

Thirty Years of Mergers and Acquisitions Research: Recent Advances and Future Opportunities

Susan Cartwright and Richard Schoenberg*

Manchester Business School, The University of Manchester, Booth Street West, Manchester M15 6PB
and *Cranfield University School of Management, Cranfield, Bedford, MK43 0AL, UK
Email: susan.cartwright@manchester.ac.uk [Cartwright]; richard.schoenberg@cranfield.ac.uk [Schoenberg]

The complex phenomenon that mergers and acquisitions (M&As) represent has attracted substantial interest from a variety of management disciplines over the past 30 years. Three primary streams of enquiry can be identified within the strategic and behavioural literature, which focus on the issues of strategic fit, organizational fit and the acquisition process itself. The recent achievements within each of these research streams are briefly reviewed. However, in parallel to these research advances, the failure rates of mergers and acquisitions have remained consistently high. Possible reasons for this dichotomy are discussed, which in turn highlight the significant opportunities that remain for future M&A research.

Introduction

Mergers and acquisitions¹ continue to be a highly popular form of corporate development. In 2004, 30,000 acquisitions were completed globally, equivalent to one transaction every 18 minutes. The total value of these acquisitions was \$1,900 billion, exceeding the GDP of several large countries.

However, in a paradox to their popularity, acquisitions appear to provide at best a mixed performance to the broad range of stakeholders involved. While target-firm shareholders generally enjoy positive short-term returns, investors in bidding firms frequently experience share price underperformance in the months following acquisition, with negligible overall wealth gains for portfolio holders (Agrawal and Jaffe, 2000). Internally managers of acquiring firms report that only 56% of their acquisitions can be considered successful against the original objectives set for them (Schoenberg, in press). Meanwhile, target-firm executives experience considerable

acculturative stress and, on average, almost 70% depart in the five years following completion (Krug and Aguilera, 2005).

The complex phenomenon that mergers and acquisitions represent has attracted the interest and research attention of a broad range of management disciplines encompassing the financial, strategic, behavioural, operational and cross-cultural aspects of this challenging and high risk activity. While in recent years research into the human and psychological aspects of M&A have increased in prominence, the M&A literature continues to be dominated by financial and market studies, with a high concentration of interest in the USA and UK (Cartwright, 2005).

Our initial aim in compiling this Special Issue was to reflect the multidisciplinary nature of M&A, consistent with the scope of the *British Journal of Management*, and to bring together a collection of high-quality papers that captured a range of different perspectives and modes of inquiry. As we discuss below, M&A research has tended to develop along discipline-based lines and this has brought detailed insights into a number of important aspects. However, it is

¹The terms merger and acquisition are used interchangeably in this article.

arguable that this specialization has been at the cost of developing a more holistic understanding of what determines their performance and what consequences they bring.

The papers for this issue arose from two routes. A symposium linked to the Special Issue was held at the 2004 British Academy of Management Annual Conference in St Andrews. The symposium featured six contributions, selected for their diversity of perspectives and methodologies, which were subsequently entered into the review process for this volume. These papers were supplemented by submissions made directly in response to the Call for Papers that appeared in Volume 15 of the *British Journal of Management*.

We were very encouraged by the high level of submissions received, particularly the number of papers emanating from mainland Europe and Australasia. In total 34 submissions were received, representing 15 countries. Following a rigorous review process involving many of the leading scholars in the field, we are delighted with the contributions that form this issue. Our thanks go to the many reviewers who provided detailed, constructive and timely comments on the manuscripts. We are also grateful to all the authors who submitted their work and contributed to the quality of the Special Issue.

The final selection was difficult and was based on the individual quality of the submission, irrespective of the discipline from which it emanated. Consequently, there is a rather stronger focus on integration and integration process variables than the more traditional perspectives on M&A activity. This, we consider, is an encouraging reflection on the advances in M&A research that are currently taking place.

Recent advances and contributions

As M&A research has developed largely along disciplinary lines, finance scholars have primarily focused on the issue of whether acquisitions are wealth creating or wealth reducing events for shareholders. The weight of evidence shows that while takeovers unambiguously bring positive short-term returns for shareholders of target firms, the long-run benefit to investors in acquiring firms is more questionable. Agrawal and Jaffe's (2000) comprehensive review of this literature suggests that in aggregate the abnormal returns accruing to

acquiring firms in the years following an acquisition are negative or, at best, not statistically different from zero. Importantly, these studies also highlight the wide variation in acquisition performance at the firm level. Approximately 35–45% of acquirers do achieve positive returns in the two to three-year period following acquisition, with reported standard deviations in the order of 10% around the mean return (e.g. Conn *et al.*, 2001). The desire to understand the antecedents of this variance lies at the heart of much M&A research and is the subject of the first article in this issue.

