Louvain School of Management
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The M&A Success Factors

Beyond the financial monomania

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The author states that all expressed stances within this thesis are not representative of any of the companies mentioned.

Abstract

Mergers and acquisitions have been experiencing increasing importance in the global business world over the course of past decades. Research has shown that majority of M&A endeavors fail to fulfil the expectations and to create value. This thesis aims to bring more clarity into determinants of successful M&A. Building on the existing research as well as its own survey of M&A advisors across Europe, it asks:

„What are the factors influencing the outcome/success of M&A? “

In this context, success is defined as "Fulfilment of primary motives and/or overall satisfaction with the outcome of M&A". Analysis of the responses based on the direction of influence and the level of consensus established on individual factors has identified areas of focus that could lead to increased performance of M&As. The results indicate that forward-looking approach with focus on envisioning the keen post-acquisition entity backed by due investigation of the target are to have positive impact on the outcome of M&As. Further positive influence was found in the alignment of managers' and shareholders' interests, either through long-term oriented KPIs or holding of a common stock. Further research is needed to identify other factors that influence performance of M&As and establish link between the primary motives of companies undergoing M&A and their results.

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1 Introduction

Mergers and acquisitions (M&As) are experiencing increased relevance in the globalized world of business and consequently as a subject of research in academia and interest of the public media. Research into M&A has been a concern of various disciplines including strategic management, corporate finance, industrial organization, behavioral finance and others for half of the past century. The ability of M&A to attract attention should not come as a surprise given the volume of M&A deals in the past years, which reached its new peak towards the end of 2018, and exceeding an overall value of USD 4 trillion, in the year. (Platt , 2018) Furthermore, the past importance of M&A is far from losing its momentum in 2019. A survey of 1000 executives conducted by Deloitte's transaction advisory shows "*76 percent of M&A executives at US-headquartered corporations and 87 percent of M&A leaders at domestic private equity firms expect the number of deals their organizations will close over the next year to increase. On top of that, there is strong sentiment that the size of those transactions will be larger than the ones brokered in 2018—with seven in 10 respondents saying they anticipate bigger deals.*" (Thomson, 2018)

The motivation to undergo research into the success of M&A is arising partly from its nature that combines the fields of finance and management, which are the majors I am currently pursuing within the double-degree program. Furthermore, my brief career in transaction advisory has heightened my curiosity for this complex issue as the answers for what brings success to M&A seemed unclear. Finally, the high failure rates of M&As, which are in majority reported not to bring the intended results for its actors, stipulate the importance of further research into what causes M&As to fail and vice versa. As well as the additional question of why are more and more companies are entering into M&As, despite the fact that the odds are clearly against them.

The goal of this thesis is thus to answer the following question:

„What are the factors influencing the outcome/success of M&A? "

In addition, this thesis aims to explore the main motivations leading companies to undergo M&A. The thesis will further attempt to develop an "M&A manager's checklist" based its findings.

To reach its goal, this thesis will review past literature into the performance of M&A and explore already established factors influencing the outcome. Following the review of past literature, the thesis shall develop its own research into the success factors of M&A. The author plans to leverage his network gained during a career in transaction advisory and survey M&A advisors across Europe to build on their extensive experience as the key actors in many transactions. The survey will present its respondents with various factors suspected (based on past research) to have an influence on the outcome of M&As. The factors are to be presented in a manner that divides them into logical groups based on the status quo at the time of entering the M&A process (antecedents), decisions and factor arising throughout the process (moderators), and behavioral influence (human factors). The respondents are to judge the individual factors' influence on a Likert scale, i.e. whether a factor has positive, negative or marginal/no influence on the outcome. In addition, the respondents are to rank various motives leading companies to undergo M&A based on the perceived frequency of occurrence.

Following the results of the survey the thesis shall analyze each of the factors direction of influence based on the compound experience of the respondents and rate them based on the consensus established and present implications for the M&A actors as well as further research into the topic.

2 Mergers and acquisitions

The rise of the use of the term "M&A" for various corporate deals contributes to its increasing generality and brings confusion to the exact meaning behind it. Frankly, M&A is indeed a general term and its stand-alone meaning does not reveal much about the subject matter in detail.

Simply put, Mergers and Acquisitions (hereinafter M&As) are a process in which a company combines with another. The two terms forming M&A (i.e. "Mergers" and "Acquisitions"), are commonly used in an indistinguishable manner, although there is a slight difference between them. Acquisition refers to an event (or set of events) in which one company – "the Acquirer or Buyer" (typically the larger of the two) takes over another entity – "the Target". After the completion the target typically ceases to legally exist as it becomes part of the acquirer. On the other hand, Merger refers to two entities (commonly with similar size) joining into single entity. After the completion both entities typically seize to exist, and a new company is created containing both of the pre-merger entities. Furthermore, in its generality the term covers almost any form of consolidation of companies or assets including management buy-out (MBO), where the company's executives acquire controlling stake or tender offer where the management can bypass and the acquirer communicates the offer directly to the shareholders. The forms of M&As can further vary in nature whether friendly or hostile, the ladder reserved for acquisitions, as acquisitions can be both friendly and hostile, but merger is in its essence friendly. (Hayes, 2019)

In addition, the M&As can be further classified according to the industry relationship of the two regarded entities. Horizontal refer to M&As of entities in competition sharing the same product and/or service lines. Vertical M&As refer to consolidating companies, which are part of a same supply chain each in a different stage. Conglomeration refers to M&As, without direct union in a business area. Market-extension refers to situations where the markets of same product are consolidated. Product-extension is then the opposite of the previous where the two share the same market, but the M&A aims at consolidating their related products served to the market. And finally, congeneric M&As are referring to two entities serving customer base in a different manner, current takeover of Belmond Hotels by LVMH is an example of such where LVMH's customers luxurious goods are within the similar base as the customers of luxurious experience such as the one of Belmond hotels. (Angew, 2018). Clearly there are many ways to classify M&As, but the extent presented above is sufficient for the needs of this thesis.

2.1 Success or failure of M&A (Dependent variable)

The Success in M&A is a non-binary phenomenon. M&As, being a discipline of strategic character in the course of an organization's existence, could be perceived as wars and individual battles in the course of the existence of a state. Following that parallel, winning a single battle does not necessarily determine a successful war, and winning the war does not necessarily determine the long-term well-being of the state. If we were to stick to "Long-term well-being of the state" as a success, one must ask for the detailed definition. Success in this perception opens a plethora of follow-up questions; How long is a sufficiently long "Long-term" period? More importantly, through which of the stakeholders' perceptions are we to judge success: the king's, the military general's the population of state or, perhaps, the queen's? Despite merely scratching the surface, we already see the interpretation of success in general setting opens diverging evaluation of what seems to be one event or a bound set of events.

Therefore, it doesn't come as a great surprise that the research into the success of M&A has been greatly diverse not only in the realm of explanatory (independent) variables, but as well as in the domain of the dependent variable which is the success itself. In their comprehensive review of academic research on the topic of executed M&As performance between 1960 and 2010, Kapil and Das reveal the heterogenous approach to the phenomena in the academic sphere. The diverging views of academics do not necessarily indicate that the majority of the researchers are building research on erroneous assumptions, but in line with the researcher's findings "*The performance measures themselves are diverse owing to heterogeneous views on what constitutes M&A performance and organization performance.*" (Das & Kapil, 2012, p. 292)

The most significant divide, in the past academic research, arises from the heterogenous background of the researches, and the views diverge even in the realm of whether there is such a measure as a performance factor of M&A. This dissension is apparent even in the views of whether M&A is on average advantageous for organization. The comprehensive inquiry into a performance of M&As over the course of 30 years from the financial perspective states that M&As are reaching a 50 % failure rate, in terms of creating value and growth for the acquirer. (Catwright & Schoenberg, 2006) However, strategic management and industrial organization literature is not in line with such statements and suggests even higher failure rate (Lubatkin, 1983) or goes as far as labeling *"70-90 of acquisitions are abysmal failures"* (Martin, 2016). There is a further debate whether constructing empirical measure is even fit for phenomena of such a high complexity as M&A. (Zollo & Meier, 2008)

To bring sense into the multi-meaning of success in M&A, this thesis seeks to position its definition of success within a rigorous framework of success definitions, previously developed by scholars investigating the phenomenon. Following the insights of Zollo's (2008) research into the past research's perception of the M&A success we arrive at the high-level classification of the approach to M&A success. The classification follows two main dimensions: the level of analysis and the time horizon, which cluster further subsets within each of the dimensions.

The level of analysis

a. **The task level** is the highest level of detail within this dimension. It focuses on the level of integration in the post-transaction period on the level of individual tasks. This can refer to the integration of the IT systems, alignment of corporate governance, transfer of know-how between sales forces etc. Therefore, it concerns the degree of integration on the compound task level achieved by the two organizations engaging in the transaction. Analyzing success on a task level is thus the least difficult to assess, however it doesn't include the broader impact of executing an individual task to the transaction and the whole organization.

b. **The transaction level** focuses on the whole process of acquisition with all its steps. Therefore, it observes value creation, cost efficiencies and revenue growth arising from the transaction process in its completeness from initial negotiations to fulfillment of the business plan.

c. **The firm level** concerned with the performance of the newly formed entity and is defined as a *"variation in firm performance that occurred during the period of relevance for the execution of the business plan connected to the acquisition*." (Zollo & Meier, 2008, p. 58) Thus, this level encompasses direct and indirect impact of the acquisition on the performance of broad variety business processes concerned.

Time horizon

a. **Short- to-medium term horizon** corresponds to the period following completing the transaction to its first impacts. In other words, it refers to the first phases of the integration process. Typically, this period would take up to one year after closing the deal but can be longer depending on the specific case.

b. **Long-term horizon** refers to relevant period in which the impact of transaction should be directly observable, meaning the execution of the business plan and follow-up assessment of its impact on over-all value creation to shareholder or another observed factor.

There is hardly any clear cut between the two levels of time dimension, which is in most cases unique to the transaction observed.

Objective and subjective measures

Following the classification of performance measures based on the level of analysis and the time-horizon, we can progress to the nature of the individual measures, i.e. adding the third dimension – classification on the scale of objectivity. Objective measures of performance in the past studies are typically linked to the performance of accounting measures or market related measures.

Accounting measures revolve primarily around growth and return variables and are dominant in the past research. This is in line of the perception of M&A as mainly financial performance sub-phenomenon and measuring based on accounting is somehow natural. The measures vary between Balance sheet items, Profit and loss items and combined ratios. *Figure 1* below lists the main accounting measures found in the past research as investigated by Das and Kapil (2012).

Figure 1 - Accounting measures of M&A success/performance

Measure	Note
Asset growth	Change in total assets over the period was found to be varying at a different rate based on strategic choices acquirer adopts.
Asset Turnover	Total revenue/total assets, i.e. sales dollars generated from each dollar of investment in assets
Industry weighted return on sales (ROS)	Return on sales weighted by total sales in each of the SIC[1] code in which the firm operated
Net income/ sales	Represents the proportion of sales remaining after costs and taxes are accounted for
Pre-tax operating margin	Profit before tax/sales
Profit level	Profit level (total revenue-total expenses) itself is an inadequate measure of performance because of the expected direct relationship with the changing size of the organization. However, median profit level over a longer period after acquisition can be in some cases good measure.
Return on assets (ROA)	ROA (net income/ total assets), an indicator of profitability is one of the most commonly used dependent variables of M&A success in past studies.
Return on common equity	This is a variation of ROE and factors in preferred stock and is defined as (net income – preferred dividend)/book value of common equity
Return on equity	ROE (net income/book value of shareholders' equity) is another profitability measure commonly used in M&A performance studies
Return on investment	ROI defined as (net operating profit/net book value of assets), was studied for pre-acquisition and post-acquisition difference to assess M&A performance
Sales	Revenues from goods or services sold

1 "SIC" refers to the Standard Industrial Classification. The system of four-digit codes classifying industries, originating in US with wide use even outside of US territory.

Sales growth	Proportional change of volume of sales
Total assets	The deviation of total assets at given number years preceding and following the M&A.

Note: The contents of the figure are based on Das' and Kapil's research of past studies on M&A performance (Das & Kapil, 2012)

As much as accounting measures seem natural for assessing M&A success, it is important to ask whether the source of accounting measure dominance comes from being a good proxy of success or it is more attributable to the easy availability and simple interpretation of such data, which is more in line with Das' and Kapil's findings. Further debate arises whether accounting data can in fact measure success reliably. Bild goes as far as stating the accounting measures cannot measure real value creation for the buy-side because of parallel processes within the firm and virtual impossibility to single-out the acquisition effects on the basis of Net present value, and thus assess whether the additional profits are brought by the acquisition in the first place and if so did they exceed the cost of capital engaged. (Bild, Guest, & Runsten, 2002). Bild's argument can be further stretched to accounting measures that do not directly work with the profit with the same issue of difficult isolation of the event of acquisition in the plethora of other relevant factors affecting the firms accounting measures.

