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An integrated approach for a higher success rate in mergers and acquisitions*

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Abstract

The paper outlines the importance of balanced management of hard and soft key success factors, combining the economic logic of corporate performance and human capital through an integrated approach to mergers and acquisitions. The study, based on a questionnaire and interviews, suggests that the achievement level of mergers and acquisitions' objectives of acquiring companies in Slovenia should be comparable to findings of similar studies; namely, the objectives that drove the deal were met only half the time. The results indicate that five hard success factors – a professional target search and due diligence, a realistic assessment of synergies, the right mix of financial sources, a detailed post-acquisition integration plan already prepared in the pre-deal phase and its speedy implementation – and five soft success factors – a new "combined" organizational culture, a competent management team, innovative employees, efficient and consistent communication and a creative business environment – are becoming increasingly relevant. Even though they differ in their importance for individual companies in the sample, they are all considered essential to increasing the success rate of corporate combinations.

Key words*: Mergers and acquisitions, Hard success factors, Soft success factors, Integrated approach in M&A, Slovenia.*

JEL classification*: E22, D23, G34*

1. Introduction

Executives have at their disposal a wide range of strategic alternatives for inorganic growth and mergers and acquisitions are nowadays the most important avenue for

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growth. Mergers and acquisitions' annual activity in the United States levels off at more than 1.5 trillion dollars and for the rest of the world the corresponding figure is somewhat more than 1.0 trillion dollars annually (Weston and Weaver, 2001). The pace of mergers and acquisitions has been accelerating and the volume of deals has risen to unprecedented levels. "An environment of sustained economic growth and rising stock prices facilitated transactions" (Weston and Weaver, 2001), but "mergers and acquisitions are no easy path to riches or career advancement" (Bruner, 2004). In fact, "most firms have no better alternative and M&A is one of the most important means by which companies respond to changing conditions" (Bruner, 2004). Clearly, mergers and acquisitions are the growth strategy of choice (Carleton and Lineberry, 2004).

A global A.T.Kearney study suggests that 58 percent of all mergers, acquisitions, and other forms of corporate restructuring fail to produce results rather than create value (Habech et al., 2000). Similarly, a KPMG survey found that "83 percent of mergers were unsuccessful in producing any business benefits regards shareholder value" (KPMG, 1999). An exhaustive analysis of hundreds of deals led Business Week to conclude that "out of 150 deals valued at $500 million each or more, about half actually destroyed shareholder value" (Feldman & Pratt, 1999). A major McKinsey & Company study found that "61 percent of acquisition programs were failures because the acquisition strategies did not earn a sufficient return (cost of capital) on the funds invested" (Sirower, 1997). "Between 55 and 77 percent of all mergers fail to deliver on the financial promise announced when the merger was initiated" and studies show that some 40 percent of cross-border mergers among large companies end in what is termed "total failure" (Carleton and Lineberry, 2004).

Even though most mergers and acquisitions are carefully designed, they still face major challenges. Nearly two-thirds of companies lose market share in the first quarter after a merger; by the third quarter, the figure is 90 percent (Harding and Rouse, 2007). In the first four to eight months that follow the deal, productivity may be reduced by up to 50 percent (Huang and Kleiner, 2004). We argue that billions and billions of dollars are spent on acquisitions with lackluster results. The failure rate of acquisitions is unacceptable and unnecessary.

But how to succeed in an activity in which the odds of success are so slim? Practical experience with numerous acquisition projects worldwide makes us believe that we should look for other solutions and identify the real causes for the high failure rate. Each acquisition is a complex process from pre-deal research and planning and deal completion, through to post-acquisition integration and value extraction. Priorities have to be set and hard decisions under time pressure have to be made regarding financial as well as human resource allocations in the process. Therefore, a new approach toward M&A is needed!

Why do acquisitions usually under-perform? We argue that it is because in today's world too many executives do not use the concept of balanced management of "eco-

nomic" capital and "human" capital. Empirical studies of consummated acquisitions and their post-acquisition integrations bring us to the conclusion that the high failure rate is a consequence of the current management and governance approach. They reason the M&A process with good practices and measure it with predominantly financial yardsticks. In our view, they should also focus on companies' core competences and values, by aligning organizational structure and culture. The success of most acquisitions hinges not on dollars but on people (Harding and Rouse, 2007).

We argue that the selection of takeover targets exclusively on the basis of financial ratios is no longer sufficient; the human factor needs to be evaluated with non-financial ratios as well. So-called soft factors are equally important for success and combine the economic logic of corporate performance and social capital, measured in quantitative and qualitative terms. Human issues must be carefully considered, as they play a critical role in mergers and acquisitions. "However, human factors issues tend to take second place to commercial and financial considerations. Indeed, the human factor is often neglected" (Huang and Kleiner, 2004).