In this article, Sudarsanam and Mahate (2006) consider the mood of the bid and investigate the effect of bidder type i.e. friendly, hostile, white knight, multiple hostile, on the long-term performance of over 500 UK takeovers by examining shareholder returns at various points over a three-year period. Despite the negative press they tend to receive, the authors argue that their findings show that single hostile bids deliver higher financial returns than friendly, white knight or multiple hostile bidders. The article is also interesting in that it begins to straddle the traditional domains of finance and strategic management by including in the analysis a number of firm specific variables relating to corporate governance structures and top management turnover.

The main focus of the strategic management research in the M&A field has been on the identification of strategic and process factors that may explain the performance variance between individual acquisitions. The 'strategic fit' literature has been concerned with the link between performance and the strategic attributes of the combining firms, in particular the extent to which a target company's business should be related to that of the acquirer. While little consensus has emerged from this work (King *et al.*, 2004; Seth, 1990), recent extensions to this perspective have provided detailed insights into value-creation mechanisms within acquisitions based on resource sharing (e.g. Capron and Pistre, 2002) and knowledge transfer (e.g. Ahuja and Katila, 2001). However, explanations of M&A underperformance cannot be sufficiently accounted for by the 'goodness of the strategic fit' alone without account being taken of the wider integration process.

The 'process' literature has focused on the important role that the choice of integration strategy and acquisition process itself can play. Both strategy and organizational behaviour

scholars highlight that inappropriate decision-making, negotiation and integration processes can lead to inferior acquisition outcomes. A key contribution of this approach has been the provision of contingency frameworks for the form of post-acquisition integration (Cartwright and Cooper, 1996; Haspeslagh and Jemison, 1991) and an understanding of how different integration approaches may impact the ultimate outcome of a union (e.g. Child, Pitkethy and Faulkner, 1999; Schweiger and Very, 2003). Contemporary work from this perspective is also developing our knowledge of how organizations can learn from their prior acquisition experiences. Organizational learning appears to be mixed in the M&A context (Haleblian and Finkelstein, 1999) with the nature, variety and performance of prior experiences playing an important role (Hayward, 2002).

An emergent and growing field of enquiry has been directed at the cultural dynamics of M&As and the emotional and behavioural response of the employees involved. This literature, with its diverse origins in the psychology, organizational behaviour and human-resource management disciplines has sought to explain M&A underperformance in terms of the cumulative dysfunctional impact that the event itself, its associated uncertainty and the subsequent process of integration have on individual organizational members.

Within this literature, poor culture-fit or lack of cultural compatibility have become much cited, if rather poorly defined, reasons for M&A failure. The relationship between culture and performance continues to intrigue and confuse researchers as studies examining this link in relation to domestic and international M&As have produced rather mixed, and often contradictory results (Cartwright, 2005; Schoenberg, 2000). In their conceptual article, Teerikangas and Very (2006) attempt to disentangle some of the issues that may shed light on the current inconsistent research evidence and offer advice for future research, particularly the importance of more longitudinal studies.

According to Gertsen and Soderberg (1998), in M&A situations, the discourse around cultural differences is a vehicle by which employee groups assert the distinctiveness of their social identities. Such observations highlight the notion that M&As pose a potential threat to workers' social as well as security needs and the valuable theoretical contribution that Social Identity Theory (Tajfel and Turner, 1979) can make to our

understanding of the merger process. In recognition, this Special Issue includes two empirical research studies (Bartels *et al.*, 2006; Van Dick, Ullrich and Tissington, 2006), which investigate the potential antecedents of post-merger identification. These studies draw upon a growing body of research evidence, which has shown in a variety of work contexts that high levels of employees' social identification with the organization's identity result in increased work effort, higher performance, reduced staff turnover and more frequent engagement in positive organizational citizenship behaviours (Haslam and Ellemers, 2005).

In their study of a pending merger of two Dutch police organizations, Bartels *et al.* (2006) examine the contribution of a range of variables, including pre-merger identification, sense of continuity and perceived utility of the merger, in determining employees' expected level of post-merger identification. The study by Van Dick, Ullrich and Tissington (2006) retrospectively examines the contribution of a fairly similar set of variables on post-merger identification on employees involved in a German hospital merger. Although the data were collected at different stages in the merger process, the results of both studies are consistent in demonstrating that pre-merger identification is predictive of post-merger identification. Interestingly, this consistency challenges the prevalent notion of 'hindsight bias' that questions the validity of retrospective data-collection methods. Importantly, both studies have clear implications for practice in emphasizing the importance of communication to reinforce the positive utility of the merger and to promote a sense of belonging.

