Inorganic growth through mergers and acquisitions (M&A) has not always been smooth. Integration has to pass through many stages to achieve the desired results and success. Essentially, pre-acquisition due diligence exercise plays significant value addition in this respect. Also, effective due diligence before, during and after M&A can mitigate issues during post-M&A implementation. Integration is a process involving expertise, costs, communication, staffing, culture and strategy. Decisions with regard to M&A are taken to meet the increasing demand, competition, tax-shelter, increasing geographical presence, brand, technology and size, among others. Also, improper valuation is another reason for the failure of many acquisitions. Researchers on post-merger issues have been of uniform opinion that time and efforts put in during pre-merger can save time and resources post-integration. The author attempts to bring out the checkpoints of dos and don’ts of achieving success in acquisitions. Read on to understand the post-acquisition issues faced across the globe by several acquirers.

Role of Soft Factors in Post-Acquisition Success
Gadiesh, Ormiston and Rovit¹ analyse ways to achieve M&A strategic goals for maximum speed for the maximum value and found: (1) poor strategic rationale, (2) mismatch of cultures, (3) difficulties in communicating and leading the organisation, (4) poor integration planning and execution, and (5) paying too much for the target company—are the five causes of merger failure. They believe that not having a clear strategic rationale for the merger is the most common problem and they emphasise that this issue alone may result in other four causes of merger failure. Many a times, one problem may lead to several other issues since they are interlinked.

Lynch & Lind² list other reasons for merger failure as slow post-merger integration, culture clashes and lack of appropriate risk-management strategies. It is further stated that to overcome the danger of entering the bidding war amongst suitors, the potential buyer of a company needs to set clear criteria while...
considering a potential merger or acquisition. M&A without a clear strategy is incomplete.

A study published in the July-August 2008 issue of the *Journal of Business Strategy* analysed patterns of target company executive turnover in more than 1,000 firms and demonstrated that many mergers and acquisitions destroy leadership continuity in target companies’ top management teams for at least a decade following the deal. The reasons may be many and need not be cultural issues alone.

The study found that target companies lose 21% of their executives each year for at least 10 years following an acquisition; more than double the turnover experienced in non-merged firms. This study suggests that pre-merger performance and the nature of merger negotiations are among the key indicators of long-term leadership instability in target companies following mergers and acquisitions (please note that the impact is not short-term):

Robert A. Weber and Colin F. Camerer statistically highlighted in their thesis that a majority of corporate mergers fail. They used laboratory experiments to explore merger failure due to conflicting organisational culture. They introduced a laboratory paradigm for studying the organisational culture, which captures several key elements of the phenomenon and, in their experiments, they allowed the subjects in firms to develop a culture and then merge two firms. It was observed that performance decreased following the merging of two laboratory firms. Additionally, subjects overestimated the performance of the merged firm and attributed the decrease in performance to members of the other firm rather than to the situational difficulties created by the conflicting culture.

Thomas Straub found that, despite the goal of performance improvement, results from mergers and acquisitions were often disappointing. His numerous empirical studies showed high failure rates in the M&A deals. He suggested the following factors to be taken into account for a successful M&A:

a. **Strategic logic** (which is reflected by 6 determinants, market similarities, market complementarities, operational similarities, operational complementarities, market power and purchasing power);

b. **Organisational integration** (which is reflected by 3 determinants, acquisition experience, relative size, cultural compatibility); and

c. **Financial/price perspective** (which is reflected by 3 determinants: acquisition premium, bidding process and due diligence).

As per his study, all aforementioned 12 variables are presumed to affect the performance either positively or negatively. And, the M&A performance is measured by synergy realisation, relative performance and absolute performance.

**Hubris Theory (Ego Factor / Agency Consideration)**

M. Hayward and D. C. Hambrick have found in their study that in line with the hubris theory (manager’s hubris means manager’s overconfidence about expected synergies from M&A which results in overpayment for the target company), too much confidence, pride and arrogance on the part of some decision-makers may lead them to overestimate synergistic gains and to place excess value on the target firm. Hubris theory is paying hefty premiums for large acquisitions by the CEOs (chief executive officers) due to their overconfidence.

We are aware of many cases in India satisfying hubris and ended up in failure due to post-merger integration issues. As much as cultural issues, hubris and overconfidence play an essential role in the failure of acquisitions world over.

Ellis Baxte wrote: *In the end, M&A is about buying more volume. It is a flawed process, invented by brokers, lawyers and super-sized, ego-based CEOs*. He added that he would rather prefer being like a farmer and growing the business and that, in

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his industry, every attempted M&A beyond a single model had failed.

Shleifer and Vishny⁸ in their various studies on value maximisation and the acquisition process found that the acquisitions are not always done from the perspective of the firm and some managers may carry out M&As to entrench themselves in the firm. They have also observed in their analysis history of takeovers of the 1980s that even if such projects are not profitable from a financial perspective these managers invest in areas that make their specific skills indispensable so that they diminish the likelihood of being replaced.

