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Failure Factors of M&A

- A Literature Survey Between 2010 and 2020 -

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Abstract

Title Failure Factors of M&A – A Literature Survey Between 2010 to 2020

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Keywords Mergers and acquisitions, M&A, failure, learning, experience, motives, behavior, communication, synergy, integration, strategy, relatedness, culture, industry, political, cross-border

Purpose The high failure rate of M&As is still one of the main puzzles. The purpose of this research is to identify how concepts of failures changed after the global financial crisis and to see the main causes of such failures according to the research in the set time frame.

Theoretical framework

Motives of M&A failure are categorized into synergy motive and self -managerial motives. Based on these motives, the thesis uses recent research to build a new framework on M&A failure causes.

Design/methodology/approach

Findings are based on an extensive literature review including 40 articles published between 2010 to 2020. Main selection criterion is the keyword "mergers and acquisitions failure" applied to the database "LubSearch". Each article is coded and categorized. To analyze the literature, we use literature survey as a method. The thesis applies case studies as complements to draw a practical example into the findings.

Conclusion The findings of this thesis show that the main failure factors according to the literature are learning in combination with experience, integration as well as strategy, process related, and company characteristics. However, those factors are impacted by behavioral factors such as overconfidence, as well as communication. Those findings were also visible in the cases of Microsoft and Bayer.

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1. Introduction

1.1. Background

Looking at Microsoft, Citigroup, and Daimler, what do they all have in common? Those are all companies known for conducting extensive number of mergers and acquisitions, M&A, with big failures as a result (Kumar, 2012; Kumar 2019). This raises questions about what M&A failure means and what are the reasons that M&A fail.

Researchers disagree on what the exact failure definition is. Bruner (2015) describes failure as value destruction while Tang (2015) defines it as value destructing or value conserving, meaning that authors at least agree on the fact that value destruction is a failure. Regardless of the definition, however, they agree that a majority of completed M&A fail. Already in the 70s, Brockhaus (1975) stated that only one-third of all mergers and acquisitions could be considered successful. This has received support later through Marks and Mirvis (2001) who found it was at best one-quarter that succeeded, and Selden and Colvin (2003) who pointed out that 70-80% of companies M&A fail. More recent research is no exception, also Joshi et al. (2020) find that between 70-90% of the M&A fail. However, what are M&As? Bruner (2015) defines a merger as a consolidation of two firms that, in the eyes of the law, creates a new entity, and defines an acquisition as a purchase. It is common that merger and acquisition are synonymously used, under the abbreviation M&A, although it is a clear economic implication between merger and acquisition (Piesse, Lee, Lin, and Kuo, 2013).

Mergers and acquisitions are to an increasing extent a wide-spread phenomenon, and globally, the number of deals and their value have risen over the last decades (Calipha, Tarba and Brock, 2010; Rudden, 2021). M&A are not a new element in the corporate world. Angwin (2007) even claims that the M&A phenomenon can be as old as business operations in general.

It should be noted that every business operation holds some kind of risk in order to bring returns. That also applies for M&As. Companies should therefore not try to eliminate the risk of M&As but try to decrease the risk and find a way to deal with it. Renneboog and Vansteenkiste (2019) mention that over 90% of publicly listed US companies underwent acquisitions. Looking at Figure 1, the number of acquisitions worldwide is still constantly rising.