Market Related measures are typically used within the methodology of event studies and are usually revolving around the acquisition announcement's impact to the financial markets. The assumption of efficient markets theory (EMT) is a central to these measures, where the researchers assume the market agents having all necessary information and equipment to assess the impact of the acquisition and behave in the market accordingly. The validity of EMT has been criticized among scholars in economics end especially with the rise of behavioral economics, which are partly disproving the central premise of Homo Oeconomicus in Economics as an oversimplification of agent's behavior and his/her motives. However, even when assumption of EMT holds, most of the market related measures work well when the goal is to capture the value by acquisition, they are not suitable for deals where the acquisition is motivated by a long-term strategic objective. (Das & Kapil, 2012). Furthermore, similarly to the problem with accounting measures isolating the effects of the acquisition proves to be close to impossible, with markets reacting to various other internal and external factors influencing the firm and consequently its market performance measures. Market measures hence serve well in a very short-term window of observation, using the market as a proxy for actual future success. The evidence on biases influencing the rationality of agents in the market is on the other hand discouraging.

Examples of the market related measures of success are presented in the *Figure 2* below.

Figure 2 - Market related measures of M&A success/performance

Measure	Note
Acquirer's long-term market return	Measured using BHAR (buy-and-hold abnormal return) for three to five years from announcing the deal with sample of similar firms as the benchmark for return.
Acquirer's short-term market performance/cumulative abnormal return (CAR)	This measure requires detailed modeling of CAR based on firm's return, market return and market model parameters using and estimation from 20 to 1 day's pre-acquisition and post-acquisition assessment either on the day of announcement or the day after.
Alpha from Fama-French three factor model	This measure was in previous research calculated for three-year post acquisition period, it is based on an enhanced CAPM (Capital asset pricing model) Alpha refers to the risk-adjusted performance measure representing the average return on a portfolio over and above that predicted by the Fama-French three factor model given the portfolio's beta and the average market return.
Total long-term return to shareholders	As a sum of firm's annual dividend per share and annual change in the average price of its stock divided by the average of share price in the year preceding.
Total short-term gain to acquirer and target	This was measured as the difference between the value of the combined firm given the acquisition announcement and the sum of the value of the individual entities.

Note: The contents of the figure are based on Das' and Kapil's research of past studies on M&A performance (Das & Kapil, 2012)

Other objective measures are a cluster of measures that can still be considered measuring objective results as in the case of accounting and market related factors, but frankly do not clearly belong within the two preceding categories. The lack of hard definition for the group doesn't imply the measures are somewhat inferior to those presented above, and their validity as well as importance will be stressed further in this thesis. Generally, these factors are measurable on pre-defined scale or present a binary response, such as in the case of Acquisition survival. *Figure 3* presents examples of objective measures of success of an M&A.

Figure 3 -Other objective measures of M&A success/performance

Measure	Note
Asset sale rate	This measure concerns the assets sold as the proportion of their market value (MV) at the beginning of the year.
Capital expenditure (CAPEX) rate	Capital expenditures as a proportion of the MV of assets at beginning of year
Deal value	The price paid by the acquirer (Buy side) based on the assessment of value of the target. This measure can be misleading in our case of M&A success/performance, since it doesn't take into consideration whether premium is justified. In the author's view, deal value belongs on the side of the explanatory (independent)

	variables and should be put in the comparison with other measures of value (Market Capitalization, Book value etc.) if performance is assessed.
Employee growth rate	Proportional change in number of employees prior and post the acquisition as an indicator of a shift in labor costs. This measure, despite being used in previous research, can be applied to very specific cases where the motivation of M&A revolves around number of employees and without further context does not imply performance of a M&A.
Export intensity	Proportion of total exports to the total value of sales.
Financial leverage	In other words, the firm's debt exposure, or the proportion of assets backed by a debt rather than capital, is a twofold measure where the lower financial leverage can be disadvantageous through motivating managers to invest in projects with low or negative NPV to merely use free cash flows. On the other high debt can contribute to problems of consequent underinvestment and bring the firm to a "deadlock". Therefore, Financial leverage is a deceitful measure indeed and must be put in specific context.
Market share	Share of sales of the observed firm as a proportion of the whole industry. In the context of M&As this measure regards usually additional market share acquired.
Number of patents granted post-acquisition	This measure is aimed at technology & knowhow driven M&As, therefore is a good proxy of success when the motivation is to strengthen R&D position of the organization.
Pension expense per employee	This measure is linked to a very specific motives and deals with changes of pension expense as a part of the labor costs of the firm. Therefore, Pension expense per employee does not have universal use as a measure of performance, let alone.
R&D rate	R&D expenditures as a proportion of the MV of assets at beginning of year. This measure would typically aim at the pre and post M&A difference and doesn't offer universal interpretation.
Research intensity	R&D expenses as a percent of sales. (as per previous measure)
Survival	This factor is the most straightforward among the success/performance factors presented. Survival measures whether the merged entity persisted, was dissolved or even bankrupted altogether. Its application would be of use in studies aiming and causes of M&A full blown failures.
Tobin's q	The q ratio is calculated as the market value of a firm divided by the replacement value of the firm's assets. When the q exceeds 1, it reveals that a firm's stock is more expensive than the replacement cost of its assets. Therefore, the assumption is that increased q post acquisition implies economic synergies arising from the acquisition are realized.

Note: The contents of the figure are based on Das' and Kapil's research of past studies on M&A performance (Das & Kapil, 2012)

Subjective measures of M&A performance are the last but far from the least to be investigated among the success/performance measures. The key, and until this point omitted question is the primary motivation that leads the organization into the transaction process in the first place. Subjective measures offer the linkage between the primary motives and the result of the whole transaction and thus are curious subject for observation.

Generally, it is given to academic research to search for objective conclusions. However, with such a high level of complexity as M&A possess, there is hardly any objective perception of overall success of transaction, thus we must take the motives of individual cases into consideration. Subjective measures seem to be the type of measure that can internalize the original motives of the transaction altogether. Indeed, use subjective measure to conduct an academic study should be always accompanied by a heightened level of caution, but their use in studying M&A performance is justified and has shown significant correlation to various objective measures.

Though subjective measures weaken the generalizability of findings due to possible bias, they are justified when the objective data for a specific construct is difficult to obtain. (Das & Kapil, 2012, p. 289) *While one cannot exclude the possibility of reporting biases in subjective measures in general, prior research has shown that subjective measures have the advantage of being correlated to a large number of objective measures.* (Zollo & Meier, 2008, p. 66).

In general, subjective measures are an answer to questioning stakeholder "Did XYZ go well? /as planned?". Despite the perceived vagueness of such question, we can confidently state that measuring externally observable factors e.g. increase in market share among sample of M&As, where some of the primary motives were to acquire learning capacity for employees or niche patent is beyond misleading. Given the motives are not revealed through external observations, applying research through survey of M&A stakeholders aimed at subjective success perception should be justified. The subjective measures observed in the past studies are presented in Figure 4.

Figure 4 - Subjective measures of M&A success/performance

Measure	Note
Acquisition performance subjective assessment	This measurement aims at subjective assessment of the acquirer's management of to which extent has been the plans and expectations realized.
Learning	This measurement values whether the learning objective from target was internalized.
Long-term corporate performance	This measurement aims conceptually at the outcomes of acquisition activities, geographic diffusion, interdependence of the business units and corporate-level integration.
Quality of innovation	This measure estimates the type of innovative activities in the post-acquisition entity
Quantity of innovation	This measure estimates the number of innovative activities in the post-acquisition entity

Satisfaction	Refers to satisfaction of the key stakeholders with the transaction in the ex-post perspective.
Views of analysts on acquisition performance	This measure is based on ratings from analysts' agreeing with a form of a statement: "the acquisition made by the firm generated shareholders additional wealth" usually with the use of Likert scale.

Note: The contents of the figure are based on Das' and Kapil's research of past studies on M&A performance (Das & Kapil, 2012)

To close this section, we can finally present a synthesis of selected measures in form that classifies them according to the three dimensions, of Time-horizon, Objectivity and the Level of analysis. The Figure 5 illustrates this division among selected measures of performance.

Figure 5 - Classification of measures of M&A success/performance

Level of analysis\ Time horizon	Short-to-Medium-term	Long-term
Task	Integration process performance Knowledge transfer Systems conversion	Customer retention Employee retention
Transaction	Short-term financial performance (event study)	Overall acquisition performance Acquisition survival
Firm		Accounting performance Long-term financial performance Innovation performance Variation in market share

Note: Note: The contents of the figure are based on Zollo's & Meier's research of past studies on M&A performance (Zollo & Meier, 2008) (The subjective measures are highlighted by BLUE, objective by RED type)

Dependent variables of the M&A success in the past studies, vary across the observed performance measures of M&A as well as on their keen outcome. That is in line with the idea of the opening paragraphs of this section, and review of the past studies supports the assumption of M&A success/performance measures must be set in the specific context of time-line, perception of defined key stakeholders and most importantly the primary motives of the M&A. It can be stated with confidence that there is not a single measure of success we could consider "the best" or objectively synthesizing the complex nature of M&A into a single measure. This thesis does not attempt to single out such measure from the past studies or develop a new comprehensive measure to substitute the previously used, the author is convinced the multiplicity of measures is justified by the varied purposes of previous studies *"Considering the multiplicity of M&A motives, we need not ask for one best measure, but the linkage between the measures and the merger motives must be established in such performance measurement studies (...) It is true that M&A motives vary widely and hence should the measures of M&A performance."* (Das & Kapil, 2012, p. 299).

Further in this thesis we will consider the Measure of M&A Success in following manner:

"Fulfilment of primary motives and/or overall satisfaction with the outcome of M&A."

To put this definition in the three-dimensional framework developed above it is a subjective long-term measure, at the firm-level of analysis. This thesis thus joins the group of previous (~15 %) studies using Subjective measures as a central proxy of performance/success. Use of this measure will help to generalize the complex nature of M&A to a comprehensible dependent variable and hence enable us to explore the commonalities among M&A's across industries and geographical settings as opposed to focusing on narrow area of impact.

2.2 Success factors of M&As (Independent variable)

Following our tour into multi-meaning of success of M&A, one must not be surprised the past research doesn't offer comprehensive set of variables that positively influence the outcome of M&A. Naturally, each dependent variable should have its own set of independent variables and given the diverse approach to the dependent variable, one cannot expect a consensus on its influencers. Therefore, the past-gathered research in M&A performance offers 125 unique independent variables, when considering Das & Kapil's (2012) review only. Given the period of 6 years since their review as well as obvious unattainability of every single research into the topic (or at least valuable research) it is safe to assume the actual number of explaining variables used in similar studies could be exceeding 200. This thesis doesn't intend to bring an exhaustive list of previously discovered factors with statistically significant influence on the success of M&A, instead it aims to investigate some of the logical groups and use it as a basis for conducting its own research.

The classification of independent variables used in the past research can follow "functional areas" approach such as in the research of Das & Kapil, or weakly connect to the timeline relevant to the transaction process such as the approach chosen by Haleblian et. all (2018). The freedom to which we can cluster the independent variables is virtually unlimited, we use these two classifications, i.e. per academic/business field and per the timeline view due to two major factors. Firstly, these methods have been previously used by widely cited papers looking to bring sense into the plethora of diverse M&A studies, hence there is no need to "reinvent the wheel". Secondly, it is within authors belief, that functional areas classification copies structure of a modern firm, where departments tend to be divided along these thematic lines and the timeline view inherently copies the perspective of managers on which the burden/opportunity of M&A decision falls, and who are in charge of managing the process and must eventually face the aftermath of executed transaction.

Example of functional areas classification is: Finance and Accounting, Strategy, Operations, Product development and R&D, Sales & marketing and HR. Furthermore, as the plethora of independent variables doesn't allow for exhaustive classification without bringing some element of generality, we add additional group to contain the remaining variables.

The Finance and Accounting group of independent variables occupies dominant position in the previous research, which is partly fueled by the common use of financial indicators as dependent variables, i.e. proxy of success and the fact that most of the research into M&A has been conducted by scholars in the field of finance (Haleblian, Devers, McNamara, Carpenter, & Davison, 2018) Owing to the high number of M&A studies within the field of finance and accounting, the scope of independent variables used from this group is rather broad from various financial indicators applied on both acquirer's and target's financial statements in the pre-transaction process, to structure and concentration of ownership as such or proportional composition of its holding by specific stakeholders (management, employees…). From the overview of studies using financial ratios as presented by Das & Kapil (2012), it points in a direction that significant causality was commonly observed when the dependent variable was set as "Occurrence of Acquisition" rather than measures of outcome (long term performance or Tobin's q), where the statistical significance seems to be scarcely established. One of the possible interpretations of this phenomenon could be management basing its acquisition decision partly on ratio analysis, which doesn't later translate to the keen performance. Exception in this realm is book to market ratio of the acquirer, shown to be negatively correlated (André, Kooli, & L'Her, 2004) with Alpha from the Fama-French three factor model which denotes abnormal returns from the investment. On the contrary the holdings of common stock by insiders is positively related to short term market returns (Frohls, Keown , McNabb, & Martin, 1998), but doesn’t seem to have statistically significant impact when set to explain Tobin’s q deviations (Knoeber & Agrawal, 1996). Altogether the results from studying independent variables in the group of Finance & Accounting do not offer satisfactory or even united explanation into performance of M&As, that is not to discount their relevance, it rather shows they are a piece of more complex puzzle.

The Strategy group of independent variables in the previous research was focused on the role the acquisition played in the acquirer’s strategy or its relevance to strategic decisions. Therefore, the topics within this group observe preceding acquisitions by the acquirer, composition of the governing bodies (directors of the board), acquirer’s propensity to risk (denoted by proportion of core capital to loans outstanding – overlapping with preceding group) or choice of the mode of payment as part of the handover. To show a representative of this group one of the studies into success of M&A (Vermeulen & Barkema, 2001) focused [above all] at acquisition of knowledge through M&As observed among other variables impact of „Preceding acquisitions in related domains“, i.e. acquirer’s prior experience in acquisition of targets with related SIC codes. This study found significant positive relation to the M&As survival as the dependent variable. Another example of factor with potential to influence outcome of M&A within this group is a “Mode of payment” where one of the preceding studies (André, Kooli, & L'Her, 2004) showed statistically significant positive impact of cash mode of payment (as compared to stock or cash-stock mix) on Alpha from Fama-French three factor model.

