

**CRITICAL SUCCESS FACTORS OF THE MERGERS AND  
ACQUISITIONS PERFORMANCE: INTERRELATIONSHIP OF  
PLANNING STAGE (PRE-MERGER) AND INTEGRATION PROCESS  
(POST-MERGER)**

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**ABSTRACT**

This paper investigates success factors for mergers and acquisitions that usually have high failure rate. Some of those factors are neglected from current research and/or do not explored at the same time in a coherent systematic study. Specifically, it explores the effects of planning steps (at pre-merger stage) including, for instance, due diligence analysis, cultural differences analysis, planning for post-merger integration, as well as negotiation stage, and integration process (at post-merger stage) on effectiveness of integration process and the overall M&A performance. The research uses quantitative method to analyse the information and multiple regression analysis test the hypotheses. The key findings of the study highlight that success of M&As is influenced by several factors at the pre- and post-merger phases. This study offers suggestion for managers in M&A to pay more attention during all stages of M&As, such as preparing and conducting detailed planning before, and during, negotiation, as well as at the integration process. For example, choosing the appropriate integration approach and pay attention to integrated-related decisions to achieve higher effectiveness of integration process and higher success in M&A performance.

Keywords: mergers, acquisitions, critical success factors, planning stage (pre-merger), integration process (post-merger)

**1. INTRODUCTION**

Mergers and acquisitions (M&As) have been the most radical strategies adopted by most firms as a value creation avenue (through acquiring market leadership, combination of complementary assets) to improve their functions and enhance competitive advantages to compete in very challenging market place (Bain & Company, 2020; Giessner, Horton, & Humborstad, 2016; PWC, 2022). Over the last 30 years, many disciplinarys of researchers and practitioners show significant interest to conduct M&As research and their findings reveal that M&As continue to experience high failure rates (Cartwright & Schoenberg, 2006; Dauber, 2012; Gomes, Angwin, Weber, & Tarba, 2013; Martin, 2016). Reports record

the failure rate about 40 to 60 percent (Bain & Company, 2020; Bagchi & Rao, 1992; Homburg & Bucerius, 2006; Homburg & Pflesser, 2000), 60 to 80 percent of acquisitions fail to create value after mergers (Angwin, 2007; Groen & McCarthy, 2011) and between 50 to 75 percent of all post-merger integrations fails to meet the objectives due to cultural clashes (Financial Worldwide, 2022). Harvard Business Review recently reports that the failure rate of M&A even sits between 70 percent and 90 percent (Christensen, Alton, Rising, & Waldeck, 2011; Kenny, 2020). Despite the high failure rates, nevertheless the activities of M&As continue to accelerate and money invested in M&As is increasing year after year.

M&A is an important strategy for firms to pursue growth and be competitive (Cartwright & Schoenberg, 2006). Managers believe that M&As serve as quick and an effective way to respond to market economy as a strategy for organizational to survive and succeed. According to Eccles, Lanes and Wilson, (1999, p. 136) *“despite 30 years of evidence demonstrating that most acquisitions don’t create value for the acquiring company’s shareholders, executives continue to make more deals, and bigger deals, every year”*. Consistently, top executives and directors are motivated to pursue M&As to accelerate companies’ growth through acquiring new products, accessing new customers segmentations and expansion to new territories (Weber, Tarba, & Oberg, 2014). Citizens 12th annual survey finds that 58% of survey respondents (CEOs and CFOs) from 400 U.S. middle market companies believe that M&As remain to be the “primary growth driver” for their companies to increase revenue in 2022 (Citizens, 2023). During the time of economic disruption and company’s low growth period, leadership in the faster-growing companies are using a repeatable M&A as their main strategy to systematically enter into market and accelerate new growth businesses (The Bain Global M&A team, 2020). Despite the continuing uncertainty in the macro-economic outlook, the trend of M&A shows a surge in M&A activity which M&A veterans constantly require new tools for analysis and integration to manage the deals to achieve maximum benefit through new organizational efficiencies, market expansion, employee development, product innovation, and manage profit to achieve higher M&A success (McKinsey & Company, 2010). McKinsey Insight shares that among the 50 largest transactions of Asian acquirers in the past five years, 72 percent of them have communicated that the aspiration is to focus on growth through M&A (Anand, Awasthee, & Bonheure, 2022).

The purpose of this paper is to investigate success factors for mergers and acquisitions that usually have high failure rate. Some of those factors are neglected from current research and/or do not explored at the same time in a coherent systematic study. Specifically, this paper explores the effects of planning steps (at pre-merger stage) including, for instance, due diligence analysis, cultural differences analysis, planning for post-merger integration, as well as negotiation stage, and integration process (at post-

merger stage) on two major factors of success. These factors are the effectiveness of integration process and the overall M&A performance.