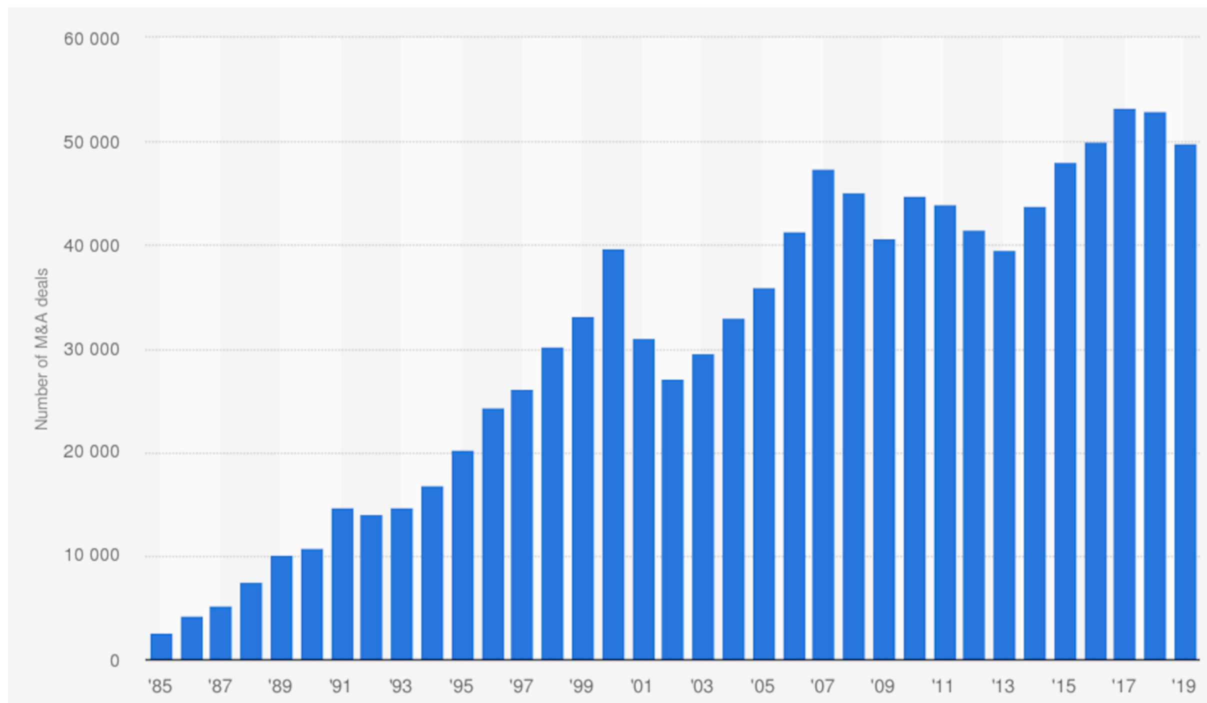

Figure 1: Number of M&As worldwide from 1985 to 2019 (Rudden, 2020).

1.2. Problem Discussion

According to Bruner (2015), there is no uniform definition of what is meant by M&A failure, and without a clear definition it is difficult to explain the M&A failure rate. Hence, a definition needs to be established for what is to be considered a failed M&A. In the previous chapter, a contemporary failure definition is mentioned. However, other researchers use different definitions (Banal-Estanol, 2011; Weber et al., 2014; Marks & Mirvis, 2011). Consequently, the definition needs to be redefined later in the thesis, to be revised based on previous research.

Before Bruner (2005) published his research with a focus on M&A failures, this topic was an almost unexplored area. In the last decade, however, research has come to focus more and more on M&A failures (Caiazza & Pozzolo, 2016; Craninckx & Huyghebaert, 2011; Floc'h & Scaringella, 2016). One example is Friedman et al. (2016) that, in a literature survey, focused on M&A failure factors based on findings from articles published between 1990 and 2009. Friedman et al. (2016) identified main concepts with the focus on behavioral factors and communication.

From Table 1, however, it is possible to see a decrease in the number of completed M&As at the beginning of the last decade. Thus, the decline occurred shortly after the global financial crisis. Researchers indicate that M&A and crises are related, indicating that the crisis could

have an impact on how M&As are managed (Grave, Vardiabasis & Yavas, 2012). Therefore, this thesis intends to continue where Friedman et al. (2016) left off and examine post-crisis research to see if there are new findings and if the failure factor has changed.

1.3. Contribution

As indicated in the previous section, this thesis aims to answer how the view of M&A failure factors changed after the global financial crises. The contribution of this thesis is hence to form a framework for future research, but also an overview of what the most important failure factors are, according to recent research published between 2010 to 2020.

1.4. Thesis Outline

Chapter 2 introduces the methodology. This chapter starts with a description of the methods and selection criteria applied to collect the information and how this information is used.

Chapter 3 provides a definition on M&A failure as well as a theoretical framework on what research believes are the main motives of M&As. After this, there will be an emphasize on how value is defined and valued.

