone or gave no comments on the topic.

Some of the practitioners who agree with the importance of culture mention that there can be substantial differences between companies of the same country and that these are the ones that are more likely to go "under the radar".

Defendants of the importance of culture also point that there is too much optimism when it comes to culture and that people make the wrong judgement when they think that if companies operate in the same business area they may be compatible culturally.

When it comes to integrate companies, two respondents mentioned that internal teams are biased and adopt own firm culture and over-estimate how the other firm will perceive operating under a different culture. One of the respondents mentioned that the people who set and deal with culture are not the same who makes the deal happen, this statement is supported by analyzing the role of respondents and concluding that these people are in fact, not responsible for dealing with culture in a post-integration stage.

A possible connection between the level of agreement towards the importance of culture was found when analyzing this statement. Almost all the respondents who showed disagreement towards the importance of culture, do not work in direct contact with the integration stage where culture supposedly creates problems. Despite being in minority, most of the respondents who directly disagreed towards the importance of culture have many decades of experience and possess executive roles. Some of the responses are therefore conflicting and disagree with the taken assumptions of the importance of culture in the consulted literature, in which the large majority of authors speaking about culture defended its importance.

Table 13- Opinion of respondents on the importance of culture

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Interview 1 (Anonymous)	I would say that in the majority of cases, companies do negligence culture. So, they don´t even notice that they lack the capacity to evaluate culture because they don´t care. From the reality that I know, I would say that the negligence is very big.	**I.2**	**I.2.1**
Interview 2 (Anonymous)	I agree that companies are neglecting the importance of culture. (…). I would not say that they do lack the capability to evaluate culture.	**I.2**	**I.2.1**
Katharina Rosenbohm	I cannot really speak for that point because I am not aware of deals that fail due to culture. I think this is a very commonplace statement, people often speak of the Daimler-Chrysler merger that failed. Even with that one I am not sure if it was because of culture. At Bayer we are involved in many, many deals. I personally sold and acquired businesses in Poland, Turkey, Southern Europe, American companies with global businesses and I haven´t come across with cultural issues so much.	**I.2**	**I.2.1**
Abhijeet Gupte	There is nothing called cultural due diligence, so I would highly recommend that there is something called cultural due diligence, just because you can´t quantify something like culture and it is a very soft aspect, I would say. (…) The key point is that the buyer should know that the cultures differ and imposing the culture on theirs can destroy value. That is the key point. Culture should be a part of the strategic evaluation,	**I.2**	**I.2.1**
Christoph Kattenfeld	Culture is always a problem as you don´t really know how the other company works, and what type of people if sitting in there. Specially if you are talking about company A from country A and it wants to acquire company B from country B, you have a different culture in each country but also in each company.	**I.2**	**I.2.1**
Damien Bassant	Each company has a culture, it has a mindset, it has a perspective. It is a conglomerated bunch of minds, in general, I believe that companies who are out acquirers and expand these will definitely take all those aspects into consideration,	**I.2**	**I.2.1**

	especially the social aspects which have tremendous implications.		
Interview 7 (Anonymous)	From my experience, I don´t think companies are underestimating this. I would say that this is also not very important, but this is speculative. Top management consist of highly educated and experienced people, they are also very globalized, and they can deal with integrating the company well. I doubt this is the most important factor, but as an advisor I would say to take it seriously.	**I.2**	**I.2.1**
Patricia Crazzolara	For us culture is always a field that we analyze to see if there is cultural fit, that is key.	**I.2**	**I.2.1**
Miguel Tavares	I think it is something that can go unnoticed and there is overconfidence, optimism and underestimating in the ability of someone in the target company to do things. The process of mergers and acquisitions can leave some areas aside, the culture can pass under the radar and can be very important to the success of the transaction.	**I.2**	**I.2.1**
Interview 10 (Anonymous)	There is little opportunity to adapt to other culture needs. There is bad preparation. You also should not underestimate culture in deals between neighboring countries, (…), if you think they are just neighbors, you are making a big mistake. Of course, it gets worse the further you get. It´s a matter of short time and arrogance. And yes, culture is very important, absolutely important.	**I.2**	**I.2.1**
Interview 11 (Anonymous)	I think many buyers who are looking for targets fail to evaluate culture, and this is maybe two-fold. They might think that after the acquisition they can change the culture at the target company very easily when culture depends on many things. If you take a top-down approach it´s very hard and it takes many years. I also have the impression that the decision-makers at the buying company over-estimate the importance and the appeal of their own culture.	**I.2**	**I.2.1**
Interview 12 (Anonymous)	Also, many companies acquire others on the same country and they totally underestimate this cultural effect. I think it is of course stronger if you are acquiring a company on another country, but at the same time it is very difficult to test.	**I.2**	**I.2.1**
Kristo Van Holsbeeck	I think both are true, on one hand companies often neglect culture and the psychological side of a deal is also the cultural side. And on the SME	**I.2**	**I.2.1**