The Operations group is yet another broad group of independent variables, ranging from industrial similarities of target and acquirer (ranked on the similarity of SIC, NACE or other industry codes), direction of M&A (vertical [upstream and downstream] and horizontal) ,degree of internationalization obtained through M&A (measured on difference in proportion of international sales pre and post-acquisition) to acquirer’s experience with M&As. To present this group on a concrete examples, independent variables dealing with acquirer to target similarity were among the most widely used in previous studies, (covering 9 out of 172 observed choices of independent variable (Das &

Kapil, 2012)) - frankly not with a clearly united interpretation. Previous studies suggest relatedness of acquirer and target has positive and statistically significant relation to the long term market return (Franceoeur, 2006) (Finkelstein & Haleblian, 2002), but towards short-term market performance, no statistically significant relation was found (Gerbaud & York, 2007) (Lien & Klein, 2006). This observation is in line with the markets' recent reluctance to tolerate conglomerate growth, phenomenon visible through the current behavior of activist investors such as Elliott Management, focusing on breaking down conglomerates on the assumption of negative excess value from diversification. The interpretation is the SIC code (or other standardized industrial codes) could serve as a "rule of a thumb" proxy for presence of economic synergies or vice versa in cases with unrelated codes as an alert to conglomerate motivations. As the managing partner of Cevian, one of the Europe's most prominent activist investors stated *"It's part of a big trend — to be a better company, you need to be focused… I think the conglomerate [model] is basically dead the way we know it."* (Pooler & McGee, 2018).

Acquisition experience is another factor of M&A performance explored in multiple studies. The premise is that acquirer with previous experience would be able to utilize the previously gained knowledge further, including lessons learned, general knowledge and awareness of crucial points within the transaction process. On the contrary previous experience could be a source of perception biases to list few, these could include confirmation bias, availability bias or in case of previous transaction being a success – the Dunning-Kruger effect, in which the managers mistakenly assess their cognitive ability greater than it is. The results of the studies exploring the experience factor seem to confirm the assumption laid above, as experience showed no statistically significant relation to various measures of M&A performance with exception of negative relation to acquirer's short-term market performance (Hayward, 2002), Return on common equity, total long-term return to shareholders (Fowler & Schmidt, 1989), deal value (Grimpe & Hussinger, 2009) views of analysts (Hayward, 2002) were not proven to be influenced by previous experience with M&A. Thus, the above suggested interpretation of knowledge of the transaction process (positive factor) and cognitive biases (negative factor) canceling each other in an unpredictable fashion, could be making acquisition experience poor factor of success.

Product development and R&D is a section aiming mainly at those M&As with motive focused on knowledge acquiring, or synergies arising from complementary patents etc. Some of previous research has been aimed at the knowledge acquiring to a level where the dependent variable is number of patents granted post acquisition. One study aimed at the high-tech sector found the number of patents granted decreases post-acquisition, with higher absolute size of acquired knowledge (expressed as number of patent target had obtained during 5-year period preceding particular M&A event). (Cloodt, Hagedoorn, & Kranenburg, 2006). Possible interpretation here is the Acquirer's content with level of knowhow, which slows down further R&D activities. Following the highly specific example (both industry and observed phenomenon), we shall orient at more general cases. Within research using dependent variables aimed closer at the measures "M&A Success/Performance" in cross-border M&As across all industries, it was observed that Acquirer's level of know-how (intangible assets/total revenues) as well as level of R&D (R&D expenses/total revenues) pre-acquisition have a positive impact on Acquirer's long term market return. (Franceoeur, 2006) Francoeur explains this relation as an effect of efficiency gains, which according to him are able to be realized only when the Acquirers possess combination of high levels of R&D combined with high level of intangible assets. Clearly, the role of R&D and intangible assets in M&As is significant and opens space for finding economic synergies as well as competitive advantage, which can justify undergoing the M&A in the first place.

Sales & Marketing factors revolve around market coverage of both acquirer and target, as well as marketing expenditures as a proportion of total revenues, industry weighted marketing intensity or transfer of marketing resources from target to acquirer and vice versa. Within the review of past studies, the Sales & Marketing factors are among the least represented from the groups covered by this thesis and most of its results are not relevant for its purpose. However, one of the studies dealing with transfer of resources from target to acquirer and vice versa found a curious relation between **transfer of marketing resources** and Acquirer's short-term market performance. Interestingly, the direction of transfer is what makes the difference, and while transferring marketing resources from target to acquirer has a positive effect on the Short-term market performance, the transfer of marketing resources in opposite direction has a negative effect. (Capron, & Pistre, 2002)

Human resource factors do not come first to mind when discussing M&As. Nevertheless, it is area of influence that should not be omitted. HR factors can be further divided into technical and culture related areas. Technical regards the differences in employee contractual settings between the two companies, evaluation systems, age distribution within departments and positions, education requirements for levels of position all of which are at risk of disruption mainly during the post-acquisition period and especially if the goal is to integrate the two entities within one. However, the culture or people's stance can introduce unprecedented difficulties when challenged by the change M&As tend to bring into the organization. The reasons why we stress the importance of this factor is, that even though human factor is not something that can be neatly presented in an organized structure as it is possible with financial statements, it is the management that takes the decisions before, during and after the M&A takes place and together with employees form the backbone of any company (as the term "company" suggests) despite the increased importance of digitalization. In other words, companies are formed (mainly) by humans and humans are prone to biases (especially in times of uncertainty) and incorporate feelings into decisions, that in return influences the success of the M&A and the company as such. In fact, aside from strategic fit and financial reasons there is a plethora of people-related reasons causing M&As to fail. These may include:

- Organization paralyzed by uncertainty
- Management unable to find consensus on future direction of the company
- Key employees depart
- Cultures clash
- Employees do not understand what is expected of them in the new company, resulting in plummeting morale (Giffin & Schmidt, 2016)

Within the past research the HR factors were applied as an independent variable in several cases, which however did not bring clear results. The impact of organizational diversity in multiple subfields; **educational diversity** -entropy based index of dispersion of educational background of top management team, **functional diversity** – entropy based index of dispersion of functional background of top management team from one of 5 possible options including marketing, general management, R&D, finance and manufacturing have not been found to have statistically significant impact on return on sales, assets capital employed and common equity. (Corner & Kinicki, 2005) The results were similar in terms of **goal diversity** – intangible differences that exist in employees and groups of employees within the organization, which didn't establish significant effects on long-term corporate performance (Chakrabarty & Mitchell, 2004). The list of human factors without causal relationship to performance continues with Team tenure – Coefficient of variation of top management team's tenure in the firm and degree of human assets intensiveness (measured through degree to which intangible assets are detachable from the organization) (Saxton, 2004). It is unclear whether the lack of discovered impact of these variables can be attributed to their irrelevance to M&As or caused by the complexity of human nature linked to various uncontrolled factors, which is inherently not fit to be narrowed down into a single explanatory variable.

On the contrary, some human resource related factors revealed positive impact on M&A performance. Perceived cultural compatibility investigated on sample of 180 cross-border M&As showed to be positively correlated with acquisition performance (subjectively assessed) (Very, Lubatkin, Calori, & Veiga, 1997) Stewardship measured as an indicator of top managements' influence on firm performance has positive impact on post-acquisition profit, profitability and acquirer's long-term market return (Weiner & Mahoney, 1981). and acquirer's management resources transferred to target have positive impact on acquirer's short-term market influence. (Capron, & Pistre, 2002) Along these lines, culturally aligned companies with hands-on acquirer's management tend to have advantageous position entering M&A.

Mixed/others factors of M&A performance constitute a group of independent variables arising from wide variety of disciplines and cross-disciplinary measures, making it the most diverse out of the groups discussed. Making an exhaustive list would be obsolete, hence we will mainly present variables showing significant results or invite some level of curiosity. **Age of the firm** is an obvious suspect in this group, which has appeared in 3 of the observed inquiries in M&A performance. The impact has been investigated on variety of dependent variables. Return on sales, return on assets, return on capital employed, return on common equity (Corner & Kinicki, 2005), total Long-term return to shareholders (Fowler & Schmidt, 1989) and deal value (Grimpe & Hussinger, 2009) haven't been observed to be causally influenced by the firm's age. This shows that firms age itself is not a good predictor of success nor failure, and that there is after all a measure on which past studies found consensus. **The differences in managerial style** between the acquirer and target, were investigated through survey on 129 European cases of M&A and set as a predictor to acquisition performance (subjective assessment). None of the 5 observed differences in managerial styles, i.e. in formality, funding, participation, self-reliance and system have not been proved to be statistically significant predictor of success. However, negative impact was found in the management's perception of risk. The extent to which the different risk perception can negatively influence the outcome of M&A is contingent on the level to which is the organizational interaction imposed in the post-acquisition period by the acquirer's management. (Shoenberg, 2004). Further on the topic of imposing managerial approach has arisen through observing the impact of perceived removal of autonomy of the target, which showed that M&As where the target perceives loss of autonomy are underperforming (subjective assessment) (Very, Lubatkin, Calori, & Veiga, 1997). Taking the loss of autonomy, a step further a Hostile indicator, which indicates incidents where the target contests a takeover, loses the battle and eventually subdues to acquirer showed to be positive predictor of return on common equity. However, when it comes to total long-term return to shareholders hostility has a negative impact (Fowler & Schmidt, 1989).

Another of the factors falling into this group is **Government influence**, which is especially relevant for M&As in Europe where the government's role in market is generally greater than the case of its US counterparts. Government influence was further stipulated in the setting of post-communist countries in Central and East Europe region, on which the study was performed, and which engaged in extensive privatizations, as a tool of adopting market economy at the brink of millennium. The impact of government influence on acquisition parameters and retention of government stake in the target was found to have a two-fold effect on M&A performance. The government influence was found to positively influence the sales growth on the contrary the effect on return on assets proved to be negative. (Uhlenbruck & Castro, 2000) It is unclear whether these relations can be found elsewhere or are inherent to the post-communist setting which was in its way unique. The sales growth effect could be also resulting from increased media coverage of M&As where government is involved through raising of brand awareness. The relevance of government influence evidently requires further investigation to be able to bring implications to M&As in general setting.

We will close this group with two usual suspect factors, **target's industry concentration** and the **size of the acquirer**. The premise of industry concentration is that it could serve as a predictor of success from harnessing market imperfections and further acquirer's market share in already concentrated market. Another, assumption regards the mere occurrence of M&As, which should be lower in concentrated markets given by the lower number of available targets as well as higher potential of involvement of anti-trust authorities. The industry concentration has shown to have positive effect on post-acquisition profitability, but no significant relation was found to impact on profit and long-term market return of acquirer (Weiner & Mahoney, 1981). With regards to occurrence of M&A, the industrial concentration has proven to have negative effects in the Asian market (Agrawal & Sensarma, 2007), but no sufficient evidence for this relationship has been found in Europe (Luypaert & Huyhebaert, 2010). The size of the acquirer has been among most widely used factor of performance, used in 8 studies out of the observed set. The size has shown to have a positive influence on a long-term market return. (Franceoeur, 2006) (Weiner & Mahoney, 1981). Nevertheless, the role of a size in other measures of performance doesn't bring an obvious consensus, Acquirer's short-term market return is an example of the dividing stances on acquirer's size impact. It has been previously reported that the size influences short-term market negatively (Frohls, Keown , McNabb, & Martin, 1998), positively (Seth & Song, 2002), and without statistically significant impact (Nagano & Yuan, 2007), showing that when it comes to short-term returns the size is not a reliable predictor. Proving effects of acquirer's size on other measures of performance hasn't developed any significant relationships in the observed set of studies.

3 Research Design

Following the dive into the past research of M&A success, this thesis aims to develop its own research into factors influencing the M&A success. Furthermore, it aims to clarify and rank the motives leading companies to undergo the M&A process, despite most of the M&As fail to bring the keen results. Following pages describe the applied approach to the research including the general design, choice of a sample, choice of a questions, methods of evaluation used, and hypotheses applied.

3.1 The Approach

The initial question when approaching research into M&A success was how we are to define “success”. As stated in the chapter 2.1 Success or failure of M&A (Dependent variable), the diverging in perception of success, is in fact inherent to the M&A. The success is indeed subjective measure derived from the intended strategic and/or financial goals of given transaction. To uncover specific motives and expectations from M&As per case would require direct contact with the key stakeholders. This approach would require significant resources in time and travel costs, which were not within means of this thesis. Furthermore, even if contact with key stakeholders would be possible to establish on sufficient amounts of transaction cases, it is highly probable the further problem would arise from the classified nature of M&As and corresponding reluctance of its actors to disclose detailed data. The previous research has tackled this issue by reliance on data from financial markets, which are indeed accessible, but do not cover some of the factors this thesis aimed to investigate. More importantly, market data are not sufficient to describe motives and subjective view of success. Furthermore, market data in Europe and especially in CEE region are not reaching the scope and volume of comparable data in the USA market.

Therefore, the problem to solve was, how to obtain sufficient volume and scope of valuable firsthand M&A experience without crossing the non-disclosure line and within the resources available.