The following areas are identified as the gaps in relation to the pre and post-merger stages that are influencing critical success factors of M&As performance: 1) Different disciplinary focuses at different stages of M&A; 2) Different focuses of research stream in variables; and 3) Lack of interrelationships between pre- and post-merger stages.

## 2. HYPOTHESIS DEVELOPMENT

### 2.1. *Planning level and M&A performance*

The critical success factors of M&A performance hinges on important activities at the planning stage (pre-merger). At the planning stage (pre-merger), an extensive decision making, planning and positioning process are included (Cartwright & Cooper, 1990; Hunt, 1990; Picot, 2002). Schweiger, Csiszar and Napier (1993) highlight that company should form the planning team as early as possible to discover gaps and develop strategic planning immediately when the two companies come together.

**H1:** *The higher the planning level the higher M&A performance*

### 2.2. *Due diligence analysis and M&A performance*

Rankine, Bomer and Stedman (2003) express that due diligence analysis can improve the decision-making process by introducing comprehensive testing, reviewing and revising the M&A strategy. This exercise can help to minimize the risk associated with M&As enabling the best deals and terms in the negotiation process to increase M&A performance. Harvey and Lusch (1995) justify the importance of a rigorous due diligence as many acquiring firms' costs of M&As are much higher than the price paid at the purchase due to the additional cost to uncover problems after the transaction. Grundy (1996) believes that the M&A investments are like a tip of an iceberg, with the acquiring firm often seeing only a portion of the investment and not all.

**H1a:** *The more intensive due diligence analysis at planning stage the higher M&A performance*

### 2.3. *Cultural differences analysis and M&A performance*

Hofstede (1991) reveals that cultural differences are the major contribution of conflicts between the acquired and acquiring firms in M&As. One of the single biggest impact whether a business will be successful in M&A is the business culture of the company (Krallinger, 1997). Many researchers point out the importance of understanding cultural differences at integration process during the post-merger integration period as a crucial contribution to M&A outcome (Angwin & Vaara, 2005; Brannen & Peterson, 2009; Sarala, 2008; Stahl & Mendenhall, 2005;). The analysis of cultural differences during the planning stages includes the degree of cultural differences of the different dimensions serves as an

indication of future problems and challenges to be incurred, and cost which will significantly affect M&A performance (Weber, et al., 2014).

**H1b:** *The more intensive cultural differences analysis at planning stage the higher M&A performance*

#### 2.4. Negotiation process and M&A performance

Scholars argue that a successful M&A performance strongly correlated with early and ongoing cooperative negotiations, until the deal is actually signed (Saorín-Iborra, 2006, 2008; Sebenius, 1998). The importance of planning in negotiation: “*Effective negotiation is 80 percent preparation. Fail to prepare and you prepare to fail.*” Negotiation plays an important role especially in the process of M&A to ensure an agreeable deal goes through for both parties (Rich, 2011). The success of negotiations hinges on understanding of different characteristic of national cultures Hofstede and Peterson (2000). The failure to plan the negotiation process can lead to the adverse consequences of M&A performance (Weber, Belkin, & Tarba, 2011).

**H1c:** *The more intensive negotiation process at planning stage the higher M&A performance*

#### 2.5. Integration planning and M&A performance

Research concludes that integration planning for M&As should begin as soon as possible after the target firms are identified (Howson, 2003; Carey & Ogden, 2004; Recardo & Toterhi, 2015). Weber et al., (2014) opine that a well-planned integration process can impact the strategic and financial estimates, the negotiation process, and the screening and ranking of potential acquisition candidates, ultimately affecting the M&A's success. For a successful outcome of an M&A deal, it is inevitable that an integration team needs to establish at the beginning of the deal, after the deal is signed, and the deal can then be announced in a proper manner (Frankel & Forman, 2017).

**H1d:** *The more intensive integration planning at planning stage the higher M&A performance*

#### 2.6. Planning level and effectiveness of integration process

Several researchers identify the critical role of assembling information about human resource practices, organizational culture and structure, and making a detailed outline for anticipated organizational change, including the selection of a leader and management team to be in charge of the integration stage (Haspeslagh and Jemison, 1991; Schweiger, et al., 1993). At the planning stage, the aim is to analyse the potential challenges that will affect the integration process in order to achieve synergy realization (Weber et al., 2014). Further studies encourage in exploring the integration management at the different levels by comprehending the types of conflicts during the process (Chiambaretto, 2016).