	market that is really important because putting two companies with different cultures together is a recipe for failure. If these cultures do not get along with each other, if one has strict procedures and a strong hierarchy and the other has a more loosened hierarchy and flexible procedures, these two will not be able to work together.		
Mathias Nebel	In my opinion, and during the work I do. I work with deals mostly in Germany. These companies have very similar cultures and philosophies. In my point of view, culture is not the reason. I can´t say that these cultural variables are important.	**I.2**	**I.2.1**
Interview 15 (Anonymous)	First of all, I think that culture is important. I came across several transactions where this was an issue. For the due diligence, you should have already an idea and you should really think about it. You should select your target based on the strategic and cultural fit, sometimes it is quite easy to understand when companies are geographically distant than when you do an intra-country transaction. However, there is no golden rule on how to solve this, it also depends on the size and scope of the transaction. If you acquire a smaller company it may not be a problem.	**I.2**	**I.2.1**

Source: Elaborated by the author

Respondents mentioned that companies can lack that capability to evaluate culture and three mentioned that hiring consultants is a good alternative, when necessary. However, the costs of making the deal happen will increase, and they advised to reflect if after adding those predicted costs the deal is still profitable.

One of the respondents said that it is really hard to know exactly who is on the other company, they can be manipulative and deceiving and you only really know them afterwards. Said the respondent recalling past events.

Some respondents pointed as a possible way to improve cultural evaluation to take cultural research seriously and include a cultural due diligence in the timeline. Three practitioners mentioned the importance of getting involved, it can be visiting warehouses, offices, communicating and getting to know the people of the other company. Surveys to evaluate satisfaction were also appointed twice as a possible solution.

Table 14- Opinions on how to improve cultural evaluation/planning

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Interview 1 (Anonymous)	Professional teams that participate in the acquisition process, particularly in post-acquisition processes that culturally evaluate the company. (...) If we go to Spain this is very important, in fact the culture there is already quite different. Hence the professional teams.	**I.2**	**I.2.1**
Abhijeet Gupte	Everyone involved in this, the board of directors and the C-suit should have a broad mind with what they want to achieve from the acquisition. It´s more about people being educated that culture can destroy a firm, and not just companies. If you have a wrong CEO or another high-ranking person that does not fit into the company culture, then you can destroy value.	**I.2**	**I.2.1**
Christoph Kattenfeld	I think this is one of the most difficult things to do, I don´t think that anything within reason can be done. It´s my opinion.	**I.2**	**I.2.1**
Miguel Tavares	Everything that has to do with getting to know the target company's people is essential, management meetings, shop visits, factories, warehouses or whatever is extremely useful. To know not only the top-management but also some intermediate bosses. To see if there are discrepancies between them, realize what are the expectations and interests that each one has in the transaction. The secret is the involvement of the management team in the process of due diligence to be covered the key people in the company, to know the company in various contexts, when I say to know is to visit, talk and try to have references of customers and suppliers, this road-map is good to know more about the company. This goes a long way towards engaging the management team in the process.	**I.2**	**I.2.1**
Kristo Van Holsbeeck	I would say that certainly yes; by being aware of culture and by investigating, asking questions and feeling the culture. This is not exact science of course. Many times, when there is a transaction, the discussions are made with the shareholders and not with the people from the company.	**I.2**	**I.2.1**

Interview 15 (Anonymous)	During the due diligence process, you can adjust your synergy expectations. If you after all see they have very different infrastructures, then you should include a discount on your synergy expectations. Whereas they have the same systems you can see those synergies can be achieved. The due diligence will enable you to see if the synergies make sense and to sharpen the predictions.	**I.2**	**I.2.1**

Source: Elaborated by the author

5.3. Performing deals on companies with different cultures

As one of the respondents noted, it depends on the level cultural incompatibilities are observed. According to him, these cultural incompatibilities can happen at numerous levels such as top-management or operational/employee level. He advises to evaluate which are those incompatibilities exactly and which impact will they have, because each level requires a specific set of actions and depending on the type of company and deal being pursued their impact can vary.

Five respondents directly mentioned that the level of integration can be set to minimize those incompatibilities. The more culturally distant they are, the less integrated/more independent companies should be. One of the respondents also added that besides this level of integration, one should think about how well the target is running alone and in case it is a "well oiled" company to check if an intervention is going to destroy that working efficiency. Do not integrate them, play with the level of integration (depends on how distant culturally they are and how well-oiled thy are you should not destroy a well-oiled company. Two respondents mentioned that awareness is key to be ready to act.

Firing the target employees, specially the top-management was a frequent topic to be touched by the respondents. Around four practitioners advised to deal with people in a very precise and well thought manner. The leaders of the target company can be quite resistant to the change and they have a lot of power to negatively influence the outcome of the deal. What can be done, according to the answers is to deal with these people very carefully, and if they are causing problems to fire them.