It is organizational success that counts in the end; winning the game is largely a matter of maximizing value by achieving "one plus one is more than two". Clearly, our focus is on long-term corporate performance and value creation rather than short-term results.

2. Five change factors of business environment and M&A activity

Strategy is the engine that drives M&A activity which is used to expand or restructure businesses. Companies can grow organically by internal investments or externally by acquiring other companies. The right choice and mix of both strategic options depends on the planned growth rate and on available internal and external resources to achieve that goal. "M&A policies and decisions should take place within the general framework of the firm's strategic planning processes" (Weston and Weaver, 2001).

Current M&A transactions are a part of the fifth merger and acquisitions wave (Table 1), which began in the nineties and "has reflected powerful change forces in the world economy" (Weston&Weaver, 2001). Some strategic mega deals have been consummated; the values of the top ten mega deals were all greater than 50 billion dollars, the largest of all coming close to 200 billion dollars. We see more and more strategic buyers and hence strategic combinations (economy of scope and scale) rather than financial buyers and pure financial transactions. "Driven globalization, a long-term bull market, and economic or strategic barriers to growth, mergers and acquisitions have become the primary means by which many companies can quickly attempt to grow revenues" (Huang and Kleiner, 2004).

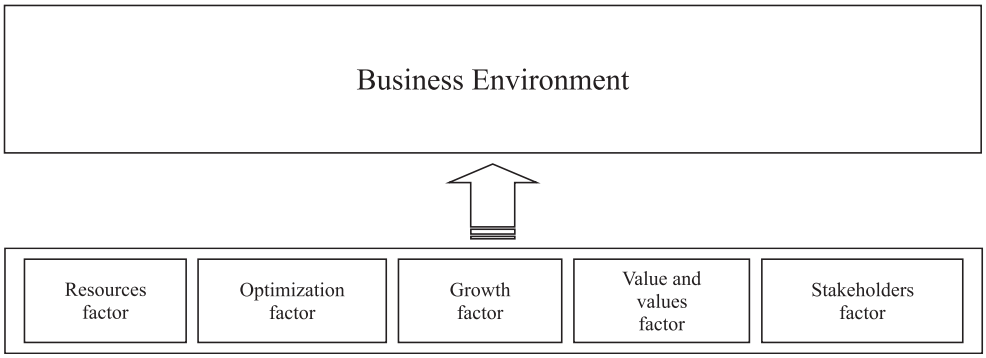
Table 1: The fifth mergers and acquisitions wave

Announced Transactions (in US$ Billion)			
Years	Total (Worldwide)	United States	Rest of the World
1995 - 1997	1,108	593	515
1998 - 2000	2,851	1,526	1,326

Source: Thomson Finance Securities Data, 2001

Therefore, a deep understanding of business environments and their development phases is needed for setting the right growth strategy. The development of any business environment can be observed from the standpoint of five change factors: sustainable growth, resources and their optimization, added value creation, and participants (Bertoncel, 2006c).

Figure 1: The five change factors matrix



Source: Bertoncelj, 2006 c

Sustainable growth in a given business environment and time span can be achieved only through the optimum structure of financial resources and the use of human capital. We believe in long-term, i.e. sustainable, growth and value creation within ethical norms. Creating (the greatest possible) added value remains the most important goal of every company regardless of its organizational form, size or evolutional phase. By creating additional value, the necessary resources are provided for the sustainable development of a company, but nowadays in response to changing conditions physical and financial assets as well as intellectual capital should be used and therefore be managed. “Resources are like raw material; what matters is how the firm integrates resources to reach its objectives” (Bruner, 2004).

2.1. Growth factor

As a rule, companies opt for growth strategy and thus for the expansion of their operations. Growth has a positive association in business and the general public opinion as it stands for stability, safety and profitability. Bigger might be better in most cases, but not all. In the economy of a couple of decades ago, the growth strategy was based, first and foremost, on organic growth. Nowadays, business systems are undergoing a dramatic transformation in response to the continual changes that have become the only constant in the business environment and companies are constantly adapting to these changes. M&A is one of the most important means by which companies respond to changing conditions (Bruner, 2004). Opting out of the M&A process is not feasible as there is no better alternative for growth. Mergers and acquisitions as a source of growth in order to reach strategic and financial advantages are becoming increasingly an instrument of macroeconomic renewal (Bruner, 2004).