Chapter 4 presents the literature survey on M&A failure and what authors indicate to be the most essential causes for negative outcomes.

Chapter 5 describes two case studies of the acquisitions executed by Microsoft and Bayer. These case studies illustrate failures that can happen in acquisitions. The findings of the survey are then linked to the case study.

Chapter 6 highlights the conclusion based on the findings from chapter 5. Possible limitations are mentioned and suggestions for future research are provided.

2. Methodology

The methodology consists of two parts, the literature survey and the case study. The reasons why those types of methods are chosen and how information on those has been collected will be explained in this chapter.

2.1. Literature Survey

2.1.1. Choice of Method

The literature survey has been chosen as a method to study how the focus on research on M&A failures has changed over the last decade. To implement this, all relevant literature meeting the selection criteria of this thesis have been collected. Finally, the literature survey is used to summarize the findings to create a framework.

2.1.2. Information Search

This thesis is using the thematic approach, which is a widely used qualitative method (Braun & Clarke, 2016; Bryman & Bell, 2011). According to Braun and Clarke (2006), the first steps of this approach are to familiarize with available data and collect this. Based on this approach, the study data was therefore searched, mainly via LubSearch. Initially, keywords such as "M&A motives", "M&A theories, "M&A success factors" and "M&A failures" were used to gain an understanding of the topic and to be used in the Theoretical Framework.

For the literature review, it was decided that the most relevant keyword was "mergers and acquisition failure", as this search gave the most results in the researched topic. This keyword returned 586 hits. To further limit the number of articles, a number of inclusion criteria were used. The inclusion criteria for the articles were that the articles must be available in full-text and address the relevant issues in relation to the study. Furthermore, the articles must be published as research publications, dissertations, research reports or scientific articles. The articles also need to be available in English and, to be included in the literature review, be published during the period 2010 to 2020.

Articles that are irrelevant to the purpose or only exist in an abridged version are excluded. Furthermore, articles were sorted out based if it was not published in a high-quality journal, since a literature study should only include medium- or high-quality articles (Bryman & Bell, 2011). The identified articles covering M&A failure were published in leading journals such as Journal of Financial Economics, Journal of International Business Studies, Journal of Management, Strategic Management Journal, British Journal of Management, and The Academy of Management Journal. The selection of the study's inclusion and exclusion criteria is carried out in order to reach the most relevant articles for our study and to be able to omit those articles that do not help to answer the study's purpose. After the articles that did not meet

the inclusion criteria were sorted out, a final sample of 40 articles was to be used as a basis for the last decade's research. A selection of the collected articles for the literature survey in this study is presented in Table 1.

Authors	Name of Article	Year
Aslan & Zaim	Effects on M&A Integration Strategies on Organizational Performance: With Human Resource Management View	2014
Attah-Boakye, Guney, Hernandez-Perdomo & Mun	Why do some merger and acquisitions deals fail? A global perspective	2020
Banal-Estanol and Seldeslachts	Merger Failures	2011
Bhimani, Ncube & Sivabalan	Managing risk in mergers and acquisitions activity: beyond 'good' and 'bad' management	2015
Caiazza and Pozzolo	The determinants of failed takeovers in the banking sector: Deal or country characteristics?	2016
Calipha, Tarba and Brock	Mergers and acquisitions: A review of phases, motives, and success factors	2010
Chen and Wang	Integration risk in cross-border M&A based on internal and external resource: empirical evidence from China	2012
Clayton	Understanding The Unpredictable: Beyond Traditional Research On Mergers And Acquisitions	2010
Craninckx & Huyghebaert	Can Stock Markets Predict M&A Failure? A Study of European Transactions in the Fifth Takeover Wave	2011
Dauber	Opposing positions in M&A research: culture, integration and performance	2012
Ermolaeva	M&A deals completion and abandonment by Russian MNE	2019
Friedman et al.	Untangling micro-behavioral sources of failure in mergers and acquisitions: a theoretical integration and extension	2016
Hirsch	Being awkward: creating conscious culture change	2015
Ghosal & Sokol	Compliance, Detection, and Mergers and Acquisitions	2013
Gong, Zhang & Xia	Do Firms Learn More From Small or Big Successes and Failures? A Test of the Outcome-Based Feedback Learning Perspective	2019
Graebner et al.	Success and Failure in Technology Acquisitions: Lessons for Buyers and Sellers	2010
Joshi, Sanchez & Mudde	Improving the M&A success rate: identity may be the key	2020
Le Floc'h and Scaringella	Another failed M&A: misaligned business models as culprit	2017
Leepsa & Sekhar Mishra	Winners and Losers in M&A Game Evidence from Manufacturing Companies in India	2013
Li and Huang	Politics, culture and M&As' transaction completion	2018
Madsen and Desai	Failing to learn? The Effects of Failure and Success on Organizational Learning in the Global Orbital Launch Vehicle Industry	2010
Malmendier et al	Target revaluation after failed takeover attempts: Cash versus stock	2016