At this point, it became obvious that anonymized (or voluntary identification) survey could be the option dealing with the part of the aforementioned problems.

The further challenge was who we should target as the respondents to the survey and how to reach them. We were looking to identify a group among the stakeholders in the M&A process, that would fulfill the set of criteria and help overcome the challenges outlined above.

The M&A Consultants/Advisors constituted a fit to enable observation of “success” in such environment. This thesis doesn’t differentiate the types of success, (as described in 2.1) thus relies on a judgement of respondents, who as key advisors in the process possess the knowledge of goals sought by the key stakeholders per executed transaction as well as their fulfillment. Furthermore, the author is building on an assumption of long-term relationship (or at least contact) and mutual trust between the advisor (respondent) and the key stakeholders (managers or owners of the Target and or Acquirer), which gives

M&A advisors unique position of having holistic view of the transaction, thus ability to evaluate the "success". M&A consultants can assess their knowledge of M&As on a broader scale of cases compared to management of target or acquirer, which typically undergo very limited number of cases to report on. Finally, the approach of surveying consultants has been considered advantageous by the previous research as it lowers social desirability bias (Zollo & Meier, 2008). "*Social desirability is the tendency for research participants to attempt to act in ways that make them seem desirable to other people. Such attempts to "look good to others" can compromise the validity of research, particularly research with participants who know they are being studied.*" (Salkind, 2010)

3.2 Survey design & tools

The key requirement in the choice of the tool for building the survey was ability to share the survey in electronic form to target respondents across Europe. Other factors included accessibility of survey from mobile devices, to ensure comfortable use for the respondents and central cloud repository of results to ensure the data are being aggregated from the first to last respondent. Final and crucial ability of the tool was export of data in various formats and mainly xls. to enable analyses on the gathered data.

SurveyMonkey.com™ was eventually chosen as a tool that fulfilled all the sought criteria and proven to be easy to use, yet comprehensive in functions needed for our purpose. The ability to generate various access links proven itself very useful in distribution phase.

The design of "the M&A Success Factors" survey itself was divided into 3 core sections:

1. Basic information
    - Aimed at the obtaining professional background of the respondent, and check of relevance to the study
2. The motives of M&A
    - Aimed at ranking the motives of M&As based on perceived frequency of occurrence
3. Impact of factors influencing M&A performance
    - Core of the survey in 3 sub-sections (Antecedents, Moderators, Human Factors) aimed at the individual factor's impact on M&A success.

The scope of **"basic information"** collected about respondents was limited to the minimum in the first section, to get an idea about the respondent's experience in the field, but to maintain the level of anonymity at the point where he/she wouldn't feel comfortable responding further questions. The questions were thus targeted at respondents' years of experience in M&A advisory, typical size of the deal undergone, country in which they practice, affiliation to international consultancy network (stating which was kept optional) and industry specialization (if relevant).

The motives of M&A are section aimed at the secondary goal of this thesis, i.e. building a rank among the motives leading companies to undergo M&A process. The question was presented as lines, each stating a motive to be order from highest perceived frequency of occurrence to the lowest. The initial list was presented in random order to each of the respondents to avoid preselection bias. Individual motives listed in the survey were not exhaustive list as such, which could be virtually unlimited, but copied common motives stated among the studies observed in the previous chapters. The list included:

- Expanding customer bases
- Cost synergies or scaling efficiency
- Resource redeployment
- Managerial self-interest
- Response to uncertainty
- Response to regulation
- Product or service differentiation
- Entering new geographic markets

The aim of this section is to first uncover the ranking as such. Furthermore, the author's hypothesis is that managerial self-interest will rank relatively high (2-quantile), indicating that notable portion of M&As is pursued for motives, which are not in line with the interest of shareholders or value creation.

The impact of factors influencing M&A performance constitutes the core section of the survey. This section was formed by 24 individual questions (one per factor) in which the respondents evaluate the direction and significance of the influence on the success of M&A.

Within the design of the survey, this section commences by a brief introduction of what constituted M&A success in previous research and clear statement of what is M&A success with regards to the survey. In particular the wording was as follows: "*In the following section you will decide on individual factors influence on M&A success. Previous research has been ambiguous in its definition of M&A performance, let alone success. For the purpose of this survey please consider success as the: Fulfillment of transaction primary expectation and/or (client's) satisfaction with overall outcome of the transaction.*" In authors view the initial of statement was crucial to align the respondents with the goal of the research and contributed to homogeneity of interpretation of questions, thus increasing validity of the research as such.

The questions were divided into 3 logical groups – Antecedents, Moderators and Human Factors. Antecedents were concerned with the pre-transaction status quo of the firms entering the transaction process, the choice of target or the setting. In particular described as: "*… factors arising from the setting before the transaction process takes place*". Moderators second group oriented at the course of transaction. Defined as: "*…factors typically arising in the transaction process from extensiveness of due diligence process to handover as such*." The last group took a different perspective than the timeline of transaction and focused on the human factors such as personality types, relations and perceptions of various stakeholders involved in the M&A or how are these stakeholders taken in count. Defined as: "… factors targeting the personal characteristics of people responsible for M&A, and wider stakeholders (such as employees) and how they contribute to the M&A outcomes"

The set of questions was developed in line with the previous research described in the preceding chapters accommodated to the reality and the view of M&A/Transaction advisor, who is intended to fill in the questionnaire. Figures 6-8 below lists the factors observed in the survey including the hypotheses and argumentation for use.

Figure 6 - Observed Factors 1 Antecedents

Factor	Hypothesis & Argumentation
Domestic vs. foreign target	The premise of domestic vs. foreign builds mainly on the cultural familiarity in domestic market on one hand and unlocking foreign markets on the other. The hypothesis is thus the two influences would be on average cancelled out, yet it is left to the respondents to draw on their experience.

Financial vs. Strategic motive	The financial vs. strategic motive deals with the future foreseen by the acquirer. The Strategic are propelled forward by the acquirer's belief the two companies' combination will create greater value through operating synergies. The financial are based on the acquirer's belief that the price of the target is below its potential value or aim at maximizing return on equity through leverage. The hypothesis is that the strategic M&As perform better on average.
Dimension of integration	The dimension of integration question aims to reveal whether horizontal M&As tend to perform better than vertical or vice versa. The Hypothesis here is that on average dimension of integration would not have influence on the success, yet it is left to respondents to draw on their experience.
Target Industry concentration	The factor of target's industry concentration deals with the assumption of acquiring enterprise in an environment, where market imperfections are more prevalent and enabling higher returns on investment. The Hypothesis is thus acquisitions in concentrated industries would perform on average better that those with high number of competitors.
"Trendiness" of industry	The factor of "trendiness" deals with a particular industry's increased appeal to investors, which has a potential to mislead and outshine other factors and perhaps involve herd behavior bias, which would translate into negative impact when the trend seizes to exist. The Hypothesis is thus, the trendiness, would influence the success of M&A negatively.
Management's holding of common stock	Management holding of stock such as the case of family businesses, or as an incentive scheme aligning the interest of management and shareholders draws on the assumption of more careful selection of the target and increased diligence throughout the transaction process. The Hypothesis is thus, that acquirer's management holding of common stock would have positive influence on the impact of M&A.
Previous experience with M&A	Previous experience in M&A of the acquirer, has in the author's view two competing subfactors, i.e. the knowledge of the process and awareness of key points could influence the M&A positively, on the other hand opens space for various cognitive biases and inflated sense of ones abilities. Thus, the hypothesis is the results will show canceling effects, yet it is left to respondents to draw on their experience.
Concentration of Acquirer's ownership	The premise of this factor is that concentrated ownership of acquirer would be enabling the firms to be more flexible in their decisions and have an impactful tone at the top. The hypothesis is thus that Acquirer's with higher concentration of ownership tend to do better on their M&A pursuits.

Figure 7 -Observed factors 2 Moderators

Factor	Hypothesis & Argumentation
Time pressure	Time pressure during the transaction process appears negative by definition. However, curiosity led us to investigate whether the impact of time-pressure on a complex problem such as M&A could in turn refine the focus of stakeholders on what is important and lead the transaction to a successful result.
Scope of due diligence	The scope of Due-diligence, or the degree of intensity to which is the target investigated is very much in line of specialization of M&A

	advisors. The question is whether more investigation can result in negative effects such as loss of trust between the parties or adding layers of complexity to already complicated process. Nevertheless, the hypothesis remains the higher scope of due diligence influences the success positively.
Integration plan	Integration plan set at the initial stages indicates preparedness to undergo changes brought by the M&As. The hypothesis is that set integration plan has positive impact on the outcomes of M&A.
Mode of payment	The premise of the mode of payment (i.e. cash or stock (cash stock mix)) is that the acquiring management would reveal certainty with regards to potential synergies realization, i.e. cash payment shows management's strength, and serves as a proxy that management believes the shares will have higher value, eventually. However, the reasons leading to one of the mode of payments can vary. The hypothesis is thus the Cash as a mode of payment in M&A would show increased success, however the relationship can be hardly causal.
Pricing mechanism	Pricing mechanism refers to how the adjustments in the price (arising from changes in cash, working capital etc.) between the signing of sales and purchase agreement (SPA) and the closing of the deal are settled. There are two general options to be included in the SPA, Closing accounts or Locked box. Closing accounts is an approach where the final price is "unknown" beforehand and provisional price is set to be adjusted according to financial position at closing. Locked box refers to a method where price is set beforehand and adjustments are made only in special cases listed in the SPA. Locked box, which is becoming a more common approach, simplifies the final step, and thus could have positive impact on overall success which is the hypothesis.
Integration Management Office (IMO)	Integration Management Office (IMO) refers to allocating specialized resources to the integration in post-acquisition period. The premise is that by allocating the integration to a specific team the task is managed better than when it becomes additional workload for resources dealing with day-to-day business. The hypothesis is thus the IMO implementation has influenced the outcome positively.
HR due diligence	HR due diligence is within the scope of DDs rather optional addition. However, it is apparent that M&As incorporate changes for human resources, hence HR due diligence could serve as a base for integration period on top of its investigative purpose. The hypothesis is thus that HR DD in the course of the M&A process influences the M&A positively.
Method of valuation	There is a plethora of methods to approach valuation of enterprise. This thesis aimed to clarify whether choice of more sophisticated methods, such as discounted cash flows working with predictions of future income are advantageous to the outcome of M&A as compared to simpler methods such as multiples. The influencer here is the perception of stakeholders and their trust to the outcome of each. The hypothesis is the valuation method does not have impact on the outcome of M&A as long as the choice is clear to both parties.

Figure 8 - Observed factors 3 Human Factors

Factor	Hypothesis & Argumentation

Corporate culture similarity	The premise of the culture factor is that similar corporate culture of target and acquirer would enable smoother transition in the post-acquisition period and would decrease potential conflict among the actors arising from cultural clash. The Hypothesis is thus that similar corporate culture would have a positive impact on M&As
Personality type of CEO	This factor deals with the acquirer CEO's dominant personality type. There could be potential advantage of the company being led dominantly during uncertain period of M&A. On the other hand, disagreeableness often present trait among dominant personality types could have a negative impact in situations, where consensus must be established. The hypothesis is thus on average the personality type of CEO does not influence the outcome of M&As
Removal target's autonomy	The removal of target's autonomy has been shown to have negative impact on M&A performance, (Very, Lubatkin, Calori, & Veiga, 1997). The hypothesis is thus this research will confirm the removal of autonomy influences the M&A performance negatively.
Inclusion and informing employees about M&A process.	This factor is set to reveal whether the cases where employees are informed throughout the M&A process. The positive impact could arise from smoother transition without shocks to the workforce (especially in cases where the information leaks). On the opposite side of argument is whether the sensitive nature of information regarding M&A procedures, would be at risk of leak to the outsiders or misinterpretation of information by employees hampered the whole process. The hypothesis is that on average thorough disclosure of information to employees has marginal or no influence on the outcome.
Top management personal ties	Personal relationship among the members of management of the two parties is yet another factor with potential of influencing outcome either direction. On one side, familiarity could prevent hostile atmosphere in the process and prevent escalation of conflict. However, it opens potential of backchanneling and unethical behavior such as side deals between the top managers of the two parties. Hence, the hypothesis remains unstated in this instance and we will rely on the respondent's experience.
Difference in managements level of formality	As in the case of culture, difference in formality among the managements of two companies could bring unintended difficulties in the integration period. The hypothesis is thus the difference in the perceived level of formality influences the outcome M&As negatively.
KPIs linked to LT performance	This factor deals with the setting of incentives for the Acquirer's management through KPIs and consequent payout of bonuses. The premise is that KPIs set on the long-term performance of acquirer, would be more in line with the shareholders' interest and thus contribute to sustainable choice of target and incentivize the management to execute the transaction with a long-term view.
CEOs firm specific human capital	This factor deals with the tenure of the acquirers' CEO with a premise that longer standing CEO would have a deeper knowledge of company under his/her and thus be able to evaluate better whether the target constitutes a fit. The hypothesis is thus that M&As with greater specific human capital of CEO, would perform better on average.