Longitudinal studies of M&As are still uncommon, primarily because it is difficult to maintain representative sample sizes over time, particularly in circumstances when attrition rates are characteristically higher than usual. Therefore the authors of the next article are to be congratulated on their persistence. Kavanagh and Ashkanasy (2006) report on the findings of a cross-institutional study of three Australian university mergers conducted over a seven-year period. In a comparative study combining qualitative and quantitative methods, they present data that reinforces the importance of leadership and the benefits of adopting an incremental approach to change.

Thus far, the contributions to this issue have been situated within UK, Europe and Australasia,

geographical areas with an established pattern of M&A activity. In contrast the final article, Cooke (2006), looks forward towards a new growth area for M&As, namely China. In this article, she discusses the potential strategic and behavioural challenges of M&A in this region of the world and their implications for human resource management.

The future of M&A research and its contribution to knowledge and practice

M&A research has now been ongoing for over 30 years, and while it has been possible to mention only a few of the varied contributions in the space available, each disciplinary approach has made significant advances in our understanding. Yet, despite this robust academic interest, empirical data reveal that there has been little change in acquisition failure rates over the same time period. In his original work on European acquisitions, Kitching (1974) reported failure rates of 46–50%, based on managers' self-reports. More recently both Rostand (1994) and Schoenberg (in press) have reported equally poor failure rates of 44–45%, using comparable methodology. An examination of the returns to acquiring firm shareholders also reveals that acquisitions continue to produce negative average returns similar to those seen historically (Agrawal and Jaffe, 2000; Gregory, 1997).

Three possible reasons might be advanced for this disturbing lack of improvement in M&A performance over the years:

- executives are undertaking acquisitions driven by non-value maximizing motives
- the prescriptions from the academic research are not reaching the practitioner community
- the research to date is incomplete in some way.

It is true that some acquisitions are driven by non-value maximizing motives. For example, Seth, Song and Pettit (2000) investigated a sample of US cross-border acquisitions and found indications that 26% were instigated by managers for their own utility rather than shareholder interests. In addition, they established evidence of hubris, where managers mistakenly over-valued their targets. However, their overall conclusion was that the majority of transactions were motivated by value-creation opportunities.

The second possible explanation, that practitioners are unaware of the insights provided by M&A research, appears unlikely. The majority of M&A researchers are also active in the provision of management education and executive development programmes. Furthermore, the risks of M&A activity have been regularly highlighted by the financial press and there is no shortage of insightful practitioner-orientated texts (e.g. Cartwright and Cooper, 1996, 2001; Haspeslagh and Jemison, 1991).

A third possibility is that existing research remains incomplete in some way. A meta-analysis of 93 prior empirical studies on the determinants of M&A performance by King *et al.* (2004), which incorporated the variables most frequently studied in the finance and strategy literatures, concluded:

‘our results indicate that post-acquisition performance is moderated by variables unspecified in existing research An implication is that changes to both M&A theory and research methods may be needed’. (King *et al.*, 2004, p. 188)

A second meta-analysis, concerned with the impact of cultural differences on acquisition performance, reached similar conclusions in stating ‘a huge portion of variance remains unexplained’ (Stahl and Voight, 2004, p. 14).

Interestingly, both meta-analyses call for a greater recognition of the process and organizational dimensions of acquisitions, increasingly recognized in the behavioural literature. Clearly there are substantial methodological bridges to cross to more closely link the models of acquisition performance adopted in the finance and strategy literatures with the human and organizational insights from behavioural studies. The results of these recent meta-analyses highlight that there is much ground for M&A research still to cover and reinforce the timeliness of this Special Issue. We hope that it will serve as a catalyst for more interdisciplinary discussion and research on M&A.

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Susan Cartwright is Professor of Organizational Psychology at the Manchester Business School, the University of Manchester and Chair of the British Academy of Management. She has researched and published widely on issues relating to human aspects of mergers and acquisitions.

Richard Schoenberg is Senior Lecturer in Strategic Management at Cranfield University School of Management. He previously held faculty positions at Cambridge University's Judge Business School and the Tanaka Business School, Imperial College London. His research focuses on cross-border acquisitions, in particular organizational determinants of performance.