Marks and Mirvis	Merge Ahead: A Research Agenda to Increase Merger and Acquisition Success	2011
Martynova & Renneboog	The Performance of the European Market for Corporate Control: Evidence from the Fifth Takeover Wave	2011
Maxwell	After the Deal is Done: How to Make Acquisitions Work	2014
McLelland et al	Consumer reactions to the merger: Understanding the role of pre-merger brands	2014
Meschi & Métais	Do Firms Forget About Their Past Acquisitions? Evidence From French Acquisitions in the United States (1988-2006)	2011
Meschi and Metais	Too Big to Learn: The Effects of Major Acquisition Failures on Subsequent Acquisition Divestment	2015
Moosa Mustaffa	Success and Failures of Acquisitions: A Case Study for a Chemical Company	2017
Papadakis & Thanos	Measuring the Performance of Acquisitions: An Empirical Investigation Using Multiple Criteria	2010
Rani et al.	Motives, governance, and long-term performance of mergers and acquisitions in Asia	2020
Renneboog & Vansteenkiste	Failure and success in mergers and acquisitions	2019
Schriber, King & Bauer	Acquisition integration flexibility: toward a conceptual framework	2018
Sedlacek & Valouch	Mergers of Corporations and Causes of their Failure	2018
Steigenberger	The Challenge of Integration: A Review of the M&A Integration Literature	2017
Tanna et al.	Probability of mergers and acquisitions deal failure	2019
Tang	Bidder's Gain: Evidence from Termination Returns*	2015
Thelisson	Managing failure in the merger process: evidence from a case study	2020
Varmaz and Laibner	Announced versus canceled bank mergers and acquisitions Evidence from the European banking industry	2016
Zhou et al.	Failure to Complete Cross-Border M&As: "To" vs. "From" Emerging Markets	2016

Table 1: Articles on the causes of M&A failure 2010-2020.

2.1.3. Concept Identification

The next steps of the thematic approach are to search for common patterns in the data to code them and put them into themes (Bryman & Bell, 2011). One way of identifying themes is by selecting them by the frequency of their occurrence (Bryman & Bell, 2011). Those themes are then reviewed and finally defined with headings (Braun & Clarke, 2006). In accordance with this approach, the concept identification was carried out by reading all the articles and summarizing the various factors that were stated to explain M&A failures. Based on these summaries, the various failure factors were then sorted into twelve categories that summarize

the main failure factors this decade. The final concepts into which the factors were divided are learning, company characteristics, financial, political/outbound, industry, relatedness, behavioral, communication, integration/strategy, process, synergy and culture. The different keywords used to cluster the concepts are shown in table 2.

Concept	**Keywords**
Learning	Learning, Experience
Integration/Strategy	Integration, Strategy
Company Characteristics	Size, Listing, Public, Private
Financial	Overpayment, Revenue, Liquidity
Political/Outbound	Cross-border, Political,
Industry	Industry, Water, Banking, Telecommunication, Pharmaceutical, etcetera.
Relatedness	Relatedness, Complementarity
Behavioral	Overconfidence, Bias, Agency Theory, Information Asymmetry
Communication	Communication, Communication climate
Synergy	Synergy, Cost Synergy, Revenue Synergy
Culture	Organizational Culture, Culture Clash, Culture
Process	Due diligence, Payment method, Stock, Cash payment, Hostile takeover, Friendly takeover

Table 2: Keywords used to identify concepts

It should be mentioned that the used approach has advantages but also disadvantages. Benefits of the approach are that it gives flexibility and presents similarities or dissimilarities between found data (Braun & Clarke, 2016). However, Braun and Clarke (2016) warn that this approach

has pitfalls as the author might not analyze and just describe data or even takeover ideas. Another risk occurs when data is too homogenic as it may hinder the own analysis as well as when given data and the own analysis or theory contradicts (Braun & Clarke, 2016).