The respondents were presented multiple choice of answers regarding the influence of individual factors. The options presented followed the Likert logic. Likert scale or Likert items developed by an American social psychologist Rensis Likert are prevalent type of survey design in social sciences. The use of Likert type items (as opposed to Likert scale) is recommended when the primary interest of researcher is not to synthetize stance of participants on a combined set of factors influencing the phenomenon, but is rather aimed to capture respondents' pragmatic opinion on exclusive factors around a phenomenon. The analysis of answers is then aimed at the individual factors and respondent's collective degree of agreement around this factor. (Joshi, Kale, Chandel, & Pal, 2015)

The Likert type answers presented to the respondents of this survey were generally of two types, differentiated on whether the respondents were judging the direction of influence of a factor or were comparing two exclusive options within the factor. In both cases the scale used for answers was symmetric 5-point scale. The choice of symmetric scale was motivated by allowing the respondents freedom of neutral position about the factor – such as: "Has marginal or no influence on the outcome of M&A". The choice of 5-point scale as opposed to 3-point was fueled by giving respondents option to express degree to which they believe factor has an impact on the success of M&A, i.e. has an impact, has a significant impact (or vice versa). The choice of 5 over 7-point scale, was given by the lack of justification for introducing additional options on each side of the neutral option.

Below are the two general examples of answers presented to the respondents:

One factor influence

1. M&As where Factor A applies tend to be **significantly more** successful
2. M&A where Factor A applies tend to be **more** successful
3. Factor A has no or marginal influence on the outcome
4. M&A where Factor A applies tend to be **less** successful
5. M&A where Factor A applies tend to be **significantly less** successful

Two mutually exclusive factors

1. M&As where Factor A applies tend to be **significantly more** successful
2. M&A where Factor A applies tend to be **more** successful
3. Presence of A or B has no or marginal influence on the outcome

4. M&A where Factor B applies tend to be **less** successful

5. M&A where Factor B applies tend to be **significantly less** successful

For the actual survey please see *Appendix A*

3.3 Sample and distribution of survey

The keen sample of respondents was set to achieve count of 20-25 answered surveys spanning across more than 5 countries of the Europe to ensure pan-European, rather than national perspective. Given the descriptive nature of the research, which aims to uncover views of the respondent, size of 20-25 respondents is perceived as sufficient.

For the distribution of survey, the author leveraged on the network acquired during his brief career in M&A department of one of the international consulting firms. The link generated by SurveyMonkey™ has been shared in two modes. The first mode was through an email across European network of Grant Thornton International Limited asked to be reshared further among professional network of respondents, the latter was shared as a request for participation through professional networking site LinkedIn.

The final sample size amounted to 28 respondents, which with completion rate of 75% brought 21 completed surveys. The geographical distribution in the end included 13 countries of Europe in total. As stated in the previous chapter, the respondents were asked about basic information regarding their years professional experience, affiliation to international network of consultants and typical deal-size of the advised transaction. The tables bellow (*Figure 9 & 10* present further detail of the sample characteristics.)

Figure 9 - Survey sample size

Total number of respondents	28
Completed surveys	21
Completion rate	75%

Figure 10 - Sample characteristics

Country	# of respondents	Company	# of respondents
Czech Republic	6	**Grant Thornton**	12
Germany	5	**EY**	3
Belgium	3	**KPMG**	1
Hungary	2	**PWC**	1

Poland	2	**Nomura**	1
Slovakia	2	**Non-disclosed**	10
United Kingdom	2		
France	1	Years of experience	# of respondents
Bulgaria	1	**0-5 years**	8
Portugal	1	**6-10 years**	15
North Macedonia	1	**11-20 years**	5
Netherlands	1	**20+**	0
Austria	1		

3.4 Method(s) of evaluation

Ranking of M&A motives as described in the survey design, presented respondents with a list of M&A motives to be ranked. Each respondent chose a position of motive in the order of 8 according to their perception gained by the experience in the market. Therefore, each act of ranking performed by each of the individual respondents assigned position within the order 1^{st} - 8^{th}. The score assigned to each of the motives per respondent's entry was assigned in an inverse nature, meaning ranking 1^{st} gives a score 8 to ranking 8^{th} gives a score 1. The overall score of a motive determining its final rank is the weighted average of responses.

Evaluating influence of individual factors

This thesis aims to evaluate the gained data about factors influencing M&As in two core aspects that is the central tendency, or in our case the direction in which the factor influences outcome and dispersion, i.e. the level of consensus established on the factor to validate the assumption signaled by central tendency. In this case we perceive consensus as a collective opinion of a group.

To enable assessment of the responses we have labeled the individual responses with ordinal values Ranging 1-5, (M&As where Factor A applies tend to be significantly more successful = 1… M&A where Factor A applies tend to be significantly less successful = 5)

The choice of the valid method has proven to be rather difficult step. The scales of measurements in Likert scale are generally of four types; Nominal data, Ordinal data, Interval data and ratio data. The survey used for the purpose of this thesis used ordinal data, which contrary to the easiness of initial use and comfort for respondents, present obstacles in their evaluation. The problem arises on how to interpret the meaning of ordinal data, which are by definition approximation of reality. The mean for evaluation the central tendency and standard deviation to evaluate the dispersion are not valid indicators. Simple example of this issue: *"... tea water may be said to be cold, luke-warm, tepid, warm, very warm, quite hot, hot very hot, etc. The categories are themselves the values. Hence it makes no sense that the average between warm and very warm is warm and one-half and thus the values between categories are in fact meaningless."* (Tastle & Wierman, 2007). Similarly, to the stated example much cannot be said about difference of more successful and significantly more successful. The issue in central tendency is simple to overcome with median and/or mode. (Joshi, Kale, Chandel, & Pal, 2015). The *Figure 11* bellow presents the interpretations of median value in the both types of questions applied.

Figure 11 - Interpretation of central tendency of factors influence

Tendency of influence of a single factor	Interpretation
$\tilde{X} = 1, 2$	Factor influences M&A Success positively
$\tilde{X} = 3$	Factor has no or marginal influence on the M&A Success
$\tilde{X} = 4, 5$	Factor influences M&A Success negatively
Evaluation of two mutually exclusive	**Interpretation**
$\tilde{X} = 1, 2$	Factor A (over B) contributes to success M&A
$\tilde{X} = 3$	Factor A (over B) has no or marginal influence on M&A Success
$\tilde{X} = 4, 5$	Factor B (over A) contributes to success of M&A

For the dispersion (level of consensus), specific measure had to be sought. The approach to the stated problem has been found in the „Measure of Consensus" derived specifically for a 5-point Likert scale, yet applicable to other forms of it. The measure's premise is that if even number of individuals divide into two (n/2) equally sized groups on the extremes of Likert scale in our case (significant positive influence and significant negative influence of a factor) the group has zero consensus on the topic. On the contrary if all participants choose the same category, they are reaching 100% consensus. If a mix of respondents at least n/2 + 1 assign themselves to any category, the degree of consensus is greater than zero. All other combinations must result in value between 0 and 1. To assign the value on the unit scale this thesis will use the Measure of Consensus:

Figure 12 - Measure of consensus

$$Cns(X) = 1 + \sum_{i=1}^{n} p_i log_2 \left(1 - \frac{|X_i - \mu_x|}{d_x}\right)$$

Where μ_x is the mean of X (response), and d_x is the width of X, $d_x = X_{max} - X_{min}$, in our case 4, and

$Cns(X) \in < 0; 1 >$

(Tastle & Wierman, 2007).

For the use of measure of consensus on individual factors this thesis divides the sections of the "consensus interval "as a tool for evaluating whether the tendency of a factor is in fact supported by the consensus of respondents.

Figure 13 - Interpretation of the level of consensus

$\boldsymbol{Cns(X) \in < 0; 0.5)}$	Insufficient consensus
$\boldsymbol{Cns(X) \in < 0.5; 0.75)}$	Sufficient (weak) consensus
$\boldsymbol{Cns(X) \in < 0.75; 1 >}$	Strong consensus

Despite the central tendency of a factor pointing one or the other direction of influence on M&A success, in cases of factors, where the level of consensus measured by Cns(x) falls below 0.5 (minority consensus) , this thesis will not draw any conclusions about the factors relevance to the M&A factor, as the consensus of the respondents on the topic is **not sufficient to support any conclusions**. Cases, where the level of consensus is beyond 0.5 threshold (majority consensus), are to be perceived as **establishing relation** between factor and the success of M&A. Furthermore, the thesis divides established relation into two sub-interpretations. In cases, where Cns(X) falls within <0,5;0,75) the **experience of the respondents as actors of the M&A process weakly supports the established relation**, where Cns(X) falls within <0,75;1) we say that **experience of the respondents as actors of the M&A process strongly supports the established relation.**

4 Discussion

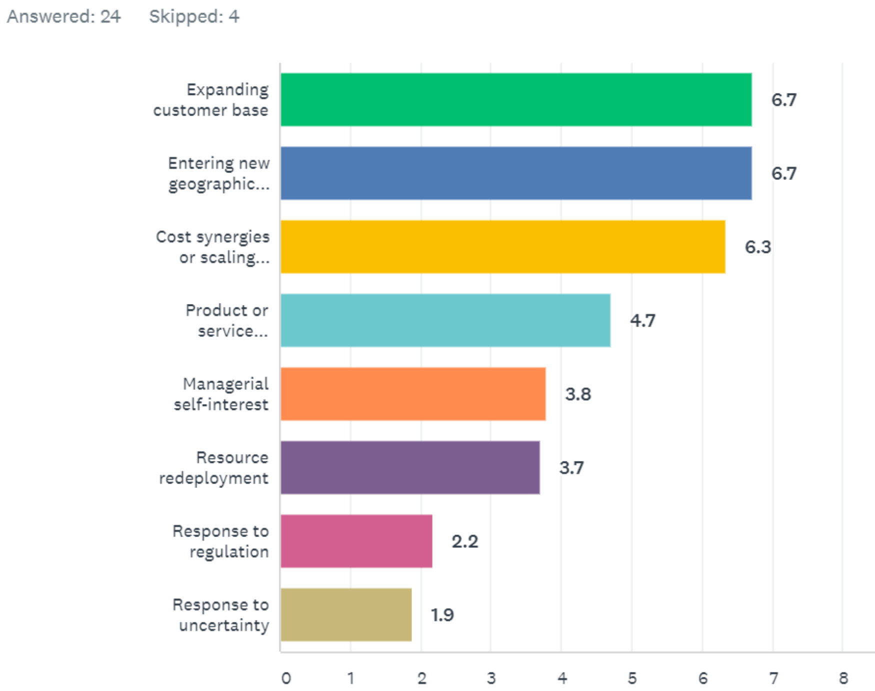
The following pages shall describe, evaluate and discuss the results of "the M&A Success factors" survey and attempt to bring more clarity into the topic.

4.1 The motives of M&A

The question of motivation to undergo M&A is in authors opinion logically preceding the success factors, despite being the secondary aim of this thesis. It is the motive that propels organization to enter in the battle which is in majority of cases destructive to shareholders value, and the motive can partly uncover why organizations are eager to face such a high risk. Perhaps they belief the case of failure does not apply to them (belief attributable to Cognitive biases such as Dunning–Kruger effect). Perhaps they are unaware of the probability of failure or perhaps they are well aware, and the key decision-makers are pursued by their own selfish interests. This thesis does not aim to give definitive answer to the above but investigating M&As at the level of motives can uncover part of what is behind them.

The *Figure 13* presents the overall ranking of motives derived in line with the preceding chapter. The three major motives to undergo M&A according to our research lie between the **Expanding the customer base, Entering new geographic markets** and **Cost synergies and scaling efficiency**. The results thus show there are only marginal differences in the ranking among them, the first two have ended up with an identical score, where the third only 4 decimal points below. This is in line with our expectations as the Expanding customer base, is an obvious motive in horizontal M&As aimed at increase of market share, Entering new geographic markets through M&A can be in perceived as advantageous approach compared to greenfield projects and Cost synergies and scaling efficiency is understood to create value through complementing supply chains (economies of scope) or benefiting from the economies of scale.

Figure 14 - Motives to undergo M&A



Following motive was product or service differentiation, which is a type of M&A advantageous in cases where acquiring product or service line is perceived as a more efficient step than its development inhouse. Altogether the upper half of the ranking is in line with the general notion of what M&As serve to accomplish. These motives to M&A are justified, if the underlying factors leading to their fulfillment are properly identified, analyzed and followed. The proximity in the weighted average doesn't reveal much about their relative occurrence.

The second half of the ranking is led by the **Managerial self-interest** presenting the forefront of erroneous motives leading to M&A. Contrary to the previous four motives observed, the fulfillment of this motive doesn't involve the increasing shareholder value nor any other measure of what could constitute success. Such M&As are propelled by maximizing managerial bonuses or include parallel agreements of management with counterparty of the transaction or a third party. The M&As led by managerial interest are alternating the role of the managers who instead of diligently analyzing M&A benefits and shortfalls are motivated to present reality in which the outcome, choice of target, the process and even the decision to undergo M&A are in line with interest of their own and manipulated to reflect the interest of the company or its shareholders. The positive outcome of such M&A is then game of chance whether the interest of the manager and the company are partly aligned or completely diverging. The high-ranking of managerial self-interest in our study is thus a significant suspect to why M&As tend to fail.

The group is then closed by **resource redeployment, response to regulation and response to uncertainty**.

4.2 The M&A success factors

In this section we will present the analysis of the survey result along the 3 groups of factors and provide their evaluation and interpretation, complete results of the survey including graphical representation of distribution of responses per factor are to be found in *Appendix B*.

The *Figure 15* below presents the results of the analysis of factors belonging to the group of **antecedents**.

