Literature review on mergers and acquisitions

1. Introduction:

Mergers and Acquisitions refer to buying; selling and combining of different companies that can help a growing company in a given industry grow rapidly without having to create another business entity (Virani, 2007). Traditionally, exploiting economies of scope and scale or taking advantage of market imperfections has been a dominant way of gaining competitive advantage by firms. However, as economies are becoming more and more integrated due to the forces of globalisation, there is an increasing realisation that these ways of competition offer limited profitability for firms. As a result, mergers and acquisitions have become increasingly popular as companies look for higher returns and dominant market position in the global market. Mergers and acquisitions provide means to acquire expertise, technology and products. Over the past two decades, mergers and acquisitions have become a global phenomenon and a popular strategic choice for company growth and expansion (Hansen and Nohria, 2004).

Despite the increasing popularity of mergers and acquisitions, unfortunately, the performance of merger and acquisitions has not been satisfactory. Research studies reported that more than two-thirds of large merger and acquisition deals fail to create value for shareholders. Mergers and acquisitions fail to meet the anticipated goals, as mentioned by Carleton (1997), who noted that the rate of mergers and acquisitions failure range from 55 to 70 percent. These failed mergers constitute a waste of human and financial resources. Given the popularity of this strategic alternative, there is a strong need to learn how to manage mergers better and to make them more successful (Gopinath, 2003). Numbers of studies are quick to

point out numerous reasons behind this poor performance of mergers and acquisitions and specifically assert that lack of strategic fit and poor management of the integrative process appear to be the main causes of unsatisfactory performance. Infect, an exhaustive list containing possible causes of poor performance, can be made with reference to the numerous research studies conducted over the last two decades (Epstein, 2004).

These research studies have examined the bad performance of the mergers and acquisitions from various aspects. The very observable aspects like finance, stock market and legal issues were given importance and were considered the most sensitive areas for mergers. However, with the growing rates of failure, researchers and business analysts started acknowledging the fact that this poor performance of mergers and acquisitions does not simply has its roots in financial and operational issues or other legal conflicts. The research was then diverted to examine human and cultural aspects of M&As and it was noted that the real problem is not financial but the lack of intercultural synergy between the organizations. The organizational cultural issues create communication breakdowns and therefore act as a barrier for successful integration of the two organizations. On the other hand, Cartwright & Cooper (1993) reinforced the previous findings by stating that the financial and other strategic benefits expected from mergers and acquisitions are undermined by the cultural conflicts. Moreover, the organization who addressed cultural issues properly during merger and acquisitions experienced good results as compare to other organization who neglected this aspect (Epstein, 2004). Hence there exists a strong need to

consider the cultural issues as critical during the mergers and acquisitions and address them properly.

The focus of this research is to explore and analyse the organizational cultural issues as the major potential threat for the success of mergers and acquisitions. In other words, to highlight the cultural issues as the most import among all other possible causes that affect the performance of mergers and acquisitions. The discussion will cover the effects of cultural issues on the performance of mergers and acquisitions.

2. Literature Review:

Growth is an essential aspect of organizational success. It is something for which most of the companies strive for. It is observed commonly that small companies want to grow big and big firms want to grow bigger. Indeed companies have to grow and the reasons behind are almost same for every organization. However, different companies adopt different strategies for this purpose and the most suitable strategy is the one that supports the company to move progressively towards accomplishing its stated goals (Greiner, 1991). The ultimate objective of most companies is profit, therefore whatever strategy is adopted, profit remains at the heart.

Although, growth is considered to be one of the key points of reference of success by business analysts and is mandated by investors. However, researchers have also argued that, although, growth is essential for firms, but every growth strategy is not successful in terms of value creation. Not all the growth strategies are values adding, that could result in an improved performance of a firm (Olsen & Chathoth, 2007; Slevin & Covin 1997). Olsen

& Chathoth (2007) further argued that it is the firm's performance on a long term basis that determines the sustainability of the growth strategy that was implemented in the first place. Companies choose growth strategies that suits best to them in a frame work of market and competitors. The best route to growth varies depending on the market and the nature of business (Churchill &Lewis, 1983).