2.2. Resources factor

Material resources and financial capital were key resources some decades ago and still are, to a lesser extent, in the new economy. Their efficient use in the "hardworking" manner used to be a competitive advantage. Nowadays, material and capital are turning more and more into a commodity and giving way to intellectual capital and talent. Intellectual capital is a new key resource that is intertwined in the process of creating added value. The "fil rouge" of change is the tendency towards non-financial "soft" resources and values, or rather a balanced role of both non-financial and financial ones. Financial capital keeps its role of being an important deciding factor, but it is not the only deciding factor anymore; the human being is becoming the most important resource and ought to be managed efficiently.

2.3. Optimization factor

To manufacture as much as possible (quantity) as cheaply as possible means decreasing the costs per produced unit, and thus greater efficiency. A higher level of productivity once represented a competitive advantage. Optimized tangible resources in the new economy are not a sufficient advantage anymore; intangible assets and intellectual resources should also be optimized. Productivity and quality have to be augmented through innovation. Intellectual capital should be managed in an efficient and planned manner, as nowadays financial leverage and human leverage go hand in hand.

2.4. Economic value and values factor

To produce as much as possible at the lowest price means higher added value – the paradigm of cost based management in the early development phase. The paradigm of maximizing value for owners, i.e. shareholder value, dominates in the new economy – value based management. Everything is subordinated to this idea, often in favor of short-term effects. Such an approach has proven to be too one-sided (owners

represent only one interest group) and does not take into account other factors in the environment. The multifunctional relations among all stakeholders, i.e. individuals from both the internal and external environments, prevail in stakeholder-based management.

2.5. Stakeholders factor

The existing business models do not focus enough on people, their behavior, the new organizational culture and values. In the new business environment, however, the key success factor is innovation, i.e. a human being with his/her creativity, talents, skills and relationships. Only the combination of internal and external creative relations will build a large enough critical mass to facilitate the processes of continual innovation. Human capital will only gain in significance against "economic" capital in the future. The original orientation towards profit and then towards an appropriate (maximum) return on the invested capital is giving way to return on "human" capital. Human capital becomes a winning factor and strategic resource; satisfied and confident creative individuals alone will make it possible for companies to join the club of the successful.

3. Balanced management of key success factors

The predominant mergers and acquisitions of today are carefully designed to ensure a good strategic fit for both the acquiring and target companies. We argue that an integrated approach in mergers and acquisitions ensures long-term success by balanced management of all ten key success factors in the acquisition and integration processes, thus delivering financial benefits from the deal.

Figure 2: Key success factors in mergers and acquisitions

KEY SUCCESS FACTORS	
SOFT SUCCESS FACTORS	**HARD SUCCESS FACTORS**
LEARNING ENVIRONMENT	ACQUISITION SEARCH
MANAGEMENT TEAM	DUE DILIGENCE
INTELLECTUAL CAPITAL	FINANCIAL RESOURCES
ORGANIZATIONAL CULTURE	SYNERGIES
COMMUNICATION	INTEGRATION PLAN

Source: Authors

We argue that each of the success factors, in its own way, contributes to acquisition success, but implemented together in an integrated way, as a single factor, result in a higher success rate. In evaluating each of the key success factors a standard three-prong approach is recommended – "as is" and "should be" analysis with "change recommendation" – already in the pre-deal phase. Speedy implementation of the planned activities results in better synergy realization in the post-deal phase.

3.1. Soft success factors

3.1.1. Learning environment

Nowadays, knowledge is a new resource alongside traditional ones – land, capital, labor – and is becoming the ultimate replacement of other resources. Acquiring companies using an integrated approach have strong human and structural capital with a supportive organizational culture to try new things and amalgamate the existing knowledge of both the acquiring and target companies.

Learning environments enhance organizational learning, which has emerged as one of the most important concepts in strategic management since the late 1980s. To cope with an ever-changing business environment "the ability to learn faster than your competitors may be the only sustainable competitive advantage" (DeGeus, 1988). In the knowledge era, the production and distribution of information and knowledge is the main source of a company's assets (Burton–Jones, 1999) and therefore very important in mergers and acquisitions processes. Compatibility of the respective business systems is an important factor creating challenges in integrating the operations of two separate firms (Mirvis, 1985) where employees often "experience difficulties trying to adjust to new procedures and performance standards" (Marks and Mirvis, 1992).

"Companies that manage to develop organizational learning at a higher level will profit in terms of increased employee trust in the leadership, higher perceived efficiency of work organization, a higher degree of employee commitment, lower costs of work per employee in comparison to the industry average, employees more satisfied with the conditions within the company and improved employee flexibility compared to the competition" (Dimovski and Škerlevaj, 2006).

3.1.2. Management team

The management team should be selected early in the process; if possible, already in the pre-deal phase. Acquiring companies increasingly use various assessment methods to select talents critical for synergy realization in the post-merger integration. Ad hoc or political appointments should be avoided for well-known reasons; the process of appointing new executives or retaining incumbent management teams should be

fair and transparent. "Those companies that prioritized the selection of the management team at the pre-deal planning stage were 26 percent more likely to have a successful deal" (KPMG, 1999).