**H2:** *The higher the planning level the higher the effectiveness of integration process at post-merger.*

#### 2.7. Due diligence analysis and effectiveness of integration process

McGrady (2005) states that the evidence of due diligence and integration needed to be improved is compelling. Research and experience indicate that intangible areas may hold the key for improvement,

so why nothing have happened to incorporate these elements within most due-diligence exercises? Due diligence is an essential source of data for the planning team to implement integration of the two businesses as it helps to identify the key areas and pieces that will be needed to be integrated (Frankel & Forman, 2017). It should scope out “key early issues and alarms” that can enable acquirers to prioritize and pay attention on key issues (Bing & Bing, 2008). According to Hay Group in France research, 58 percent of business leaders overlook in the assessment of the intangible asset (human capital issues and cultural differences) of the acquired company during due diligence process which subsequently affects integration process and its effectiveness (Forbes Magazine, 2007).

**H2a:** *The more intensive due diligence analysis at planning stage the higher the effectiveness of integration process at post-merger.*

### *2.8. Cultural differences analysis and effectiveness of integration process*

The impact of cultural differences on the integration process (post-merger) is raised in the integration process (post-merger) literature (Buono, Bowditch, & Lewis, 1985; Carleton, 1997; Marks & Mirvis, 2010; Norburn & Schoenberg, 1994). Many researchers view that the cultural differences and the effort involved in integration process are important in M&As (Cording, Christmann, & King, 2008; Sarala, Vaara, & Junni, 2019; Teerikangas & Very, 2006; Sarala & Vaara, 2010; Weber, et al., 1996; Weber, et al., 2011; Weber, et al., 2012). The exploration of similarities and compatibility between two organizations in post-merger phases is one of the hot topics in M&A research (Buono, Bowditch, & Lewis, 1985; Cartwright & Cooper, 1996; Gertsen, Söderberg, & Torp, 1998). There has been much research conducted attempting to prove that cultures which are more similar will integrate more smoothly and effectively at integration process process (Datta & Puia, 1995).

**H2b:** *The more intensive cultural differences analysis at the planning stage the higher the effectiveness of integration process at post-merger.*

### *2.9. Integration planning, integration process and effectiveness of integration process*

Integration planning plays a crucial role in M&As (Angwin & Meadows, 2015; Graebner, et al., 2017; Steigenberger, 2016). Several researches call for early planning of integration (Weber et al., 2014), forming steering committee (Galpin & Herndon, 2014), establishing dedicated intergration team at planning stage (Inkpen, Sundram, & Rockwood, 2000; Morosini & Radler, 1999; Schweiger, et al., 1993), developing plan for guiding integration (Robers, 1994) and formulating an action plan with common vision and clear goals (Carter & Greer, 2013) in order to ensure success of integration process. A high level of management attention along with a carefully and thoroughly planned integration plan is particularly important to avoid negative curves and helps to improve integration process and its outcome (Yu, et al. 2005; Zollo & Reuer, 2010).

**H2c:** *The more intensive integration planning at the planning stage the higher the effectiveness of integration process at post-merger stage.*

**H3:** *The more intensive integration process at post-merger stage the higher the effectiveness of integration process at post-merger stage.*

### *2.9. Integration process, effectiveness of integration process and M&A performance*

Without well-planned of integration process resulting in effective integration, the expected value to be derived from M&A is unachievable (Schweiger, et al., 1993; Schweiger & Goulet, 2000). Even though there is a great deal of interest in studying the performance of M&A deals (Zollo & Meier, 2008), there is still no definitive answer to the critical question of “how does the management of post-merger integration process impacted the M&A performance” (Ahammad & Glaister, 2011; Gomes, et al., 2013; Halebian, et al., 2009; King, et al., 2004). A number of studies highlights that post-merger integration plays a significant role in the success of M&A transactions (Angwin & Urs, 2014; Duncan & Mtar, 2006; Heimeriks, et al., 2012; Weber, et al., 2011).

**H4:** *The more intensive integration process at post-merger stage the higher M&A performance.*

**H5:** *The higher the effectiveness of integration process at post-merger stage the higher M&A performance.*

## **3. RESEARCH METHODOLOGY**

When going through the investigation of the critical success factors of M&A performance, both the independent variables planning level (including due diligence, cultural differences, negotiation process and integration planning), integration process and effectiveness of integration process, and the dependent variables effectiveness of integration process and M&A performance are clearly identified and specified. The quantitative research method is employed as a casual research design to show that one or more variables at the planning stage (pre-merger) would cause or determine the values of other variables at the integration process (post-merger) and M&A performance.