2.2. Case Study

2.2.1. Choice of Method

As a complement to the literature survey, case studies have been used to deepen the understanding and clarity of how various failure factors affect the outcome of M&As. To find a selection of relevant acquisition we used keywords like “large acquisition failure” and “M&A failure in the last decade”. The selection criteria for the case study are that the companies selected must be well-known companies that carried out M&A between 2010 and 2020, that it was not their first acquisition so that a learning effect could be expected, and that this M&A must have led to an extensive failure. Extensive failure, in this thesis, is defined as the total effect of value destructed and not as the proportion of the company size. Considering that extensive failures are related to large companies, these criteria left only a handful of M&As. When studying the case, a longitudinal case approach has been used to be able to see how the situation has changed over time (Bryman & Bell, 2011).

The two focus companies included in the case study are Microsoft and Bayer. As mentioned, the selection criteria meant that there were only a few companies that were relevant. These two companies have a history of conducting many M&As, and by operating in different industries, they can be seen as a good complement in the implementation of the analysis.

2.2.2. Information Search

To form the framework of the case study, recent information is needed. Hence, online sources have been used, mainly consisting of internet articles. Google is used as the main search engine for the information gathering. According to Bryman and Bell, this has the disadvantage that it only provides a limited view of data. Other possible issues could be that wrong keywords are used, information on websites change or that new information appears (Bryman & Bell, 2011). For the information search, the keywords “Microsoft acquisition” and “Bayer acquisition” have primarily been used, but there have also been other combinations such as searches including the names of the acquired companies. For qualitative reasons, only sources from reputable websites such as the Wallstreet Journal or the Financial Times have been used. Information

used included motives to see what the synergies were and if they have been realized, price paid, if there was a premium paid, what the failures were, etcetera.

3. Theoretical Framework

The theoretical framework provides an overview of how value is defined and valued. Knowing the concept of value will help to provide a definition of M&A failure. Lastly, the main motives of M&As are described.

3.1. Valuation

3.1.1. Value Definition

Bruner (2015) divided M&As into three possible outcomes in comparison to the benchmark: value destruction, value creation or value conservation. For him the benchmark is the required return from investors. In this relation value destruction are investment returns below investors requirements. Bruner (2015) and Straub (2007) described value destruction as the wrong price being paid for the transaction. Straub (2007) found that value destruction can be immediately seen as the market is reflecting available information in the share prices. Nevertheless, this can be a dangerous approach of assessing the performance of a M&A given that there might be timely under-, or overvaluations (Straub, 2007).

3.1.2. Valuation Process

The process is driving the price and thus the outcome of the M&A. Factors for the wrong price paid should therefore consider premium, bidding process and due diligence (Straub, 2007).

Premium

Several researchers found that the payment of high acquisition premiums has been one of the main reasons that M&A have been flawed or even failed as it leads to a higher purchase price (Friedman et al., 2015; Seth et al., 2002; Straub, 2007). It is defined by Straub (2007, p.88) as "the ratio of the ultimate price paid per target share divided by the price prior to takeover news". The premium can be connected to the agency theory as well as the hubris hypothesis (Straub, 2007; Marks & Mirvis, 2011). Seth et al. (2002) find that premiums are related to the hubris theory where behavioral errors cause an overpayment, which then also can be seen as a value transfer to the target firm's shareholder.

As equity-based compensation of CEO's resulted in lower premiums it might be a solution to increase M&A performance, according to Renneboog and Vansteenkiste (2019). Selden and Colvin (2003) also emphasize that premiums are paid as the acquiring company benefits from attaining more control.