Research indicates that up to half of the executives in firms involved in a merger and acquisition leave within three years (Galpin and Herndon, 2000). If the communication about the change is not handled properly, the best leave first. Obviously, they are competent and talented and, as such, in demand in the marketplace. "Brain drain" can be very costly and finding new competent managers and experts can be time consuming. Early and full information of the new vision and strategy of the combined operations, along with the opportunities for the carrier development, should be presented to key staff, otherwise for those who remain confusion over differences in decision-making styles leads to infighting (Harding and Rouse, 2007).

The conventional wisdom has been that takeover targets are under-performers, which attract capital market discipline. This perspective leads to the inefficiency hypothesis that acquisitions are motivated by a desire to correct and gain from target inefficiency (Bertoncel, 2006b). The greater the inefficiency, the more attractive the target. Potential return comes from the revitalization of a poorly run target. According to the inefficiency hypothesis, a change of control and, consequently, a change of management would provide "effective strategies for better efficiency", from anticipated operating cost containment and better access to financial markets to higher returns on investment projects (Weston and Weaver, 2001). In other words, the present value of all performance enhancements attributable to management change would result "in the increase in value primarily from managing the assets more efficiently – higher cash flows from the assets and efficiency growth (Damodaran, 2005). If a company is run poorly, then there is room for performance improvements. In case of a control change, new management is installed, and with that new management policies. The incumbent management and their policies are replaced and a restructuring process can begin. "The value of changing management will be a direct consequence of how much we can improve the way the firm is run" (Damodaran, 2005).

In general, the replacement of entrenched mediocre managers and the restructuring of under-performing companies show enhanced performance in the long-run and enable the realization of welfare gains for the entire economic community.

3.1.3. Intellectual capital

Understanding the development of intellectual capital and its optimal management is very important for value creation and sustainable success in mergers and acquisitions. In today's knowledge-based economy, the importance of intellectual capital is constantly growing. "People, not cash, buildings or equipment, are the critical differentiators of a business enterprise" (Fitz-enz, 2000) and intellectual capital is the added value lever of the knowledge economy. The pool of intellectual capital of an

organization is larger than the traditionally identified groups of organizational success or failure, such as managers and experts, specialists and other elites (Wright et al., 1994).

Intellectual capital evaluation should be completed early in the process and results should be integrated in the post-acquisition plan with the fundamental aim of contributing to reaching a high level of effectiveness as well as reaching the aims of an organization. It is the company's members that possess "tacit knowledge" that characterizes intellectual capital of a target company necessary to perform planned activities in the post-acquisition period.

The skills of employees are a company's assets just like tangible assets (Barney, 1991). Acquiring knowledge is one of the frequently stated reasons for mergers and acquisitions. Hence, at a point in time when a target company has been selected, human resources due diligence and assessment activities, on both companies involved, must be completed. Post-acquisition integration, particularly in terms of intellectual capital, requires organizational alignment such as new statements of purpose and intent (mission and vision), government policies and strategy (goals and objectives) and the new "composed" culture (values and behavior). We argue that the difference between successful and unsuccessful acquiring companies is created through the uniqueness and variety of a network of collaborating individuals and their constant development, and by unleashing their creativity potentials.

3.1.4. Organizational culture

In the past it was widely believed that organizational culture was critical in M&A processes but not much could be done about it to avoid culture clashes. "Culture clash" is a term that is frequently used when there is a need to explain why acquisitions failed to produce results. However, the KPMG survey found that deals were 26 percent more likely to be successful if the acquirers focused on identifying cultural issues (KPMG, 1999). Organizational cultures can be a make-or-break factor in mergers and acquisitions.

We understand organizational culture as a company's social capital, as "social glue" that helps hold the organization together by providing appropriate standards for what employees should say and do (Robbins, 1996). The development level of organizational culture in business environments can be judged by the level of relationship development (between employers and employees, among employees, customers, suppliers/co-operators, the public, owners) and by observing the forms of their individual and group behavior. In other words, organizational or corporate culture is the pattern of values, norms, beliefs, attitudes and assumptions that may not have been

articulated but shape the ways in which people behave and things get done (Armstrong, 2003).

"Corporate cultures are real and they can be effectively managed, and that, if managed properly, they will also produce long-term economic performances that far outstrip the results of companies that do not manage their cultures" (Kotter and Heskett, 1992). Kotter and Heskett's long-term study of large companies over a seventeen-year time period shows compelling outperformance of those companies that actively managed their culture.