Kate Ludeman and Eddie Erlandson⁹ were of the view that the desire of CEOs to create something big can often outstrip the economic value of a decision.

The study showed that Indian companies are no different than the companies in other parts of the world and mergers failed to contribute positively in the performance improvement. He found that the M&As neither provide economies of scale nor synergy effect. As regards overall impact (i.e. ROCE), mergers failed to provide any positive contribution. Many a times, lack of value addition post-integration is due to over valuation of the target Company.

According to a report¹¹, only one fifth of M&As meet investor targets and three fourths of CEOs reported that economic performances of the integrated company had not met investor expectations.

Neera Bhardwaj¹² observed that for some years now, M&As have become a way of life for corporate India. And the flurry of activity in M&As is far from over. In an interview to her questions such as, if these M&As have created shareholder value, if they have benefited the acquirer, and, if the economy or industry has emerged stronger because of acquisitions, Bert et al¹³ said that more often than not, it is negative. He further added that while that is true globally, there is method in the madness and answers that not all consolidations, globally as well as in India, have created value for the companies or their shareholders. It was further viewed that internationally there are bulks of M&As failing, in fact, 50 % fail to achieve any value.

Surjit Kaur¹⁴ compared the pre- and post-takeover performance for a sample of 20 acquiring companies

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**Post-Acquisition Performance**

Mahesh Kumar Tambi¹⁰ evaluated the impact of Mergers on Indian companies through a database of 40 Indian Companies’ pre-merger (resulting in 19 companies after merger) which were merged during the financial year 2000-2001. He tested the impact of mergers on the performance of the company in terms of four parameters. ROCE, Economies of scale, Operating Synergy and Financial Synergy. He used paired T-test mean difference. Financial data for the years 1998-99 and 1999-2000 were taken as pre-merger years and data for the years 2001-02 and 2002-03 as post-merger years.

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Only mergers involving cash considerations, where relative size was more than 10%, non-BIFR cases, not engaged in further mergers within four years have been selected for the survey. Their study revealed that there are minor variations in terms of impact on operating performance following mergers, in different industries in India.

during 1997 and 2000, using a set of eight financial ratios, during a three-year period before and after merger, using t-test. The study concluded that both profitability and efficiency of the targeted companies declined in post takeover period, but the change in post takeover performance was statistically not significant. As stated earlier, the reason for this is over estimation of the future performance of the target company resulting in over valuation of the acquisition.

H. R. Machiraju15, in his analysis of some past empirical studies on individual firm’s profit few years before and after the merger both with respect to absolute performance in some cases and relative performance in rest of the cases, observed that in majority of the cases mergers only reduced the profitability and there was neither absolute performance nor relative performance.

Pramod Mantravadi & Vidyakar Reddy16 studied the impact of mergers on the operating performance of acquiring corporates in different industries, by examining some pre-merger and post-merger financial ratios, with the sample of firms chosen as all mergers involving public limited and traded companies in India between 1991 and 2003, for 3 years prior to and 3 years after the year of merger completion using paired t-test.

Only mergers involving cash considerations, where relative size was more than 10%, non-BIFR cases, not engaged in further mergers within four years have been selected for the survey. Their study revealed that there are minor variations in terms of impact on operating performance following mergers, in different industries in India. In particular, mergers seem to have a slightly positive impact on profitability of firms in banking and finance industry, the pharmaceuticals, textiles and electrical equipment sectors saw a marginal negative impact on operating performance in terms of profitability and returns on investment. For the chemicals and agri-products sectors, mergers had caused a significant decline, both in terms of profitability margin and returns on investment and assets. In effect, it proves a point that the type of industry does seem to make a difference to the post-merger operating performance of acquiring firms. It may be because of potential for the industries justifying the acquisition to meet the demand supply gap.

Robert Norohna17 studies several cross-border acquisitions and stated that the success rate of most of the cross-border mergers effected since 1990 was very low, mainly because of the errors in due diligence, transaction and post-acquisition integration. He said: ....about 33% of all such mergers which took place in the past 18 years till 2008 yielded only marginal returns. Only 17% of the acquisitions contributed significantly to values. And about 50% of the merged entities suffered sizable erosion in their margins. The study further stated that the high volatility in the stock market has pulled down the market valuation of corporate India’s mergers and acquisitions by a whopping US$ 24.04 billion, in just four years’ time.

During 2005-08, listed Indian companies have been involved in M&A activities worth $ 45 billion, but the mark-to-market value of such M&As is down to $20.96 billion, indicating a loss of 53%, stated in the report18.

Conclusion
As explained through various reasons for post-merger failure of acquisitions based on various research findings, it can be observed that some of the common reasons for failure of mergers and acquisitions, either domestic acquisitions or cross border acquisitions are, inexperienced team of people handling the integration, lack of knowledge on policies and guidelines more particularly overseas policies when it comes to cross-border acquisitions, lack of commitment, execution without planning, poor strategic rationale for inorganic growth, mismatch of cultures, higher valuation and improper assessment of the target company, hubris and over confidence, ineffective due diligence at various stages of acquisition, to name a few.

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18 Ibid.