### *Sampling*

The target population are companies in Singapore involving in M&As, without focusing on any specific industry. The data and information of companies who are involved in the M&A deals in Singapore (domestic, inbound and outbound) during the period 2014 – 2016 are extracted from the record of Institute for Mergers, Acquisitions and Alliances (2021).

### *Data collection*

A total of 1000 surveys are sent progressively in March and May 2019. The data collection took place 3 – 5 years after the acquisition date. It is essential to allow enough time for the integration process to develop into a meaningful way after the acquisitions (Haspeslagh & Jemison, 1991). The reason for selecting firms performing M&As between 2014 – 2016 is because the survey is carried in 2019 and

respondents will have the hindsight of M&A activities and performance after 3 years or more when responding to the survey. The response rate is 40.4%. Through the survey, out of the total of 404 respondents, 276 (68.3%) are from the buying companies and 128 (31.7 %) from the target companies.

#### 4. RESULTS

##### *Multiple regression and Pearson's correlation*

Multiple regression and Pearson's correlation are processed to predict M&A performance from planning level (including due diligence, cultural differences, negotiation process and integration planning) and integration process (post-merger); and another is processed to predict integration process effectiveness from planning level (including due diligence, cultural differences, and integration planning) and integration process (post-merger).

As shown in Table 1 Means, standard deviation (SD), and for dependent and independent variables. The Pearson's correlations  $r$  between independent variables and dependent variables are either moderate (0.356 to 0.446) to large (0.506 to 0.781) according to Cohen (1988). All Pearson's correlations  $r$  are statistically significant as  $p < 0.001$ . This suggests that there are positive associations between all the independent variables and the dependent variables.

Regression coefficients and standard errors for dependent variable M&A performance<sup>a</sup> are as shown in Table 2 Regression coefficients – M&A Performance<sup>a</sup>. The regression equation for M&A performance with independent variables planning level (including due diligence, cultural differences, negotiation process and integration planning), integration process (post-merger) and integration process effectiveness can be expressed as follows:

$$\text{M\&A performance} = B + B_1(\text{planning level}) + B_2(\text{due diligence}) + B_3(\text{cultural differences}) + B_4(\text{negotiation process}) + B_5(\text{integration planning}) + B_6(\text{integration process, post-merger}) + B_7(\text{integration process effectiveness}) + E.$$

The results in Table 2 show the effects of each independent variable on M&A performance while other independent variables are neutralized. As M&A performance is a function of many independent variables, it is very difficult to observe the influence of these independent variables if it is viewed in totality. Planning level, integration level and integration process effectiveness are significant for M&A performance while due diligence is low significant albeit negatively. Planning level also has an influence on integration process effectiveness (please see below on further discussion). The results suggest that all activities in planning are critical for M&A performance.

Regression coefficients and standard errors for multiple regression of integration process effectiveness are as shown in Table 3 Regression coefficients – effectiveness of integration process<sup>a</sup>. The regression

equation for integration process effectiveness with independent variables planning level (including due diligence, cultural differences and integration planning) and integration process (post-merger) can be expressed as follows:

$$\text{Integration process effectiveness} = B + B_1(\text{planning level}) + B_2(\text{due diligence}) + B_3(\text{cultural differences}) + B_4(\text{integration planning}) + B_5(\text{integration process, post-merger}) + E.$$

The results in Table 3 show that cultural difference, integration planning and integration process have significant effect on integration process effectiveness. Planning level also has a low significant effect on integration process. Due diligence's effect on integration process effectiveness is not significant.

	Mean	SD	1.	2.	3.	4.	5.	6.	7.	8.
1. M&A Performance	3.48	.855	(.935)							
2. Planning Level	3.59	.568	.530*	(.930)						
3. Due Diligence	3.43	.637	.356*	.599*	(.843)					
4. Cultural Differences	3.11	.806	.389*	.580*	.405*	(.843)				
5. Negotiation Process	3.61	.557	.378*	.644*	.537*	.432*	(.721)			
6. Integration Planning	3.49	.715	.549*	.656*	.549*	.446*	.513*	(.846)		
7. Integration Process Post-Merger	3.57	.621	.512*	.621*	.506*	.525*	.508*	.656*	(.861)	
8. Integration Process Effectiveness	3.39	.706	.781*	.507*	.411*	.419*	.388*	.549*	.539*	(.829)

Table 1. Means, standard deviations (SD), Pearson's correlation r for all variables and reliabilities<sup>a</sup>