Table 2: Adaptive vs. non-adaptive culture results

Adaptive vs. non-adaptive culture results
Revenue increase of 682 percent versus 166 percent
Workforce expansion of 282 percent versus 36 percent
Stock price increase of 901 percent versus 74 percent
Net income increase of 756 percent versus 1percent

Source: Kottler & Heskett, 1992

Shrivastava (1986) claims that in order to achieve the best possible outcome of an acquisition, the two companies should be integrated to make them as similar as possible by attaining a mutual corporate culture. In reality, acquired companies are often forced to adapt to the acquiring company's culture and routines (Napier et al, 1989), which may lead to "culture clashes".

Cultural assessment in mergers and acquisitions should start with the cultural due diligence process of the acquirer. It is the acquiring company that should first be at center-stage, and its intent should be clearly defined before any M&A activity. Later in the M&A process it is followed by the cultural due diligence of the target company. The importance of cultural due diligence in mergers, acquisitions, and alliances has given rise to a need for cultural corporate due diligence (Carleton, 1997) that is equally as important a part of the overall investigation of a target as traditional legal and financial due diligence.

Culture is not an isolated island in a company; it is in fact deeply embedded within the system. The daily behavior of management is a major drive of culture (Carleton and Lineberry, 2004), what we do is equally or even more important than what we say.

3.1.5. Communication

An absence of formal, accurate and on-time communication results in low motivation and morale of employees. Poor or incomplete communication usually has a detrimental effect on staff and shareholders, therefore timely and fair communication with all interest groups at the acquirer as well as the target is required. "Mergers and acquisitions make the communication channels grow longer due to more people being involved" (Huang and Kleiner, 2004).

Usually, when employees, customers, suppliers, and investors start asking questions, most managers are not prepared. Their answers are often improvised (content-free) pronouncements and can cause uncertainty, confusion, and more cost. "Hyping, equivoicing, and hip-shooting tend to be the dominant tactics for managing communication during a major transaction" (Feldman and Spratt, 1999). The cost of confusion can get high, when acquirers simply assume that their stakeholders, i.e. employees, customers, suppliers, and investors, are well informed and very secure. Mergers, acquisitions, and alliances require proactive and relevant communication to all stakeholders that secures their acceptance and support. Early communication should minimize uncertainty and perplexion, on the other hand no communication at all (management's silence) makes matters even worse as it creates rumors.

Acquiring companies should comply with four rules of effective "transition" communication: no secrets, no surprises, no hype, and no empty promises. They should have an integrated information strategy in place before the start of an M&A process. The KPMG survey confirms that companies who prioritize communications are 13 percent more likely to be successful than the average (KPMG, 1999).

3.2. Hard success factors

3.2.1. Acquisition search

An acquisition search is nonlinear and even unruly (Bruner, 2004). Tens, sometimes hundreds, of prospective targets are identified in the screening process, but only few are selected for further evaluation. The ratio between potential deals and completed deals is very small, therefore the efficiency of the acquisition search is crucial and can yield significant improvements in end-results. Tacit knowledge and skills with capital transactions of in-house experts or internationally seasoned investment bankers is central to the M&A process. It is essentially an intelligence gathering process about prospective targets (acquisition of high-quality information). Standard screening criteria should include analysis of industry and the target position in it, organizational fit, financial and human resources, management, size and profitability, niche and season exposure, risk exposure, prospective control, etc.

An acquisition search should not be seen merely as a deal-gathering process or a contract-building process (Bruner, 2004); the search must focus on information

(process) rather than transactions (outcome). There is a clear and important distinction between publicly available information and private information. In the capital market, public information is quickly absorbed by market players and instantly included in the price ("efficient market hypothesis"), which increases the degree of competition among prospective acquirers. It also means that a target is fully priced and that there is not much room for profitable arbitrage. On the other hand, private information about an acquisition opportunity means that there is a very low degree of competition among prospective acquirers ("information asymmetry") and a high likelihood of a more advantageous price. Strong social capital is here of the essence when searching for information held by others. The buyer's "sweet spot" is the world of private information (Bruner, 2004). Still, primary research and preliminary evaluation of "promising arenas" for transactions, and an increased total number and frequency of searches is the right, pro-active way that increases the chances of doing a successful deal.

3.2.2. Due diligence

Due diligence is "such a measure of prudence, activity, or assiduity, as is properly to be expected from, and ordinary exercised by, a reasonable and prudent man under the particular circumstances; not measured by any absolute standard, but depending on the relative facts of the special case" (Black's Law Dictionary, 1990). Due diligence is in fact a detailed investigation of a target company. It supports valuation, negotiations, structuring, and post-acquisition planning. Duly diligent investigators should uncover as many as risks possible (if not all of them) associated with the transaction, as risk bearing can be very costly for acquirers.