The importance of communication to overcome cultural problems was highlighted three times. The respondents advised to communicate more and develop events that promote well-being and enthusiasm. These events should aim at exciting the target leaders and employees and getting them with you. Another appointed way to stop toxic and boycotting behaviors is to give salary bonuses to those leaders that help in the integration.

Two respondents pointed to the importance of defining leadership on both companies. And defended the creation of a central decision team that should be able understand the other culture.

As observed in the literature review it was proposed by some authors that making a commitment to retain people is beneficial to the outcomes of deals because people get less anxious. However, one of the respondents who has experience in the topic said that from her experience the several times that commitment was done, that she saw it negatively influencing the profitability of the deal, sometimes in severe way.

One of the respondents mentioned the importance of thinking about the long-term value-erosion of dealing with conflicting cultures. He defended that the negative effects might perpetuate for longer than expected, and he advised that when in doubt that it is better to find someone else.

Table 15- Appointed solutions on how to perform deals in culturally incompatible companies

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Interview 1 (Anonymous)	I think that, in addition to the prior evaluation that there should be (...), it is fundamental to have in the central decision-making team people who understand the culture of the other company (...). And then it is the adaptation of internal procedures so that they do not collide with that culture. For example, a Portuguese company cannot reach Spain and expect the workers to accept it at eight in the morning.	**I.3**	**I.3.1**

Interview 2 (Anonymous)	The question is: do they need to be integrated? Depending on the target you could stay on the zone, you could also do that, and it basically works heavenly.	**I.3**	**I.3.1**
Katharina Rosenbohm	(…) There are welcome parties, huge efforts in communication such as newsletters and emails sent to employees, updates, all the good stuff.	**I.3**	**I.3.1**
Abhijeet Gupte	The solution is that you don´t force your culture into the target firm. You can always work with someone that you are incompatible with; the problem arises when you try to force your culture on others.	**I.3**	**I.3.1**
Christoph Kattenfeld	Sometimes it makes sense to impose your culture as the leading culture and sometimes they should be independent and without a full integration, it´s about the level of integration.	**I.3**	**I.3.1**
Damien Bassant	It depends on what level these incompatibilities exist. Sharing, searching, some things cut off another, cross off to keep the best of both sides and integrate them.	**I.3**	**I.3.1**
Interview 7 (Anonymous)	In a recent deal, a German company has made a promotional video for the employees about the future of the company. I can say that for the lower-skilled employees this has been really helpful, they were very excited. It was a good instrument to create trust. It´s a question of communication, how the management communicates.	**I.3**	**I.3.1**
Patricia Crazzolara	Leadership is extremely important in such a case, if you get the leaders of the acquired company behind you and be promoters of the change, then you´ve done a great thing already. (…) The other thing is to be very clear about the future.	**I.3**	**I.3.1**
Miguel Tavares	There are internal integration actions that can be launched where the resources of the two companies are combined and where one does not only seek to produce something together, but to create team spirit and integration. (...) A mapping of resources is also important, it should be well defined and on a comparable basis between companies.	**I.3**	**I.3.1**
Interview 10 (Anonymous)	First of all, you talked about integration. But that is not the only way you can create value; the other way would be to keep them separated. Let them keep their culture and build on the results. If you need to integrate them and they are different, then	**I.3**	**I.3.1**

	you will have problems. Maybe those problems are bigger than the financial benefits. You need more time and also take that into account on the business plan.		
Interview 11 (Anonymous)	The answer should be two-folded. I think the management of the acquirers need to understand that it´s not about imposing culture on the target company. But also, the target company should be open to do things differently.	**I.3**	**I.3.1**
Interview 12 (Anonymous)	I believe that if you acquire a company which is operating in the same business area, you can easily address that problem by changing the top management of the target company. Sometimes the ego of the target´s management is a problem. You create an earning plan for them, to compensate if they stay along the plan and help you throughout the process, it needs to be an appealing amount of money. It can help convince the management.	**I.3**	**I.3.1**
Kristo Van Holsbeeck	Take more time to integrate the two companies, so that through discussing what is best (…). At the organizational level, when the culture is not the same I would say to keep the organizations apart. Also discuss very meticulously how the realization of synergies at an operational level can be done without conflicts between people, and then do that gradually.	**I.3**	**I.3.1**
Mathias Nebel	I think you should implement a new leader in this company you are about to takeover. It´s dangerous, you can´t change the culture of the other company.	**I.3**	**I.3.1**
Interview 15 (Anonymous)	This kind of situation would be very unlikely to happen. If it´s a geographic thing, then keep them independent as the time gap between companies would also make it difficult for integration.	**I.3**	**I.3.1**

Source: Elaborated by the author

5.4. Standardization and viability of a value-seeking approach

The answers for this question were more abstract and complex than other questions, their opinions also referred to specific contexts. When carefully analyzing the possibly conflicting answers, it is visible that they are directed at specific contexts that can complement and fit each other without necessarily conflict. Four respondents said that standardization exists and that it is essential on an operational level; several others indirectly defended standardization.