Figure 15 - Factor analysis 1 Antecedents

Factor	Median	Mode	Result	CNS(X)	Level of consensus
Domestic or cross-border	2	2	Domestic	0.56	weak
Financial or Strategic	4	4	Strategic	0.77	strong
Dimension of M&A	3	2	No influence	0.69	weak
Concentration of industry	2	2	Positive	0.69	weak
Trendiness of industry	4	4	Negative	0.50	weak
Management holding of common stock	2	2	Positive	0.79	strong
Previous M&A Experience	2	1	Positive	0.76	strong
Concentration of ownership	3	3	No influence	0.68	weak

The choice of **domestic over foreign** target appears to contribute to the success of M&A. However, this factor is in its nature connected to the motive of geographic expansion. Hence, more suitable interpretation is that domestic M&A tend to overperform foreign. Furthermore, the level of consensus on the domestic vs. cross-border is among the lowest in this set of factors, thus we state the experience of the respondents weakly supports the above stated. The choice of domestic over foreign itself doesn't seem to play crucial role in the success of M&A, as it opens plethora of other factors such as the size and growth of the regarded economies, cultural proximity, political influence and stability etc.

M&As driven be the **strategic** aspect such as economic synergies, market share gains etc. overperform those driven by **financial** motives, which is in line with our hypothesis. This relationship is further supported by a strong consensus established on this topic among the respondents. The possible reason is the former includes transfer of knowledge and the connected long-term oriented vision of creating value through combining the operation of two or more regarded entities. The latter brings little to no inherent value to the transaction in terms of market, technology and customer knowledge.

The dimension of M&A, i.e. **horizontal vs. vertical** has been regarded as not having influence in the survey. Although the respondents were slightly leaning towards vertical M&As being on average more successful, the results show that dimension of M&A itself is not a good predictor of success – result in line with our stated expectations.

Choice of a target within **concentrated industry** influences the outcome positively – a relationship which has been weakly supported by the experience of the surveyed advisors. The interpretation here can lean on the higher prevalence of market imperfection within concentrated industries and corresponding increased chance of realizing economic synergies (as opposed ill-defined synergies also referred to as "Paper synergies"). Some of the previous research suggests that economic synergies gained through diversification are possible only in presence of market failure. (Dundas & Richardson, 1980). The success is then connected to properly exploiting the market failure towards acquirer's advantage.

The **trendiness of the** target's **industry** has been found to have rather negative influence, an observation in line with our hypothesis. However, the level of consensus on this factor is in fact weak to the point which could be called "borderline sufficient", hence we will restrain ourselves from drawing further conclusions on this factor.

Management holding of a common stock has been found to have generally positive impact on the outcome of the M&A. The median as well as mode response has been positive influence, further supported by the highest consensus established within this group. This finding is in line with our expectations, as managers holding common stock have their personal interest well aligned with the interest of the company, and thus less prone to agency problem.

Factor of previous experience with M&A shows positive influence on M&A outcome. The clear result is further stipulated by the mode response being "significant positive influence" as well as strong consensus established. This result is not in line with our hypothesis or previous research which hasn't found statistical significance of previous experience as a factor influencing M&A success. The positive relation evidenced by the experience of M&A advisors can be partly explained by experienced Acquirer's refined focus on execution of important steps within the M&A process rather than spending time on clarifying why are such steps important in the first place, thus could be slightly biased by the advisors perception of smooth execution.

Concentration of acquirer's ownership has been found to have on average no influence on the outcome of M&A. Showing the concentration of ownership itself doesn't reveal much about the outcome. Question remains about its influences in specific circumstances, especially those where prompt shareholders' decision is needed.

The main takeaways from observing the Antecedent group are the acquirer's seeking for economic synergies and transfer of knowledge are more likely to experience successful M&A. Further positive influence can be drawn from alignment of managerial interest with the one of the shareholders and previous experience with M&As.

The *Figure 16* below presents the results of the analysis of factors belonging to the group of **moderators**.

Figure 16 - Factor analysis 2 Moderators

Factor	Median	Mode	Result	CNS(X)	Level of consensus
Time pressure	2	2	Positive	0.69	weak
Greater Scope of Due dilligence	2	2	Positive	0.77	strong
Integration plan at early stage	2	2	Positive	0.84	strong
Cash as a mode of payment	2	2	Positive	0.77	strong
Payment Settlement	3	3	No influence	0.79	strong
Integration Management Office	2	2	Positive	0.76	strong
HR DD	2	2	Positive	0.78	strong
Sofisticated methods of valuation	3	4	No influence	0.67	weak

The impact of **time pressure** during the M&A process has shown to be positive. This result is particularly curious and as much as the it might seem counterintuitive, couple of reasons why this relation can hold come to mind. The time pressure is common in the M&A deals and allows above all to keep focus on what is important. The actors anticipate the time pressure and thus significant energy is put into planning and identifying clear tasks and goals and strict deadlines before the process is launched. Furthermore, the snap nature of M&A serves well in maintaining confidentiality and finishing the process before the competitors can gain knowledge about the proceeding, let alone react to it. On the contrary, given the consensus on the established relation is weak, this thesis doesn't claim the time pressure is inherent predictor of success, and realizes that adverse impact can still occur.

The **scope of due diligence** has (in line with the hypothesis) shown to influence the outcome of M&A positively, with strong consensus of the respondents. The relation here is rather obvious and showing that the more caution is put into investigating the target prior to closing, the less unforeseen problems arise in the post transaction process (if reached). However, the author recognizes the results are subject to self-serving bias, given the respondents are widely involved in the due diligence from its design to execution and might overestimate its importance.

Next within the group of positive influence factors is the drafting of **integration plan** at **early stages** of M&A. The strong consensus on this topic further stipulates its importance. Possible interpretation is that integration plan drafted at early stage of M&A, e.g. parallel to the due diligence process, is forward-thinking and reveals (if done properly and based on reliable information) the main points of tension to be anticipated during the period immediately after closing of the deal. Furthermore, the integration plan at early stage allows to revisit the M&A decision itself through foreseeing the coordination costs and risk arising from integration, thus allowing to see if these are indeed lesser than the anticipated gains and halt the transaction all together at a last minute before committing through binding bid.

Cash is seen as an advantageous **mode of payment** by our respondents, performing better compared to M&As where shares or cash and share mix are used as a mode of payment. It is important to state the choice of cash over the other modes is more symptomatic than causal. The premise is the management's trust in the outcome of M&A is revealed by choosing cash as a mode of payment, believing in appreciation of the stock in post-acquisition period. However, the trust can be built on multiple other factors. Drawing conclusions such as "Management should in these cases choose cash as a mode of payment" is erroneous. Nevertheless, from the perspective of an observer, M&As with cash as a mode of payment tend to be more successful. This relation has been also shown by previous study, which found positive significant relation between cash as a mode of payment to and M&A performance. (André, Kooli, & L'Her, 2004)

Payment settlement, i.e. locked box or closing accounts has been seen to have no or marginal influence on the outcome of M&A, further stressed by the strong consensus on this factor. This finding is not in line with our hypothesis, but frankly reflects the minor difference between the two approaches.

Integration Management Office (**IMO**) use in the M&A process, as an allocation of special resources to oversee and manage the post-acquisition period is seen to have positive impact and supported by a strong consensus. The interpretation here can be in fact two-fold; it shows that allocating extra resources on the integration process rather than relying on current resources that are on top charged with managing day-to-day business contributes to the successful execution of the integration, furthermore as in the case of integration plan IMO should in fact foresee approaching tension points and deploy measures to mitigate their adverse impact.

The use of **HR due diligence** has shown to have positive impact on M&A outcome and was further supported by strong consensus on the factor. The result is in line with our hypothesis. HR due diligence is yet another factor stipulating the importance of prior analysis which can translate into more suitable integration plan leading to its successful implementation. In addition, HR due diligence can reveal crucial information about the operations of the company, identify the key personnel, help understand risk connected to the outflow of key personnel and serve as a basis for measures to keep the key personnel.

Sophisticated methods for valuation of the target as opposed to multiple method have shown to have marginal no influence on the outcome of M&A, and together with weak consensus on the topic show that the valuation method employed is a case by case issue of choice, rather than a factor influencing outcome. It is within belief of the author that a choice of the valuation method should reflect its purpose and be understood and trusted by both parties.

The main takeaway from the Moderators group is that acquirers should be above all forward looking and having educated vision of what will the post-acquisition integration constitute and take measures to reveal and mitigate tension points that will arise further down the road. The experience of respondents has shown that comprehensive due diligence, including understanding the targets human resources duly and setting early integration plan, possibly further supported by deploying integration management office (IMO), are contributing to the success of M&A. The above holds if the target is properly identified and factors from the Antecedent group fulfilled. However even if the original choice of target is not appropriate setting of integration plan in early stages and extensive due diligence, can raise red flags and prevent potentially destructive acquisition.

Figure 17 - Factor analysis 3 Human factors

Factor	Median	Mode	Result	CNS(X)	Level of consensus
Cultural similarity	2	2	Positive	0.77	strong
Dominant personality of CEO	2	2	Positive	0.57	weak
The removal of targets autonomy	4	4	Negative	0.74	weak
Informing employees about M&A proceedings	3	4	No influence	0.70	weak
Personal ties between managements	2	2	Positive	0.58	weak
Difference in Formality	4	4	Negative	0.62	weak
KPIs to long-term performance	2	2	Positive	0.76	Strong
Acquirer's CEO specific Human Capital	2	2	Positive	0.80	Strong

The **Cultural Similarity** between the target and acquirer does contribute positively to the success of M&A, which has been strongly supported by the experience of the respondents. The finding is in line with our hypothesis which stated that positive influence of cultural similarity could be attributed to the smoother integration and fending off cultural clash in the post transaction period.

Positive relation, yet with a weak consensus on the topic, was found between the **CEOs dominant personality type** and its influence on the success of M&A. The finding is not in line with our assumption of no or marginal influence. The true role of CEO's personality type in the course of M&A, would require further research into the topic to draw useful conclusions.

The **removal of target's autonomy** has shown to have negative impact on the success of M&A and was supported by weak, yet close to strong, consensus among the respondents. The finding is in line with our assumption based on the previous research (Very, Lubatkin, Calori, & Veiga, 1997).

Disclosure of M&A information to the regarded employees has been found to have marginal or no influence on the outcome. The results have shown slight lean towards the negative yet on average the impact should be marginal. Further research into this topic could observe the type of information and the form of disclosure.

Personal ties among the two parties' top management have been found to have positive influence on the outcome. However, given the "very" weak consensus established on this topic, it would require further research into the nature of the relations, to draw more conclusions and to explain its relevance to the process. We state that the factor was defined vaguely and doesn't account for whether the parties' relation would incline to backchanneling in line with pursuit of selfish goals of managers or contribute to the smooth process by preventing hostile character in the course of M&A negotiations.

Difference in management's formality has been found to have a negative effect on the M&A performance. This factor is in fact inverse adjunct to the first factor within this group, cultural similarity aiming at the managerial narrative rather than culture within the whole organization. The finding is in line with our hypothesis, i.e. difference in formality would create hardship both in the transaction process and in the post-acquisition period. However, the weak level of consensus as opposed to the cultural similarity factor indicates its lesser importance. Possible interpretation of the difference in consensus could be that in case of cultural difference the clash is almost inevitable and can involve the whole workforce, where in the case of limitation to management the effect might not fully project to the whole organization.

In line with the hypothesis, the **KPIs linked to the long-term performance** of the acquirer influence the success of M&A positively. The assumption here is that managers with long-term performance oriented KPIs would be forward looking, thus looking ahead of the mere execution of the transaction and focus on setting the newly formed organization for organic growth in the post-transaction period. The consensus established on this factor suggest the respondents strongly support the established relation.

The **specific human capital of the CEO**, i.e. the years of being CEO of the acquirer or years of being within the company on any position prior to assuming the CEO position, has shown to have positive influence on the outcome of M&A. The experience of respondents strongly supports the established relation and is in line with our hypothesis. The relation can be explained by the CEOs deeper knowledge of the company, and thus better judgement of the need for inorganic growth and the fitness of the identified target.

Unlike the preceding group the Human factors have shown lower degree of consensus on individual factors. The main takeaways from the group is the influence of cultural similarity on the success of M&A, further stressed by the anticipated negative impact of difference in management’s formality and management motivated on the long-term success of the company via long-term oriented KPIs. Finding a target with a cultural match might prove difficult and it is an additional factor after other boxes are checked. Nevertheless, the importance is not to be overlooked, and the acquirers should anticipate its impact. In cases where the cultural differences are apparent, and the M&A is still to proceed, focus should be put into cautious integration rather than a shock therapy. The long-term KPIs are yet another factor stipulating the importance of forward-looking management and alignment of managerial interests with those of shareholders as seen in the antecedent group.

5 Conclusion

This thesis was approached with the goal to uncover the factors influencing the success, or failure, of M&As. To do so, we have decided to take an out-of-box approach and surveyed Europe’s M&A advisors, who unlike most of the other stakeholders in the M&A discipline with a pool of experience gained through partaking on multiple cases and thus are able to judge various factors‘ general influence. Furthermore, we have anticipated to create an “M&A Manager’s Checklist” based on the factors that prove to have a strong impact on the outcome, and thus should be given an elevated focus. The central question of the thesis was thus:

“**What are the factors influencing the outcome of M&A? “**

To attempt to answer this question, we have consulted previous research in the area of M&A performance to gain knowledge in two core sub-areas. Firstly, we drew on past research to come up with an answer for: “What constitutes success in M&A.” It has proven to be a rather challenging task due to the differing views of various stakeholders. However, even at the level of differentiated stakeholders, the perception of success is directly tied to the primary motive of undergoing the M&A pursuit. We have finally narrowed the various definitions of success to the “Fulfillment of primary motives and/or overall satisfaction with the outcome of M&A” used in the survey. Secondly, the past research inspired the final set of the 24 final factors observed in the survey, clustered into three groups (Antecedents, Moderators and Human Factors). The analysis of the survey results was focused on the direction of influence and consensus found among the individual factor's influence.