2. 1 Organisational Culture:

The concept of culture is frequently being used by the experts in organizational behaviour field to describe how members of groups understand their world and their place in it. Organizational culture can be better understood as the pattern of actions, words, beliefs and behaviours that members of a business organization share (Able, 2007). Soroghan et al (1998) discussed culture as a unique set of values, attitudes and beliefs that creates a shared sense of reality and it has a powerful influence on company and employee behaviour. Handy C (1993) has put forwarded a simplified definition of organizational cultural which suits best to the way this work is oriented. The author has provided a number of aspects that shape the culture of an organization. According to Handy (1993), organizations have deepest set of beliefs about the way work should be organized, the authority should be exercised, people rewarded and people controlled. Similarly, other things like the degree of formalization required, how much planning and how far ahead? Degree of obedience expected from subordinates, do work hours matter or dress or personal eccentricities? Although, these definitions have provided a theoretical frame work to understand the organizational culture itself but the varied definitions have made it somehow difficult to understand

the effects of culture on the organizational Performance (Weber & Schweiger, 1992).

2. 2 Impact of Culture on Organizational Performance:

A highly productive business always has a high performing organizational culture that aligns well both internally and externally to support the overall objectives of the business. This organizational culture shapes the employee experience, which in turn impacts customer experience, business partner relationships and, ultimately shareholder value (Able, 2007 p11). Schraeder & Self (2003), aptly put forward that the corporate culture can have a significant impact on a firms long term economic performance and will probably be an even more important factor in determining the success or failure of firms in the next decade (Schraeder & Self (2003) Deal and Kennedy (1982) asserts that culture is the single most important factor responsible for success or failure in organizations. Kilman et al. (1985) took it further by reporting that strong culture can have a key impact on the success of the business due to its pervasive influence throughout any organization.

In order to check the relationship between culture and performance, Denison (1984) studied a suitable sample of 34 firms representing 25 different industries. To validate the study the author used more refined sampling procedures not only for organizations but for the subjects within the organizations . According to him, two indices ' organization of work' and ' decision making' were found to be significantly correlated with financial performance. In addition, the author also found that the strength of the culture was predictive of short-term performance, when performance was

defined with broad indicators like return on assets, return on investment and return on sales etc.

2. 3 Impact of Cultural on the Performance of Mergers & Acquisitions:

Mergers and acquisitions are a popular strategy for growth and expansion. The mergers and acquisition activity is increasing and companies are joining together as never before. Also that this expansion process is hampered by certain obstacles and companies suffer from not handling those issues effectively. Among those difficulties, the lack of intercultural synergy between the two organizations has been reported as the most important issue which is affecting the M&A performance greatly (Cartwright & Cooper 1993). It is a new challenge for companies operating across the globe to understand the organizational culture and its effects on the organizational performance (Fralicx & Bolster, 1997).

Mergers and acquisitions are effected seriously by the cultural issues and several studies have been conducted till date to investigate culture and people issues as a reason of merger and acquisition failure. The results have shown that up to 65% of failed mergers and acquisitions are due to cultural and people issues. Studies explored that the intercultural differences cause communication breakdowns which affect the productivity of the whole organization (Chatterje et al 1992). Other researchers also supported this line of reasoning and suggested that incompatible cultures are the main causes of M&As failure. Considering cultural issue as a reason of poor success rates, Cartwright and cooper (1993) stated that the financial benefits that companies expect from mergers and acquisitions are often

unrealized because of incompatible organizational cultures of the merging organizations. Lodorfos & Boateng (2006) have presented a comprehensive overview of the role of culture in the merger and acquisition process. They have provided a summary of previous research on this issue by concluding that the lack of intercultural synergy is at the heart of M&A failure. According to them, " Cultural fit is just as important as structural fit in the analysis and evaluation of potential partners and that poor cultural fit has contributed to the failure of several mergers and acquisitions that appeared to be suitable strategic partners". Huang & Kleiner (2004) have mentioned that companies can not be integrated successfully if there exits a cultural incompatibility between the two partners and that the cultural incompatibility is consistently rated as the greatest barrier to success of mergers.

2. 4 Conclusion:

It can be concluded from the above made discussion that cultural problems lie at the heart of merger and acquisition failure. The management and leadership spend time and do efforts to make mergers work. Most of the time, they are busy with planning the strategic and financial aspects, that show negligence to the cultural and people issues. Conversely, in the log run, the cultural issues not only create trouble for the management but the financial benefits are also undermined by cultural clashes in the newly born organization (Cartwright & Cooper 1993). The previous sections have provided enough evidence to consider cultural issues as one of the basic reasons behind the failure of M&As. Now it becomes rather necessary to point out some of the cultural related problems that M&As face and which are responsible for the value destruction in this business activity.