One respondent mentioned that theoretical merger and acquisition experts would say there is over-standardization, and that when looking at theories he also has the idea that it makes sense, but only by experiencing the process can the importance of standardization be felt.

What four practitioners argued against standardization can be interpreted as a critique to standardizing the reasons for mergers and acquisitions. And that over-standardization, when paired with a lack of creativity, can be a value-destroying combination. One of the participants mentioned that the process of decision-making is more like a creative process rather than a standardized one; often he has the feeling that without the capacity to be opportunistic and to be flexible, that things would not work very well.

Three participants referred that the counter-side of implementing a less standardized approach that tries to seek and capture value on deeper levels is that it increases the risk of the deal not happening. One respondent mentioned: having more time to do such things would certainly add value, however, no one is interested in giving the target more time to create problems. Some respondents highlighted the importance of time and that the less standardized you are, the more time you will require and depending on the context it can destroy more value than what it adds.

Table 16- Opinions on the standardization of mergers and acquisitions

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Interview 1 (Anonymous)	I think there is parameterization. It has some disadvantages, but it is also important.	**I.4**	**I.4.1**
Interview 2 (Anonymous)	First, I agree that mergers and acquisitions are very standardized, for sure. But are they inflexible? Yes, also a bit, it can be. But does it mean they are bad? No.	**I.4**	**I.4.1**
Abhijeet Gupte	No, it´s not too standardized. What fails is the reason to do the deal, if I can produce something myself why should I purchase a company?	**I.4**	**I.4.1**

Damien Bassant	You can possibly extract guidelines, but remember you need to accustom things to work on the situations you are presented with.	**I.4**	**I.4.1**
Interview 7 (Anonymous)	Process standardization in my personal view needs to exist as much as possible, and it is good. It lowers the risk and reduces the time and effort.	**I.4**	**I.4.1**
Miguel Tavares	The biggest driver is the level at which the management team thinks outside the box. This will determine how the company looks at the approaches.	**I.4**	**I.4.1**
Interview 10 (Anonymous)	First thought of my answer, of course it would. The transparency and the value creation. But the second part is who is interested in that? I don´t see anybody in the sell side willing to give the target more time.	**I.4**	**I.4.1**
Interview 12 (Anonymous)	If the companies are listed they need to comply with a lot of regulatory issues. If you want to make the transaction quickly, then you should keep it standardized.	**I.4**	**I.4.1**
Kristo Van Holsbeeck	I would certainly not agree to a non-standardized process, but at the same time I also don´t agree with a too standardized process. I believe in a kind of a framework procedure that would be implemented on a mandatory basis.	**I.4**	**I.4.1**
Interview 15 (Anonymous)	I don´t think that merger and acquisition transactions are standardized. It´s probably only M&A theoretical people that say such a thing. On one hand, standardization is helpful.	**I.4**	**I.4.1**

Source: Elaborated by the author

Even though their answers were sometimes abstract and hard to compare, it can be said that they agree on the fact that standardization with a touch of flexibility is key. Some areas only benefit of a high standardization such as the legal area, depending on the context, adding a bit of time and flexibility can be beneficial.

One of the respondents mentioned that such an approach could work if the team was entrepreneurial and experienced enough to think outside the box and in an efficient manner.

Table 17- Opinions on being creative and flexible in the process

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Interview 1 (Anonymous)	I think what is important is to maintain creativity, in a given scenario, to imagine and create something with more value.	**I.4**	**I.4.1**
Katharina Rosenbohm	I also like a more creative approach such as a bilateral discussion, a joint venture, a licensing agreement or selling businesses to wealthy families, so I like to be creative and think about different ways and I think that really helps.	**I.4**	**I.4.1**
Damien Bassant	You need to formulate and adapt to the situation based on the criteria and the principles that you are faced with. So yes, you need to be flexible without a doubt.	**I.4**	**I.4.1**
Miguel Tavares	I think the main variable is the degree of entrepreneurship of the management team and the company. This will determine the risk aversion that happens in these more transformational acquisitions.	**I.4**	**I.4.1**

Source: Elaborated by the author

5.5. Preparing an organization to perform mergers and acquisitions

One of the most cited solutions that can help companies prepare for transformational deals, as pointed by five respondents, is having a proactive, multifaceted and experienced team that can make the deal-making process more entrepreneurial while having enough expertise to know what they are doing. Team experience will reduce the risk of failure due to lack of process regulations. One of the respondents also noted that it is not uncommon that the people involved in the process are working with different IT systems and according to him, it would improve coordination if people were all working with the same system.