Following the analysis of the survey results, we state that the crucial elements leading to the success of M&A are a **forward-thinking approach backed by due investigation** of the target as well as the foreseen new entity and **alignment of the managerial interest** with the interest of the shareholders.

Forward-thinking, prior investigation and anticipating various scenarios in which M&A might evolve are all crucial for success as well as for validating prior motivations. We found the positive impact of a greater scope of due diligence which stresses the crucial importance of investigating duly the target. This has been further stressed by the strong consensus established on the positive influence of the HR due diligence. HR due diligence might as well uncover the cultural proximity of the two entities which has been found to have a positive impact on the outcome, or perhaps raise red flags when the cultures are diverging. Other factors playing into the importance of the forward-thinking approach are: setting of the integration plan in the early stages of the M&A process and implementation of the integration management office, which both show the acquirer's understanding of the integration possessing inherent hurdles on the journey to a successful M&A. Furthermore, the assessment of integration plans well before the approach of the due date requires foreseeing the execution of integration and identifying main roadblocks. Strategic M&A have shown to outperform financial, which once again stresses the importance of vision of the period post-transaction, given that the economic synergies are justified and are not representatives of the so called "paper-synergies".

The proportion to which managerial hubris causes failure remains unanswered but should not be fully left out as the factors aimed at the alignment of shareholders' and managerial interest have shown a positive impact with strong consensus. Within the group of antecedents, we found that M&As where managers hold common stock perform better. Furthermore, in the case where ownership of common stock does not hold, M&As where the KPIs on management are set on a long-term (i.e. more aligned with shareholders' interest) perform better with a strong consensus established.

Additional factors contributing to the success of M&A backed by strong consensus are the CEO's tenure and previous experience with M&A. The CEO's tenure could be yet another factor building on the alignment with shareholders and a CEO's deep understanding of the acquirer, thus being able to asses the fit of the target. There are indisputably many other factors contributing to the success of M&A, however within the frame of our research we cannot confidently list them.

Following the review of the past literature as well as the research of this thesis, I stand humbled before the complexity of M&A and understand the source of diverging conclusions of previous research. The complexity of M&A is not as surprising as the global business world indeed presents problems algorithmically unsolvable. In the words of the economist giant F.A. Hayek "It is a curious task of economics to demonstrate to men how little they know about what they imagine they can design" and being humbled I restrain myself from designing what I have imagined I could. Therefore, the attempt to present the "M&A Manager's Checklist" as originally planned is left out. It is within the author's belief that such an attempt, even somewhat possible would be meaningless, misleading and would in fact present more problems than utility. To use a parallel, such Checklist would be as useful as building an IKEA wardrobe with a manual to LEGO – indeed it is a manual to a building kit, but far from universal.

Limitations and suggestions for further research

The limitation of this thesis can be found in the size of the sample responding to the survey. The causes of the limited sample are various, but the author is aware that a greater sample would give more credibility to the data as well as more conclusions drawn upon them. Nevertheless, it is within author's belief that further (perhaps even more extensive) surveys can shed more light on the M&A failure phenomenon. Further use of M&A advisors as respondents could be also the way to assess how much of the failure is caused by managerial hubris and managers not serving their "masters." This thesis hasn't extensively focused on this particular factor but it remains within the author's belief that poor alignment of interest might account for the failed M&A attempts. Further suggestions for research arise in the domain of the primary motivations to undergo M&A in the first place (merely touched by this thesis) and consequently making the link to the outcome.

Further factors to be explored (based on author's anecdotal evidence, thus not reliable for conclusions) are the ones arising from the cultural fit between the entities. Looking beyond the financial might prove useful. Assessing the cultural fit, in the sociopathic power pursuit, people still play role and they might play a more significant role than entries in books. Finally, the author puts great expectation in the power of technology and use of big data which could potentially bring further answers to the subject matter in the upcoming years. The frameworks of personality types of employees and their similarity through social media data (with emphasis on ethical use and individual privacy) could uncover how much stated culture reflects the people's beliefs expressed on social media and compare it between the merging entities.

In conclusion, M&As are indeed a risky endeavor thus they must be justified by strong evidence. The entities entering into the process should be ready to withdraw and sacrifice the incurred sunk costs put in it, when the odds are against them, in order to forego further loss that might in some cases close the business altogether.

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Appendices

Appendix A: Survey

The M&A Success Factors

Basic information

This section aims to collect basic information about the respondent's territory of practice, his/her experience in M&A, and typical sizes of transactions advised.

* 1. In which country do you currently reside?

* 2. How many years of your professional experience were related to transaction advisory?

- 0-5 years
- 6-10 years
- 11-20 years
- 21-30 years
- >30 years

* 3. What is the typical deal-size of transactions (denoted in USD), where you have been part of the advisory team?

- $ 0- 10 mil
- $ 11-50 mil
- $ 51-100 mil
- $ 101-500 mil
- $ 500 mil +

* 4. Are you (or were you for significant portion of your professional career) part of a global advisory firm?

- Yes
- No

5. Which global advisory firm? (optional)

* 6. Are you specialized in transactions within particular industry?

◯ Yes

◯ No

7. Which industry is your specialization? (optional)

The M&A Success Factors

The motives of M&A

Previous research has been occupied with measuring M&A performance and seeking answers to what causes M&As to fail. Frankly the central question of what motivates firms to undergo M&A remains unanswered.
In this opening section we rely on your experience as a front-line actors in the M&As to uncover the motives.

* 8. Rank the motives of M&A based on perceived frequency of occurrence.

- Expanding customer base
- Cost synergies or scaling efficiency
- Resource redeployment
- Managerial self-interest
- Response to uncertainty
- Response to regulation
- Product or service differentiation
- Entering new geographic markets

The M&A Success Factors

Impact of factors influencing M&A performance

In the following section you will decide on individual factors' influence on M&A success. Previous research has been ambiguous in its definition of M&A performance, let alone success.
For the purpose of this survey please consider success as the:

"Fulfillment of transaction primary expectations and/or (client's) satisfaction with overall outcome of the transaction".

Within each factor please decide based on your personal experience the level of impact brought to the overall success.

Altogether the factors are grouped in 3 logical sets.
1. Antecedents, (q:9-16) are factors that are arising from the setting before the transaction process takes place.
2. Moderators,(q:17-24) are factors typically arising in the transaction process from extensiveness of due diligence process to handover as such.
3. Human factors,(q:25-32) are factors targeting the personal characteristics of people responsible for M&A, and wider stakeholders (such as employees) and how they contribute to the M&A outcomes.

* 9. Does the choice of a **domestic or foreign** target influence the outcome of M&A?

- ◯ **Domestic** M&As tend to be **significantly more** successful
- ◯ **Cross-border** M&As tend to be **more** successful
- ◯ **Domestic** M&As tend to be **more** successful
- ◯ Cross-border M&As tend to be **significantly more** successful
- ◯ Choice of domestic or foreign target has **marginal or no influence** on the outcome

* 10. Does the **Financial vs. Strategic motive** influence the outcome of M&A?

- **Financial M&As** tend to be **significantly more** successful
- **Strategic M&As** tend to be **more** successful
- **Financial M&As** tend to be **more** successful
- **Strategic M&As** tend to be **significantly more** successful
- **Financial over Strategic** has **marginal or no influence** on the outcome

* 11. Does the **dimension of integration** influence the outcome of M&A?

- **Vertical** M&As tend to be **significantly more** successful
- **Horizontal** M&As tend to be **more** successful
- **Vertical** M&As tend to be **more** successful
- **Horizontal** M&As tend to be **significantly more** successful
- Dimension of integration has **marginal or no influence** on the outcome

* 12. Does the target's **industry concentration** influence the outcome of M&A?

- Investments in **concentrated** industry tend to be **significantly more** successful
- Investments in **competitive** industry tend to be **more** successful
- Investments in **concentrated** industry tend to be **more** successful
- Investments in **competitive** industry tend to be **significantly more** successful
- Concentration of the targets industry has **marginal or no influence** on the outcome

* 13. Does increased **"trendiness"** of a specific industry (increase in M&A activity within the industry in years directly preceding the transaction) influence the outcome of M&A?

- ◯ M&As in a "trendy" industry tend to be **significantly more** successful
- ◯ M&As in "trendy" industry tend to be **more** successful
- ◯ Trendiness of the target's industry has **marginal or no influence** on the outcome
- ◯ M&As in trendy industry tend to be **less** successful
- ◯ M&As in trendy industry tend to be **significantly less** successful

* 14. Does the acquirer **management's holding of its common stock** influence the outcome of M&A?

- ◯ M&As where the acquirer's management hold common stock tend to be **significantly more** successful
- ◯ M&As where the acquirer's management hold common stock tend to be **more** successful
- ◯ Managements holdings of the common stock have **marginal or no influence** on the outcome
- ◯ M&As where the acquirer's management hold common stock tend to be **less** successful
- ◯ M&As where the acquirer's management hold common stock tend to be **significantly less** successful

* 15. Does the acquirer's **previous experience** with M&A influence the outcome?

- ◯ Acquirer's with previous M&A experience tend to be **significantly more** successful
- ◯ Acquirer's with previous M&A experience tend to be **more** successful
- ◯ Acquirer's previous experience with M&A has **marginal or no influence** on the outcome
- ◯ M&As where the acquirer's management hold common stock tend to be **less** successful
- ◯ M&As where the acquirer's management hold common stock tend to be **significantly less** successful

* 16. Does the **concentration of Acquirer's ownership** influence the outcome of M&A?

- 'Acquirer's with higher concentration of ownership tend to be **significantly more** successful
- 'Acquirer's with higher concentration of ownership tend to be **more successful**
- 'The ownership concentration has **marginal or no influence** on the outcome
- 'Acquirer's with higher concentration of ownership tend to be **less successful**
- 'Acquirer's with higher concentration of ownership tend to be **significantly less** successful

* 17. **Time pressure** throughout the transaction process influences the outcome of M&A:

- Very positively
- Positively
- Marginal or no influence on the outcome
- Negatively
- Very negatively

* 18. Greater **scope of due diligence** (Fin, Legal, Tech) influences the outcome of M&A:

- Very positively
- Positively
- Marginal or no influence on the outcome
- Negatively
- Very negatively

* 19. Setting an **integration plan** in the earlier stages (during due diligence process) influences the outcome of M&A:

- Very positively
- Positively
- Marginal or no influence on the outcome
- Negatively
- Very negatively

* 20. **Cash** as a **mode of payment** (as opposed to stock) influences the outcome of M&A:

◯ Very positively
◯ Negatively
◯ Positively
◯ Very negatively
◯ Marginal or no influence on the outcome

* 21. Choice of **Locked-box** structure as a **pricing mechanism** (as opposed to traditional Closing accounts) influences the outcome of M&A:

◯ Very positively
◯ Negatively
◯ Positively
◯ Very negatively
◯ Marginal or no influence on the outcome

* 22. Deployment of specialized unit for integration such as **Integration Management Office (IMO)** influences the outcome of M&A:

◯ Very positively
◯ Negatively
◯ Positively
◯ Very negatively
◯ Marginal or no influence on the outcome

* 23. Presence of **HR due diligence** influences the outcome of M&A:

◯ Very positively
◯ Negatively
◯ Positively
◯ Very negatively
◯ Marginal or no influence on the outcome

* 24. Use of s**ophisticated methods of valuation** as opposed to multiple approach (such as EBITDA multiple) influence the outcome of M&A:

- Very positively
- Negatively
- Positively
- Very negatively
- Marginal or no influence on the outcome

* 25. Perceived similarity of Target's and Acquirer's **corporate culture** influences M&A outcome:

- Very positively
- Negatively
- Positively
- Very negatively
- Marginal or no influence on the outcome

* 26. Dominant **personality type** of Acquirer's CEO (or the person responsible for the outcome of transaction) influences M&A outcome:

- Very positively
- Negatively
- Positively
- Very negatively
- Marginal or no influence on the outcome

* 27. The removal of the **target's autonomy** (change of management, subsidiary position...) influences M&A outcome:

- Very positively
- Negatively
- Positively
- Very negatively
- Marginal or no influence on the outcome

* 28. The target's Management thoroughly **informing** its Employees **about the M&A proceedings** influences outcome:

- Very positively
- Negatively
- Positively
- Very negatively
- Marginal or no influence on the outcome

* 29. Previous **personal relationship** between the members of top management of the two firms undergoing M&A process, influences its outcome:

- Very positively
- Negatively
- Positively
- Very negatively
- Marginal or no influence on the outcome

* 30. Difference in perceived **level of formality** between the management of firms undergoing the M&A process, influences its outcome:

- Very positively
- Negatively
- Positively
- Very negatively
- Marginal or no influence on the outcome

* 31. Acquirer's management **KPIs linked to long-term performance** of target/integration:

- Very positively
- Negatively
- Positively
- Very negatively
- Marginal or no influence on the outcome

* 32. Greater acquirer **CEO's firm specific human capital** in years (# of years the CEO of acquirer has been in the position) influences the outcome of the M&A:

- ◯ Very positively
- ◯ Positively
- ◯ Marginal or no influence on the outcome
- ◯ Negatively
- ◯ Very negatively

The M&A Success Factors

Thank you very much!