3. Research Topic:

This research will explore the effects of cultural issues on the performance of merger and acquisitions on organizations around the world.

4. Research Objectives:

This research work has the following individual objectives:

To explore the strategic motives behind the mergers and acquisitions

To evaluate the performance of mergers and acquisitions and identify the major factors affecting the performance.

To analyse the effects of cultural issues on the performance of mergers and acquisitions.

5. Research Methodology:

The main proposed research methodology is secondary research which is based on the critical and comprehensive analysis of the existing published literature related to the specific area of research. Books, published journal articles, published research reports, surveys, organizational records, qualitative research and internet will be used to collect secondary sources data. The secondary research method is very essential for my research work, because a lot of sources are there like books, journals and study articles, websites etc. Some search engines are very popular such as Google, Athens, Yahoo, etc. I think these sources will help me to complete my research work.

I will use all the above mentioned secondary research methods for my research work and I am highly interested to use the deductive method because it is more logical and authentic way to prove your research.

Moreover I will use both quantitative and qualitative techniques to critically analyze my collected data and to reach the conclusion. But in this research work, I will prefer to use more qualitative method of data collection. Because, according to Lincoln and Guba (1985) a qualitative method captures a more complete picture of individual lived experience instead of a narrow perspective of generalizations. Therefore, the study will be based on experience rich participants, who are able to offer insight a quantitative study would be unable to capture. The qualitative data provide me an opportunity to study the material of the recent or more distant past to gain the more insights information for methodological and theoretical purposes.

5. 1 Advantages of secondary research methodology:

This kind of research helps in examining large scale trend.

It is easy to accessible so researcher can consume most of its time in critically analysing data rather than collecting it.

Sometime primary data collection is not necessary for the research, because of the available secondary data is completely suitable to draw a conclusions and answers of the questions and sufficient for solving problem.

The collection of secondary data is far cheaper than the collection of primary data. For the same level of research budget secondary research definitely gives relatively more information than the primary research can give.

The time consumption is much less in the collection of data and conducting results in comparison with the primary research.

The results obtain from secondary source of information may more precise than the result obtain from the primary data collection. It may not happens all the time but if research is about at large scale for example data taken from the surveys obtain by the government census department on large scale, this is likely yield more precise results than custom designed surveys weather these are based on the comparatively small size of sample.

5. 2 Problems of Secondary Research:

In secondary research the researches have to be careful about authenticity of secondary resources. Because at the same type of data or idea two different types of department or persons have different type of opinion, for example if researcher consult the data about the loss to the economy from the act of terrorism than their must two different type of responses available from the government prospective and non government interpreters.

Some time material available for research is too old and out dated, so it may difficult for researcher to interpret results.

The source of the data and material may not reliable each time, so it may impact the reliability and authenticity of results of the research.

Sometimes secondary research has lack of firmness of perspective.

If data and material collected from non authentic sources it is difficult to check its biasness and inaccuracies.

The published material and statistics often raise more questions than answers.

5. 3 Limitations:

There are some limitations the data may have and the problems that could arise if these limitations are ignored. The verification of existing data is difficult. Secondary data can be general and vague and sometimes it may cause difficulties in decision making. It is possible that data could be out dated and the sample used to generate the secondary data maybe small. The data publisher company may not be reputable. While keeping in mind those limitations of secondary data, the data taken for this research is taken from reputable academic websites.

5. 4 Conclusion:

A use and search of secondary data should be preceding any primary research activity. Secondary data definitely helps to solve and understand the problem and gives valid answers. The process of collecting secondary data for research is far cheaper and quicker in compare with primary data at in some cases it could be more accurate. There is always a need of evaluation about data and its source before using it for research. Where possible it is better to take same data from different sources so the biasness and errors can be double check for the more accurate results.

6. Research Ethics:

While carrying out the research, the most important thing to keep in mind and practice is the ethical considerations. And in my research work this is very critical and of prime consideration. I will follow all the ethical considerations and guidelines. As my research work is based on secondary research, so what ever the secondary data I will use to achieve my research objectives, I will follow the all terms and conditions of ethical considerations.

Throughout my research I will practice honesty in processing and reporting all the data, this will be my own work and I will not copy the other researcher data or work, I will not be bias in my research while collecting or processing the data. I will try my utmost to avoid the omissions and errors while analysing the data and will keep all the record of the data and their valid sources. I am fully aware that the plagiarism is a serious academic crime, so I will not plagiarise my research. I will quote all the citations and that will be fully referenced. I will not copy other researcher's work.