Communicating more and in a clear manner, was referred by three respondents as a way to make a good preparation for an upcoming deal. One of the respondents added, in case you are trying to sell our business, you should take care of all the marketing to be as visible as possible and increase the number of interested companies. There are important things, such as having a nice and professional website page that enables you to pass the image of being a modern and professional company, something you should want to achieve if you are trying to sell your business.

Two respondents pointed to the importance of fixing internal problems before engaging in any deal. First, they say, you should optimize what you have and make sure it is running in an efficient and stable way.

Two practitioners pointed to the importance of prioritizing the upcoming merger or acquisition event, to define a timeline and allocate the resources necessary to make a smooth transaction. About making a more extensive research and looking for deeper sources of value, one of the respondents mentioned that it should not be more complex than a regular deal, it is just a matter of evaluating and preparing with more time and having attention to details.

Two respondents advised to have more transparency in the process. And one respondent mentioned the importance of adjusting the dynamics of both companies so that the target knows it is a two-sided process. Regarding other aspects that could be improved, one respondent also mentioned to define leadership more clearly; the idea is to always have a board or a committee that is ready to take care and supervise the deal.

Two respondents mentioned that it is a human thing that people don’t like unexpected change, especially when it is not in their interests. Therefore, they can try to resist to change. What one practitioner advised is to educate people on these issues and to pay them well to keep them satisfied and motivated via the achievement of financial bonuses.

One respondent commented on the fact that trying to extract deep synergies from attractive deals has its disadvantages when compared with easier deals. Easier deals can also create value by having less competition and being less time and resources consuming. Another responded commented that in mergers and acquisitions if one side wins a lot the other side must be losing.

Table 18- Opinions on how to prepare an organization to perform mergers and acquisitions

Content analysis – Interviews			
Interviewed person	**Text**	**Generic Category**	**Sub Category**
Abhijeet Gupte	You cannot prepare an organization to be so rigid and strong that it can easily digest an acquisition, all you can do is ensure that the acquisition is smooth by employing the right people, educating and having the right execution plan in place and so on. That´s how I would put it, M&A is not a day to day business.	**I.5**	**I.5.1**
Christoph Kattenfeld	What you need to have is what I call a SWAT team in place, which really helps in the integration. In the integration of a company, post-merger, synergies will be realized, and synergies will be destroyed. So, make sure you have a really well-oiled machine and a team that integrates and facilitates the integration and post-merger really figures out how to best deal with going forward. Because they have more time than during the acquisition, they need to make use of that time as efficient and profitable as possible	**I.5**	**I.5.1**
Damien Bassant	Sit down, learn from each other, pick the best process, you are optimizing what you have existing. Without venturing into new projects, new fields, new anything; no more mergers, no more acquisitions except for operating, first optimize what you got, it doesn´t cost you significantly. If it is going to optimize the process, it´s not an expense, it is an investment.	**I.5**	**I.5.1**
Interview 7 (Anonymous)	If you are acquiring to make a completely new company, with a new branding, do it step by step. Do it gradually, it is quite important. You need enough time to get everybody used to the idea and deploy the resources. People are frightened by changes and if you go slowly you can correct possible mistakes. Communication is key.	**I.5**	**I.5.1**
Miguel Tavares	What I would say in a simplistic way is that the more knowledge you have about the industry and the more referrals you collect from the target company, the lower the associated risk because the greater the understanding and the ability to choose what you really want. The first point is really to know the market and the companies.	**I.5**	**I.5.1**

Interview 10 (Anonymous)	You can prepare your organization, (…) having people with experience that can react to that specific situation. But you are also victim of the behavior of the sell side, so you have to react, you can´t set those rules. It´s difficult to prepare or to influence others, who sells sets the tone.	**I.5**	**I.5.1**
Kristo Van Holsbeeck	In the first place, it is about the company that is acquiring to evaluate itself, it´s strengths and weaknesses. By knowing their own strengths and weaknesses, for example, if you know you are good at R&D but not as good in distribution, then you should be looking for a partner that is strong in distribution company. The second thing is building a team that is strong enough in order to take such challenges and to take more time. The last thing, perhaps the most important one, many companies start to reason that they want to acquire, but they didn´t take enough time to reflect on themselves. That is often neglected.	**I.5**	**I.5.1**
Mathias Nebel	From time to time it´s important to discuss those fields with your staff. But sometimes you should not do it. It depends on the culture and the company. It´s important to do it if you have a small company that you know all your staff will face potential change in the organization. Another point is, in the case shareholders are going to retire and want to sell their companies, in those cases it´s important to implement a second level of responsible people that will replace the leaving person. This is an important point for preparation. You should also do all the marketing and communication stuff, including for example having a very nice website. If you want to attract a potential buyer you need to present yourself as a very modern and professional company.	**I.5**	**I.5.1**
Interview 15 (Anonymous)	A board or an integration committee that is installed to control the process. This is normal in large M&A deals. Feedback from employees is also crucial and that goes back to the cultural question, when things are not going as expected. Whenever there is a mismatch you need to react. It´s also a communication question, an internal communication question, you need to explain the deal, that is lacking sometimes.	**I.5**	**I.5.1**

Source: Elaborated by the author

Chapter VI – Discussion of results

6.1. Synergy estimations: problems and solutions

In the estimation of synergies, this study found proof that there is indeed a presence of a managerial hubris and an over-optimism involving the realization of deals, this goes in conformity with the statements of Barney & Hesterly (2012). As the authors mention, too often people are emotionally attached to the deal and think with their heart instead of reason. In an interview, one transaction consultant with many years of experience pointed a figure regarding this topic, according to him, this happens more than a half the cases a transaction in done on an SME.