In the real world, acquiring companies choose between broad due diligence review and narrow due diligence investigation plus representations and warranties. An in-depth investigation means higher costs but it yields better insight; it uncovers "surprises now" vs. "surprises later" usually associated with a less detailed review. Insightful due diligence would include financial, tax, legal, intellectual capital, sales and operations, property, environment, and organizational culture investigation. In any case, the acquirer has to know what he is acquiring and that there are "no hidden skeletons in the closet".

Detailed due diligence of a target company with a team of in-house experts that have profound business knowledge and external professionals (investment bankers, lawyers, accountants, etc.) is the most important of all pre-deal activities, which provides valuable information on the "what" and the "how" and increases significantly our odds of success. The KPMG study shows that acquiring companies which prioritized due diligence were 6 percent more likely than average to have a successful deal (KPMG, 1999).

3.2.3. Financial resources

The method of payment in mergers and acquisitions is mainly cash, stock, debt, or some combination of the three. The statistical data for the United States on the volume of M&A transactions broken down by form of payment show that cash is king – 82 percent of deals out of 8,473 in 2002 were cash transactions; 10 percent were stock only and 8 percent were hybrids (Thomson Financial Corporation Data). The form of payment is related to the size of the transaction – in large transactions (jumbo deals) the method of payment is most often stock; in transactions where large companies acquire small companies the form of payment of choice is mainly cash. The form of payment and financing practices vary with the economic cycle; changes in interest rates and stock prices are strongly associated with changes in M&A deal design over time (Bruner, 2004).

Empirical studies (Bruner, 2004) suggest that returns to target shareholders are materially higher for the cash deals than those for the stock deals; buyer shareholders are zero to positive, in some cases significantly positive, for the cash deals and significantly negative for the stock deals.

Another aspect is the financing assessment of deals. The seven levers of financing an M&A transaction are mix, maturity, basis, currency, exotic terms, control, and distribution (Bruner, 2004). Most acquiring companies exhibit a pecking order of funding their transactions through retentions of profits, then through bank debt, and finally through new stock issues. In other words, internal sources of capital are used before going to the capital market. An optimal capital structure would be one that maximizes shareholder value; one that lowers the weighted average cost of capital and increases the enterprise value, which is the ultimate goal of any M&A activity.

3.2.4. Added value potentials (synergies)

Executives have to know the core competencies and values of their companies. They need to identify the strong business nuclei with added value potentials of their companies and map them. Based on the core competencies and values, they should select appropriate targets by identifying targets with added value potentials (AVP). The AVP are foreseen areas of synergies (real and measurable improvements), on which an acquiring organization should focus in order to unlock the value from combined business. Synergies have to be defined in economic terms; where synergy happens, the whole is greater than the sum of the parts. True synergies create value for shareholders by harvesting benefits from a merger that they would be unable to gain on their own (Bruner, 2004). In other words, combining strong business nuclei of both companies would enhance existing strong added value potentials, add new added value potentials and strengthen existing weak added value potentials. By combining strong business nuclei of both organizations we build a "new organism, with unique corporate culture". Controlling all of these added value potentials enables an

educated decision to be made about the deal. Failing to ensure real and measurable improvements in competitive advantage through clearly defined AVP increases the odds of a bad decision.

Added value potentials assessment of both companies, acquiring and target, should be the centerpiece of acquisition analysis as it addresses the relationship between price and value of the target plus the value of synergies. The paid price should be lower than the sum of the stand-alone value of the target and value of synergies. Combining two companies in "Newco" may result in revenue enhancement synergies, cost reduction synergies, asset reduction synergies, tax synergies, and financial synergies. Synergy evaluation requires detailed due diligence, it should not be based on mere guesswork or, even worse, be dictated to make the deal look better.

Acquisitions should be driven by all factors which impact the added value, i.e. synergies realization. The easiest way to lose the acquisition game is by failing to define synergy in terms of real, measurable improvements in competitive advantage (Sirower, 1997). The KPMG survey shows that pre-deal synergy evaluation emerged as the prime hard key to deal success; one which can enhance the chance of success to 28 percent above average (KPMG, 1999). Value creation is the best gauge of synergies, only true synergies create value for shareholders by harvesting added value from acquisitions. Objectivity above all is here the imperative for wise M&A decisions and investment.

3.2.5. Post-acquisition integration plan

Post-acquisition (post-merger) integration is where envisioned synergies and expectations are realized or broken. Post-acquisition integration is vital to the success of any M&A transaction. Failing to recognize integration issues at the bargaining table or in the analytical phase of the work can create enormous problems later on (Bruner, 2004). In fact, post-merger integration was in 53 percent of all unsuccessful deals the prime reason for failure (Habech et al., 2000). The KPMG study suggests that acquiring companies that prioritized pre-deal integration project planning were 13 percent more likely than average to have a successful deal (KPMG, 1999).