\* $p < 0.001$

<sup>a</sup>Cronbach Coefficient Alpha in parenthesis

Independent variables	Std. Error	Beta
1 (Constant)	.194	
Planning Level	.076	.161**
Due Diligence	.054	-.082*
Cultural Differences	.041	-.014
Negotiation Process	.063	-.007
Integration Planning	.055	.112*
Integration Process (Post-Merger)	.062	.035
Integration Process Effectiveness	.046	.661***
Model (N = 400)		
F-statistic	101.235***	
R2	0.644	
Mean (S.D.) of dependent variable	3.49*** (0.51396)	

Table 2. Regression coefficients – M&A performance<sup>a</sup>

<sup>a</sup>The research hypotheses are tested using standardized abnormal return measures as the dependent variable.

\* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$



Independent variables	Std. Error	Beta
1 (Constant)	.196	
Planning Level	.078	.111
Due Diligence	.057	.049
Cultural Differences	.044	.103*
Integration Planning	.058	.258***
Integration Process Post Merger	.066	.221***
Model (N = 400)		
F-statistic	48.430***	
R2	0.381	
Mean (S.D.) of dependent variable	3.3850*** (0.41065)	

Table 3. Regression coefficients – effectiveness of integration process

a The research hypotheses are tested using standardized abnormal return measures as the dependent variable.

\*p <.05; \*\*p <.01; \*\*\*p<0.001

## CONCLUSION

The findings of this research provide the understanding that planning factors at pre-merger and post-merger stages appear important to M&A performance and integration process effectiveness. According to many researchers' findings, the M&A process is a complex task, and a wide range of factors determine its success or failure (Weber, et al., 2014). Some other research works demonstrate that well-planned M&A activity will result in constructive outcomes on the acquiring firm's performance and its competitiveness in the market (Asimakopoulos & Athanasoglou, 2013; Tse & Soufani, 2001). Though numerous researchers concentrate on the M&A strategy and process, nevertheless, few successfully define the factors influencing M&A performance (Peng & Fang, 2010). From the various literature reviews, obviously to note that at the planning stage (pre-merger), there is a lack of studies linking pre-merger variables to those affecting post-merger in M&A research in order to understand the success of these transactions (Gomes, et al., 2013; Weber, 2011; Weber & Fried, 2011). And at the integration process (post-merger), there is also a lack in the research to connect the interrelationships of the variables (Weber, Tarba & Rozen-Bachar, 2011; Weber, Tarba, Stahl & Rozen-Bachar, 2012). The researches of critical success factors often stay within or separate in pre- and post-merger stages (Jemison and Sitkin, 1986; Haspeslagh & Farquhar, 1994; Meglio & Risberg, 2010; Weber, 2011). Some studies focus in the process approach in the post-merger stage rather than linking the whole M&A process (Haspeslagh & Jemison, 1991; Hayward, 2002). Although there are significant efforts in the field of M&A research over the past half century and substantial contributions to M&A literature and many recommendations for making M&As successful. Clearly, most scholars and practitioners still do not have a deep understanding of the variables involved in the merger and acquisition process, and particularly their complex interrelationships, and consequently resulting in

high failure rate of M&As (Biggadike, 1979; Mayer-Sommer, Sweeney, & Walker, 2006; Meeks, 1977). According to Angwin and Vaara (2005), a more integrated approach across different perspectives is essential for better understanding of M&A processes, since these critical success factors are embedded in separate research streams and rarely interact.

There is often a limitation and compartmentalization of research findings in the understanding of the complexity of mergers and acquisitions, as the various streams of research on acquisitions are only marginally influenced by one another. There are a number of independent streams of management research that contribute to the existing body of knowledge and assess the variables either at the planning stage (pre-merger) or at the integration process (post-merger). According to Ahuja and Katila (2001), it is important to note that these studies provide evidences that using more than one critical success factor can provide greater explanatory power for understanding acquisition performance, and that the relationships among critical success factors are often nonlinear.

In conclusion, the results suggest that successful M&As are influenced by both the pre- and post-merger phases. Planning level (including due diligence, cultural differences analysis at planning stage, negotiation process at planning stage and integration planning), and the effectiveness of integration process are both equally critical to the outcome of M&As as both have large or strong positive relationship to M&A performance. Higher planning level and higher intensity in integration also have a large or strong positive impact on effectiveness of integration process. And integration process effectiveness in turn has a very strong positive impact on M&A performance. Therefore, the results suggest the strong association of planning stage (pre-merger) to integration process (post-merger), and finally integration process effectiveness to M&A performance.

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