It was also pointed that synergies estimations can be hard to estimate, and that it is no problem of the companies and managers themselves. One interviewed director pointed to his experience as he felt many times frustrated after not being able to get essential confidential information from the target. The data itself can be imperfect, no one can calculate everything to the most minuscule of details, even the most well-made synergies estimations are just estimations and there are many non-financial variables involved, these results are in conformity with the arguments of Gomes et al. (2013).

What also came as a cause for why synergies are wrong so often is that people, as said earlier, think with emotions and then try to justify it with biased data. What some respondents advised to do was to hold people accountable to reach their estimations and incentivize them with money if their predictions are reached.

The importance of making bottom-up synergy predictions instead of top-down estimations was highlighted a couple of times. Whenever it is possible and advisable, companies should perform bottom-up analysis. This finding is in conformity with the previous literature such as the arguments of McKinsey & Company (2010).

6.2. Cultural assessment: importance, problems and solutions

Regarding the cultural variable, the interview responses were contradictory. Some people defended strongly the importance of culture, while others even mentioned that during their decades of experience they never observed the effects of culture to be a significant problem. Most of the reviewed literature defends the importance of culture (Cartwright and Cooper, 1993; Schraeder and Self, 2003; Lodorfos and Boateng, 2006; Badrtalei and Bates, 2007; Weber et al., 2009; Sarala, 2010; Weber and Fried, 2011; Bain & Company, 2013). The results of this study are therefore partially conflicting with the arguments of the authors from the literature review and raise some doubts on the importance of culture.

However, from the results of this study another interpretation can be made; if culture is important, the belief of some of the interviewed professionals that think otherwise only prove the existence of cultural negligence, which is defended by some authors as a cause for the failure of mergers and acquisitions (Schraeder and Self, 2003; McKinsey & Company, 2010). The majority of interviewed people who disagreed with the importance of culture work at the pre-stage and due-diligence phases and hold positions in banks or large corporations with highly specialized deal-making functions and have no responsibility in integrating organizations, this might be a factor contributing for their view on the importance of culture.

6.3. Performing deals on companies with different cultures

The obtained results are in conformity with the arguments of the authors studied in the literature review. When dealing with deals that are predicting large financial benefits, but companies have cultural incompatibilities, one of the mentioned solutions was to play with the level of integration; to keep the companies independent if it doesn´t generate much damage to the capability to reap the synergies. This complements the argument of Schraeder and Self (2003) on the importance of developing a well-fundamented plan as well as the argument of Barney & Hesterly (2012) that managers should balance the interests of employees, managers, shareholders and stakeholders of both companies in a neutral way and while avoiding conflicts of interest. By adapting the level of integration companies can manage the amount of expectable conflicts between the organizations to a level that optimizes the value generated via synergy extraction.

Another finding consistent with the literature review was on the benefits of communication; to try getting connected with the leaders of the target company to plan things together and to involve employees as well. According to the authors in the literature as well as the respondents, this communication and participation creates team-spirit and reduces the resistance to change by changing the perception of people that the ones behind the deal are on their side (Eisenberger *et al.*, 1990; Schraeder and Self, 2003). Gundry and Rousseau (1994), also mentioned the importance of having integration activities. Communication is also important in the perspective of Marks and Mirvis (1992a), their argument is that uncertainties destabilize employee performance, good and clear communicaion certainly helps reduce uncertainties.

Another solution that was not observed in the literature review, but was mentioned in the answers was the suggestion that mananers can incentivize people in situations of particular conflict by offering them a money conpensation if they follow the plan and achieve certain objectives.

Some respondents mentioned that when dealing with distant cultures, managers should not immediately impose one over the other. Managers should instead develop integration activities that slowly build a team-play spirit between the two sides and after that the speed and degree of cultural change can be molded to avoid major conflicts. As Buono *et al.* (1985) and Gordon (1991) mention, cultures are abstract and hard to change.

6.4. Standardization and viability of a value-seeking approach

The value-seeking approach concept as proposed by McKinsey & Company (2010), did not receive much approval from the respondents. However, respondents agreed that keeping creativity and flexibility in some areas is vital, therefore giving partial support to a possible change in the way mergers and acquisitions are conducted. The consensus among respondents is that standardization leads to a faster and more efficient process, but when things are running too automatically, some variables are not observed and are left untreated because people are working with guidelines. Trying to search and explore deeper synergies could indeed add value for the deal, but it is also not in the interest of the buying company to, in many cases, give the target more time to cause problems.