There is no standard blueprint available for all acquisitions; integration plans should be built on the business rationale of specific transactions. Integration strategy follows business strategy (Bruner, 2004); business objectives can be such as to improve efficiency, create new capabilities, and manage risks. Company management have a "honeymoon" period of some 100 days after deal completion to take hold of the business and start delivering benefits (KPMG, 1999).

There are two phases of integration implementation: planning and execution. A detailed integration plan has to be prepared before legal consummation of the transaction (pre-deal phase). Both companies have to reach an agreement on many important issues, such as which executives will run the combined business, who will be

the integration leader, compensation schemes, which plants will stay or close, how to retain talent, communication plans, training programs, etc. A project management approach with deadlines and work plans is usually implemented.

Careful planning is crucial in the pre-deal phase, but successful implementation in the post-deal phase has speed, determination, and good communication (Bruner, 2004) in common. One of the deadly sins that have to be avoided is to delay the start of post-merger integration and drag out its finish. Managers often postpone decisions or are blocked from making them; integration stalls and productivity declines (Harding and Rouse, 2007). Post-acquisition integration is in fact transformation and mergers and acquisitions are major corporate makeovers. Patience and perseverance matter immensely in the successful conclusion of these efforts (Bruner, 2004).

4. Empirical study

4.1. Data collection

The empirical study was based on a questionnaire. The questionnaire was prepared, tested and sent to altogether twenty Slovene companies randomly selected in the target population of companies with more than 250 employees and revenues of more than 1 billion Slovene tolars at the time of consummated mergers and acquisitions in the period between 1997 and 2005; out of those, twelve companies responded, giving an overall response rate of 60 percent. This study is based on a research sample of 25 acquisitions performed by twelve companies. There were no financial institutions in the research sample.

To obtain further information necessary to complete the study, it was decided to interview executives and acquisition project managers. Sampling was purposive; only those executives and acquisition project managers who had been included in the acquisition process from the very beginning and were aware of strategic factors that determined the acquisition were interviewed. The meetings proved to be very informative in assessing the problem at hand and enabled us to get additional insight into performance issues.

The responses of the executives and acquisition project managers were recorded on a standardized Likert scale. In the examination of acquisitions' success rate, respondents were asked to evaluate the overall success of consummated acquisitions and to rate each of ten success factors based on their importance to the overall success rate of consummated acquisitions. We examined the attitude of the acquiring company's executives and project managers towards the soft and hard success factors.

A possible weakness of our approach was that executives and project managers could try to ex-post rationalize their actions by assigning better grades to overall

performance or giving more importance to the soft factors than was actually given in the process.

4.2. Measurement of acquisitions' performance

The respondents were asked to evaluate how successful the acquiring companies had been in achieving their acquisition objectives (Table 3). The success of a particular acquisition was measured by examining the extent to which its acquisition objectives have been realized. Responses ranged from (1) 'not realized at all' to (5) 'fully realized'.

Table 3: Achieved objectives in mergers and acquisitions

Achieved acquisition objectives						
Not realized at all → **Fully realized**						
1	2	3	4	5		
Number of responses (n = 25)					**Average**	**Standard deviation**
2	3	5	9	6	3.56	1.2274

Source: Authors

The study suggests that the average achievement level of mergers and acquisitions' objectives of Slovene companies (response grade average is 3.56) is better than the performance of acquisitions of the U.S. acquiring companies, according to findings of several empirical studies (Risberg, 1997; Marks and Mirvis, 1998; Bijlsma-Frankema, 2001; Schreader and Self, 2003; Huang and Kleiner, 2004). However, the study of strategic factors underlying the performance of acquisitions in Slovenia carried out by Lahovnik (2003) shows even better performance for the period between 1991 and 1999.

Our study has several limitations. First, the results are limited to a research sample of only 25 acquisitions. Second, the results are limited to the small economy of Slovenia. Third, the evaluation made in our study is partially the result of interviews we conducted. Fourth, it may be argued that the degree of realization of objectives for acquisitions based on the Likert scale is not a proper performance indicator.

4.3. Measurement of importance of success factors

The respondents were asked to indicate how much importance had been given to each of ten success factors in the acquisition process. Responses ranged from (1) 'not important at all' to (5) 'most important'.