Dear respondent,

With mere knowledge of how packed is the calendar of M&A Consultants, I can't stress enough how much I appreciate the time you put into this survey.
If you are interested in the outcome of this research please note email address below. The email address will be separated from your responses and used exclusively to distribute the outcomes upon which it shall be deleted.
If you feel like you haven't had enough space to elaborate on the topic of "The M&A Success Factors", please use the open box below to enrich this research with your further insight.
Thank you very much!

Gratefully,

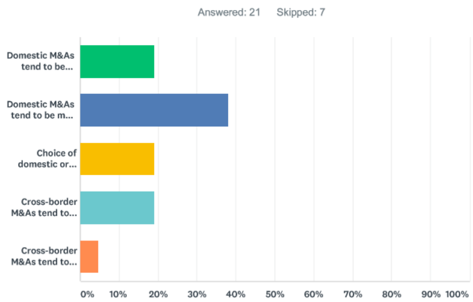
Robert Vacha

33. email address

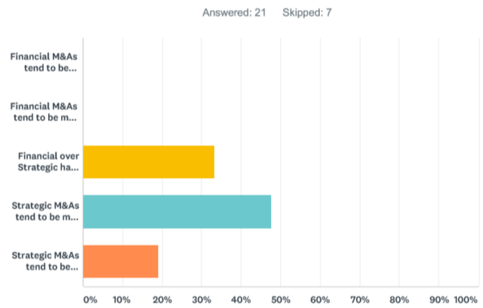
34. Space for further elaboration on the topic

Appendix B: Individual responses

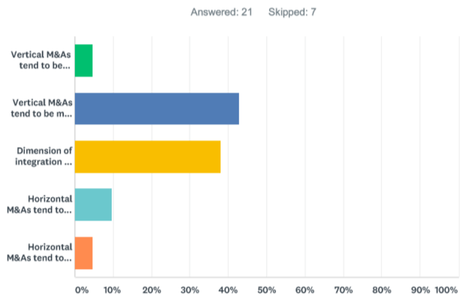
Q9 Does the choice of a domestic or foreign target influence the outcome of M&A?



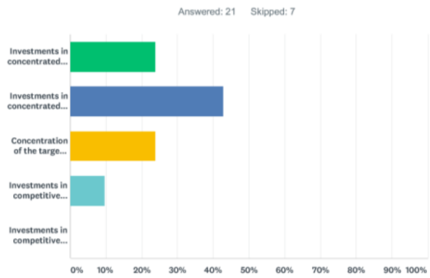
Q10 Does the Financial vs. Strategic motive influence the outcome of M&A?



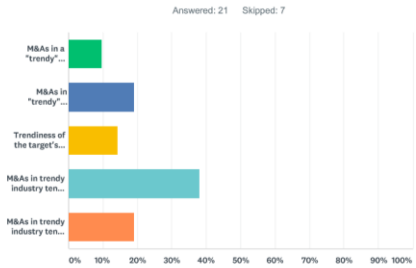
Q11 Does the dimension of integration influence the outcome of M&A?



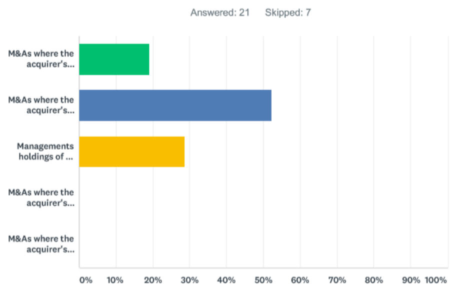
Q12 Does the target's industry concentration influence the outcome of M&A?



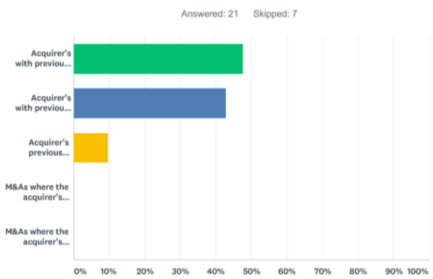
Q13 Does increased "trendiness" of a specific industry (increase in M&A activity within the industry in years directly preceding the transaction) influence the outcome of M&A?



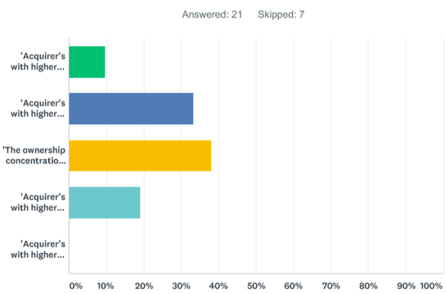
Q14 Does the acquirer management's holding of its common stock influence the outcome of M&A?



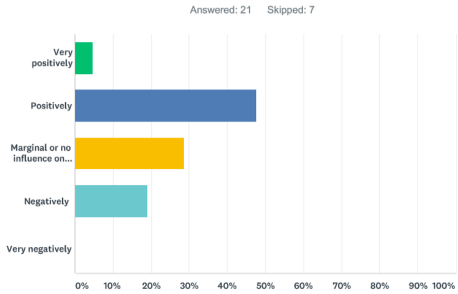
Q15 Does the acquirer's previous experience with M&A influence the outcome?



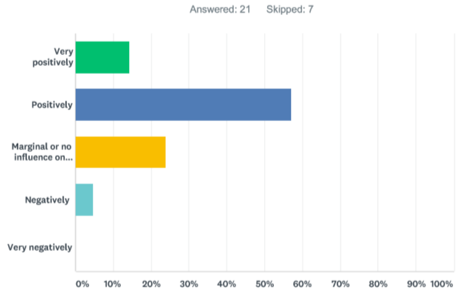
Q16 Does the concentration of Acquirer's ownership influence the outcome of M&A?



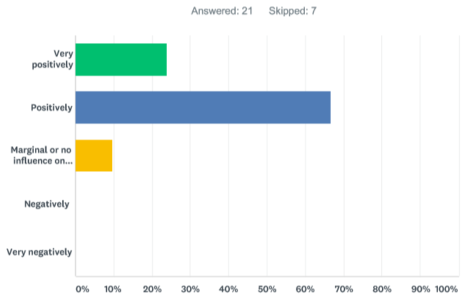
Q17 Time pressure throughout the transaction process influences the outcome of M&A:



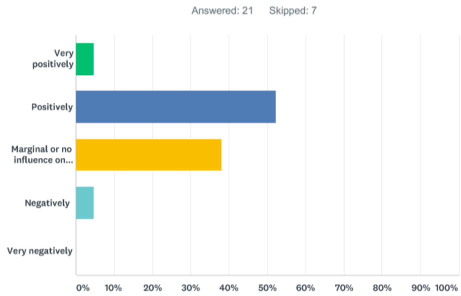
Q18 Greater scope of due diligence (Fin, Legal, Tech) influences the outcome of M&A:



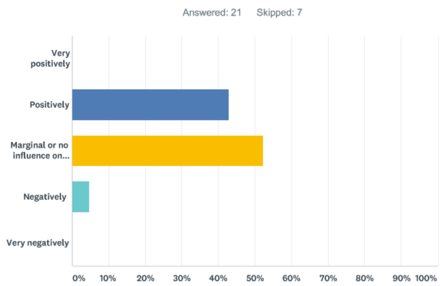
Q19 Setting an integration plan in the earlier stages (during due diligence process) influences the outcome of M&A:



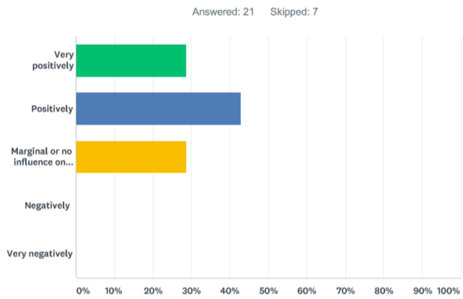
Q20 Cash as a mode of payment (as opposed to stock) influences the outcome of M&A:



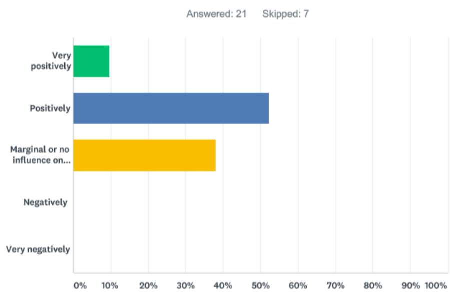
Q21 Choice of Locked-box structure as a pricing mechanism (as opposed to traditional Closing accounts) influences the outcome of M&A:



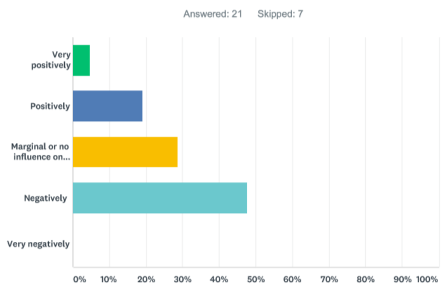
Q22 Deployment of specialized unit for integration such as Integration Management Office (IMO) influences the outcome of M&A:



Q23 Presence of HR due diligence influences the outcome of M&A:

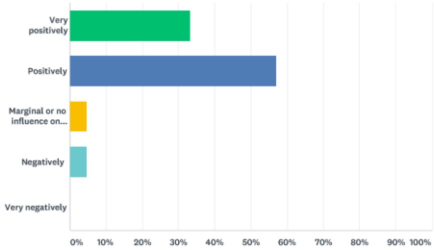


Q24 Use of sophisticated methods of valuation as opposed to multiple approach (such as EBITDA multiple) influence the outcome of M&A:



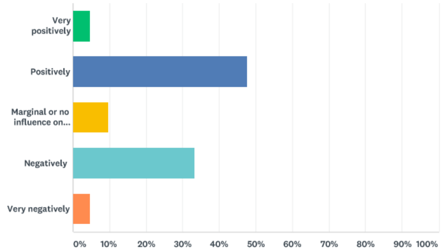
Q25 Perceived similarity of Target's and Acquirer's corporate culture influences M&A outcome:

Answered: 21 Skipped: 7



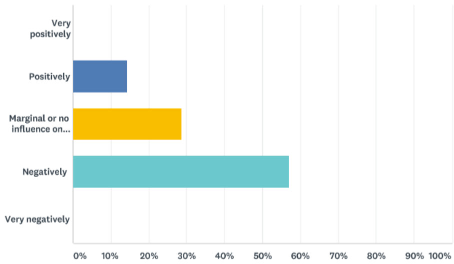
Q26 Dominant personality type of Acquirer's CEO (or the person responsible for the outcome of transaction) influences M&A outcome:

Answered: 21 Skipped: 7



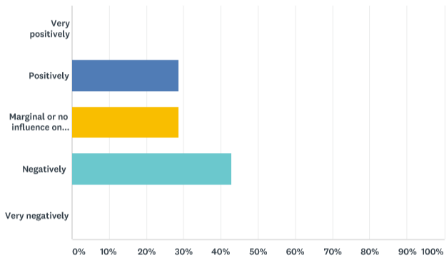
Q27 The removal of the target's autonomy (change of management, subsidiary position…) influences M&A outcome:

Answered: 21 Skipped: 7



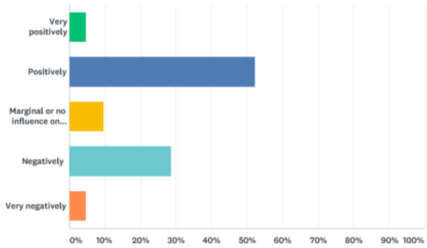
Q28 The target's Management thoroughly informing its Employees about the M&A proceedings influences outcome:

Answered: 21 Skipped: 7



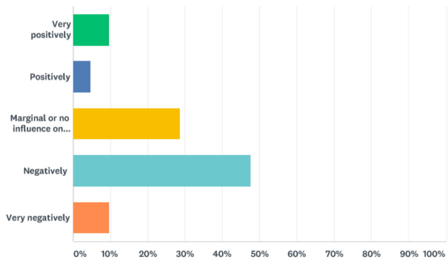
Q29 Previous personal relationship between the members of top management of the two firms undergoing M&A process, influences its outcome:

Answered: 21 Skipped: 7



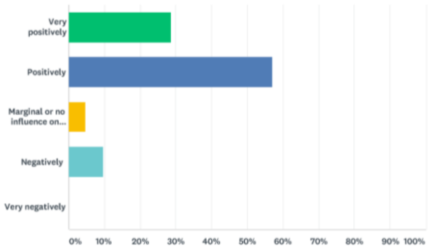
Q30 Difference in perceived level of formality between the management of firms undergoing the M&A process, influences its outcome:

Answered: 21 Skipped: 7



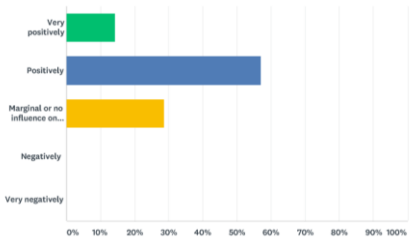
Q31 Acquirer's management KPIs linked to long-term performance of target/integration:

Answered: 21 Skipped: 7



Q32 Greater acquirer CEO's firm specific human capital in years (# of years the CEO of acquirer has been in the position) influences the outcome of the M&A:

Answered: 21 Skipped: 7



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