Some respondents said that the theoretical reasoning behind the value seeking approach is correct and makes sense, but that too often there are very tight time constraints as well as other variables such as the negative perks of giving the target more time that make this more extensive approach not look as good. Therefore the concept for this new approach of McKinsey & Company (2010) can work out if the proper conditions are in place and more research needs to be conducted.

6.5. Preparing an organization to perform mergers and acquisitions

Having experienced and proactive teams with a well-defined leadership was one of the mentioned topics by respondents to prepare organizations to better perform deals, this is in accordance with the view of McKinsey & Company (2010). Another mentioned action to make sure an organization is prepared to perform mergers and acquisitions is to make sure that the company is running smoothly and efficiently before engaging in a merger or acquisition deal, this topic was not directly observed in the literature review and it is a good complement to the check-up steps to take before engaging in mergers or acquisitions.

The importance of have a good amount and quality of communication for the success of mergers and acquisitions was appointed by the respondents, this opinion is in conformity with what was observed in the literature review (Weingart *et al.*, 2004; Wiltermuth and Neale, 2011; Faisal *et al.*, 2016). As mentioned by Konstantopoulos *et al.* (2009), when there is lack of communication, it creates feelings of insecurity and allows negative rumors to spread.

Chapter VII – Conclusion

This investigation had as a main purpose to study the complex events that mergers and acquisitions are. More specifically, to understand as much as possible all the variables that play a relevant role in the outcomes of mergers and acquisitions. The desired results were to reach a set of actions and advices, general or context-specific, that can be used to improve the outcomes of mergers and acquisitions.

The complex interactions between the variables of mergers and acquisitions make it very hard to reach objective actions to be taken in the future that will enable companies to avoid making mistakes or to extract more value from deals. For every situation there is very specific context, and as observed in the study, it the role of the mergers and acquisitions professional to be aware of the context and to play with those variables.

However, by just raising the awareness of professionals to the most relevant and most common mistakes, it can already be achieved a relevant improvement in the field. By comparing the opinions of professionals highly specialized in the field but that work in different contexts, it can be grasped a very valuable picture of how people think about the same variables from different angles.

7.1. Contributions on the Mergers and Acquisitions Field

This investigation reinforces the arguments of some previous authors and brings light into several topics of mergers and acquisitions. Regarding synergy estimations, the managerial hubris and over-optimism need to receive more attention from managers and organizations. This study reinforces the argument for the presence of a managerial hubris that has been cited by Barney & Hesterly, (2012). Multiple respondents referred to this variable as being a negative impediment for the neutral and efficient realization of deals. In the future, the field needs regulate itself by making sure professionals are not emotionally biased in the deals. The process of decision-making needs to avoid rules of thumbs and engage in more rational data calculations by adopting clear and standardized methods. Another proposed solution achieved in this work is to make people accountable for their mistakes as well as their achievements, by adopting this reward system people will be more careful to check if they are building their arguments without emotional bias.

The cultural variable received controversial and conflicting answers, overall, professionals gave both positive and negative answers regarding the importance of culture. This conclusion means that there is a misalignment between the beliefs of practitioners regarding the importance of culture, which obviously will influence how they handle the variable when they are performing deals. The results also conflict with the authors studied the literature review, since most of them defended the importance of culture. If culture is important, this study brings evidence and reinforces the argument of authors blaming cultural negligence as a contributor for failure in mergers and acquisitions. If culture is important after all, a solution needs to start by raising the awareness of professionals for its importance, this can be done by performing more studies to prove why and how culture can influence the outcomes of mergers and acquisitions.

When dealing with culturally distant companies, this study also makes several suggestions, it might be advisable for firms to not impose culture and try to excite the leader of the target to avoid having conflicts and do things in a friendly way instead. Employee integration actions help as well, when there are cultural conflicts and employees from both companies need to work collectively, companies can progressively develop projects that slowly integrate employees and build the team spirit.

The value seeking approach is a relatively new concept in the field of mergers and acquisitions. This study brings light into what practitioners think of adopting such an approach and how they perceive the current state of the sector. Standardization on mergers and acquisitions received support from most respondents, however, they also advise to keep some level of creativity and flexibility. Performing a deeper and more extensive search and evaluation to try capturing more sources of value received mixed comments, while it might increase the captured value it might as well increase the required time to perform the transaction, the costs of the deal and to reduce the likelihood of reaching an agreement. Another contribution to the field of mergers and acquisitions is how practitioners perceive the need to change the way mergers and acquisition are conducted, there were divided answers, some practitioners believe that the process can be improved and others don´t.