Table 4: Hard and soft success factors in decreasing order according to average grades

	Importance of Key Success Factors **Not important at all ⟶ Most important**						
	1	**2**	**3**	**4**	**5**		
Hard factors	**Number of responses (n = 12)**					**Averages**	**Standard deviation**
Acquisition Search	0	0	0	1	11	4.92	0.2886
Due Diligence	0	0	1	6	5	4.33	0.6513
Integration Plan	0	0	1	7	4	4.25	0.6215
Synergies	0	0	4	4	4	4.00	0.8528
Financial resources	1	1	7	3	0	3.00	2.2292
Soft factors							
Management Team	0	1	0	5	6	4.33	0.8876
Intellectual Capital	0	1	3	4	4	3.92	0.9962
Organizational Culture	0	1	2	6	3	3.92	0.9003
Learning Environment	0	2	1	8	1	3.67	0.8876
Communication	0	3	1	5	3	3.67	1.1547

Source: Authors

The study suggests that the ten key success factors which were tested differ in their importance for individual companies in the sample. All of the tested success factors are considered relevant for the acquisition performance. The study also suggests that hard success factors (response grade average is 4.10) are considered more essential than soft success factors (response grade average is 3.90) to increasing the success rate of corporate combinations. Four out of five hard success factors rate higher than soft success factors; only one soft success factor rates higher than the average grade for hard success factors.

The study shows that selecting the right target company through a thorough acquisition search is critical for success. Conducting a detailed due diligence process at the target company and competent management are as well highly scored key success factors in mergers and acquisitions followed by a detailed post-acquisition integration plan already prepared in the pre-deal phase and its speedy implementation in the post-deal phase. Surprisingly, the importance of financial resources ranks the lowest of all key success factors.

5. Conclusions

Mergers and acquisitions are complex phenomena known to have a high failure rate and are frequent events in companies today. Despite their popularity, only about half of mergers and acquisitions actually achieve the desired strategic or financial objectives. In most cases, a failed acquisition can be attributed to several root causes – paying the wrong price, buying for the wrong reason, selecting the wrong partner or buying at the wrong time (Marks, 1997). We have tried to contribute to this pool of knowledge by analyzing key success factors influencing the performance of an acquisition in the small economy of Slovenia.

We argue that an important reason contributing to the high failure rate lies in neglecting the integrated approach to balanced management of hard and soft success factors by executives of acquiring companies in mergers and acquisitions. Our study shows that Slovene executives are paying more attention to hard success factors and believe they are more important for overall success in mergers and acquisitions than soft success factors, with the exception of a competent management team.

Mergers and acquisitions should be carefully structured in their approach to increase the chance of success. Such structuring should be in writing and all success factors of the integrated approach should be agreed upon already in the pre-acquisition phase. Nothing should be left to chance. A clear and concise acquisition concept of balanced management of key success factors is required. Cultural differences, management deficiencies, lack of communication, and a poor business fit, among others, are all closely aligned with less actual shareholder value than initially planned.

More attention has to be paid to soft success factors in mergers and acquisitions as both soft and hard factors are essential for the success of any business combination.

Incorporating both soft and hard key success factors into an acquisition and integration plan of acquiring companies should enhance the success rate of mergers and acquisitions. An integrated approach makes mergers and acquisitions work better as it combines economic performance with non-economic (soft) factors.

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Integrirani pristup za veći uspjeh u spajanjima i preuzimanjima

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Sažetak

Istraživanje opisuje važnost uravnoteženog menadžmenta ključnih čimbenika uspjeha (tvrdih i mekanih), kombinirajući ekonomsku logiku korporacijske uspješnosti i ljudskog kapitala kroz integrirani pristup u procesima spajanja i preuzimanja. Studije, na temelju anketa i intervjua, pokazuju da su postignuti ciljevi procesa spajanja i preuzimanja preuzetih slovenskih poduzeća usporedivi s utvrđenim činjenicama sličnih istraživanja. Naime, postavljeni se ciljevi samo djelomično ostvaruju. Rezultati ukazuju na pet tvrdih čimbenika uspjeha – stručan odabir cilja i primjerena brižljivost, realna ocjena sinergija, pravilna kombinacija izvora financiranja, detaljan integracijski plan faze nakon preuzimanja, već pripremljen u prethodnoj fazi, te brza implementacija – i pet mekanih čimbenika uspjeha – nova, "kombinirana" organizacijska kultura, kompetentne ekipe menadžera, inovativni djelatnici, djelotvorne i solidne komunikacije i kreativno poslovno okruženje, koji dobivaju sve veću važnost. Unatoč njihovim različitostima i različitim stupnjevima važnosti za svako pojedino poduzeće, smatra se da su od izuzetne važnosti za veću uspješnost korporacijskih kombinacija.

Ključne riječi*: Spajanja i preuzimanja, tvrdi čimbenici uspjeha, mekani čimbenici uspjeha, integrirani pristup u M&A, Slovenija*

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