For managers and entrepreneurs without much experience that want to be prepared to engage in a merger or an acquisition, this investigation suggests several actions. Firstly, firms can start by defining the leadership very well and include people with experience in mergers and acquisitions in the team. Leaders also need to consider the importance of communication from the very beginning, an increase in quantity and quality of the information being communicated can have positive results in many levels. It can be internal and lead to an increase in internal coordination, or it can be external and lead to an increase of the awareness in the context of the deal and enable firms to make better decisions.

7.2. Study Limitations

Considering the nature of the current research, as well as the topic being investigated, it is imperative to reflect on several limitations. They can be methodological or related with the investigator. In a general manner, this research is restricted regarding both contextualization and sample size.

From a theoretical point of view, even though mergers and acquisitions are an important topic and have been subject to investigation by many authors, some limitations were felt. The degree of detail and time necessary to explore all the literature was very high and it was impossible to accomplish with the faced time and resources limitations.

Regarding the practical research, limitations were most felt regarding obtaining answers from relevant people. Most professionals, especially the highly prestigious ones being targeted have very busy lives and would not be willing to collaborate if the interview extended much more to ask for sub-questions. Overall, it can be said that the sample is very qualified to answer the asked questions and they certainly have the credibility to give good answers.

Another limitation was that some of the respondents favored to not disclose their identity or to not allow the interview to be recorded, which affected the detail of the information. In any case, the ones who opted for anonymity, all agreed to disclose their identities for the evaluation committee in case there is scrutiny over the validity of their interviews.

Regarding the external validity of this work, this study starts from the existent literature and tries to generate an innovative theory to mergers and acquisitions. Yet, it is an investigative study and its conclusions need to be taken with caution as they may not be considered as representative. As mentioned earlier, by raising the awareness of professionals in the field of mergers and acquisitions, an improvement can already be achieved and if this work has the capability to increase the awareness towards certain problems and possible solutions it has already accomplished its objective.

7.3. Acquired Experience

This research definitely awakened an interest for the field and how it could become a future profession. In such a case, the experienced earned through the realization of this work will provide a relevant background for starting a role related to mergers and acquisitions.

The opportunity to contribute for the scientific research on mergers and acquisitions is very rewarding. A lot was learned about conducting practical research, a certainly valuable skill in the future. Either in further academic or professional roles.

To perform the literature review, a lot of material was studied, and a lot was learned about these complex and powerful processes. The phrase “I only know that I know nothing” from the famous philosopher Socrates certainly applies to the feeling of completion of this thesis. The sense of vastness and deepness of the knowledge that exists behind mergers and acquisitions is extreme and mastering the field could be a journey of a lifetime.

7.4. Suggestions for future research

The academic context of mergers and acquisitions is different from to real professional context. In any case, any added piece for any of the contexts constitutes an opportunity to expand the knowledge over mergers and acquisitions.

This investigation raised proof that mergers and acquisitions professionals do not agree on the importance of culture to the outcome of deals. Future investigations could study this aspect and study why there is divergence among professionals. More studies need to be conducted to access whether culture is important or not, and in which circumstances. In case culture has relevant effects, many mergers and acquisitions professionals are leaving this variable untreated.

As suggested by many authors in the literature review, this research also raises the need for a more holistic and multivariate analysis of mergers and acquisitions, future studies can focus on how to connect the perspectives of different mergers and acquisitions professionals. The complexity and extent of the phenomenon will make it a hard task, but the benefits can be great.

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Appendix

Interview guide

Investigation Question 1

As several studies show, synergy estimations in mergers and acquisitions are frequently wrong. Very often happens that deals fail to achieve the desired synergy levels.

IQ 1: In your opinion what is failing in the estimation of synergies and what could be done to improve their accuracy?

Investigation Question 2

Some authors and practitioners defend that culture can be one of the reasons why mergers and acquisitions fail.

IQ 2: In your opinion, are companies neglecting the importance of culture and that translates into a bad cultural evaluation or do they also lack internally the capability to evaluate culture? What can be done to improve cultural assessment?

Investigation Question 3

IQ 3: If cultural problems are expected but the deal must go forward, what can be done in terms of integration stage agenda, organizational structure and others to minimize their negative impact?

Investigation Question 4

Some authors and practitioners defend that the current way mergers and acquisitions are conducted is too standardized and that the process is inflexible. They argue that this inflexibility and the lack of time spent on trying to discover and capture synergies is affecting the capability of companies to reach transformational sources of value and therefore they are missing a lot of potential value-creation.

IQ 4: Is it true that deals would benefit of changing towards a less standardized and more flexible approach as some practitioners point out? If yes, how to optimize time and resources consumption with the need to make a more extensive research and evaluation in the value-seeking approach?

Investigation Question 5

Integrating organizations can be a difficult task, particularly in transformational deals, in which the integration aims at changing and binding several aspects of both companies.

IQ 5: In your opinion how can organizations prepare, and which actions can they develop to more easily integrate in deals and extract maximum value with minimal risk?