Bidding

Biddings drive the acquisition premium, as a larger number of bidders usually increases the purchase price, which as a counter effect decreases or even puts the net present value of the transaction into minus (Straub, 2007). Ways to avoid biddings by competitors can be tender offers, which, however, yield higher premiums and only are reasonable if there is a high risk that competition at biddings end in higher purchase prices (Renneboog & Vansteenkiste, 2019). Renneboog and Vansteenkiste (2019) found that the different premiums are the result of information asymmetry. Trautwein (1990) added that even private information is not supportive as several bidders have different kinds of private information. Thus, bidders set the price subjective to their expectation and in a way that discourages other bidders (Trautwein, 1990). It was also tested if experience could affect the success of the transaction outcome, however, the research showed only mixed results (Tanna et al., 2020). One other factor affecting the bidding price is the market reaction (Renneboog & Vansteenkiste, 2019). If market reaction was positive regarding the announcement management is more likely to pay a higher premium (Renneboog & Vansteenkiste, 2019).

Due Diligence

Due diligence is, according to Straub (2007, p. 91), "a process through which a potential acquirer evaluates a target firm for acquisition". It is possible that a team is formed inside of the company, but it is more sensible to letting it be done by specialized teams including members from banks, lawyers, etcetera (Straub, 2007). Tetenbaum (1999) points out that due diligence is essential for integration and synergies, and it is thus an important success factor for the leading managers to be part of the process. An uncompleted due diligence process could therefore result in paying higher premiums (Straub, 2007). If there is no price evaluated in the due diligence process, the price will be set depending on the price by comparable M&As (Straub, 2007).

3.2. Definition of Failure

Marks and Mirvis (2011) argues that attention needs to be on more consistency in how M&A outcomes are measured, as current research includes a large spectrum of both financial, operational, and behavioral measures. This is supported by Tanna et al. (2019) who claims there is a certain level of disagreement regarding the way M&A failure should be measured.

According to Bruner (2015), it is at least six dimensions of M&A failures: (1) destruction of market value, meaning a destruction of value by the percentage change in share value; (2) financial instability, which means that the M&A destabilize the buyer instead of making it stronger, this is reflected in e.g. debt ratings, earnings coverage ratios and probability of default; (3) impaired strategic position, meaning a loss of market share, and involuntary abandonment of products, geographic markets, or research and development programs; (4) organizational weakness, including unpredicted workforce layoffs, involuntary changes of leadership in senior management and the board, and desertion of talented employees to competitors; and (5) damaged reputation, meaning negative associations in name recognition, reputation and press coverage; as well as (6) violation of ethical norms and laws, which are linked to scandals and thus also reputational damage.

As already mentioned in the section before, M&A can result in three different events: the value of the company can either be destroyed, preserved, or created (Bruner, 2015). Opinions about which of these events that involve a failure, however, differ between different researchers, and thus also the definition of what is a failure. Bruner (2015) argues that success is every other outcome than value destructions, so in other words that failure is only when the company's value is destroyed, and thus that preserved value is not to be seen as a failure. Banal-Estanol and Seldeslacht (2011) argue that failures are shown through lost value and unattained synergies. Thus, they support Bruner's reasoning that failure is when the company's value has been reduced. On the other hand, Tang (2015) define failure as when the M&A does not create any wealth for the shareholders of the acquiring company. Accordingly, he sees both preserved and destroyed value as failures. Friedman et al. (2016, p. 2341) defined failure as "a situation in which an acquisition did not realize its potential to create and appropriate economic rent through the integrated value chain activities". This means that failure is the non-realization of synergies.

Previous research focuses to a large extent on financial measures, including destruction of market value. For example, Straub (2007) describes value as determined by market value, i.e., the share price. As this reflects the information and worth of the M&A, it is immediately possible to see if it is value-destroying or not. This is supported by Weber et al. (2014) who argue that the immediate change in the share price is due to investors' changed expectations of the company's value, which indicates the new expected performance/value. In other words, it is a failure if the stock price falls. According to Marks and Mirvis (2011), most of the M&As are financial failures and generate undesirable consequences for the people and companies involved.

On the other side, Marks and Mirvis (2011), and Tanna et al. (2019) argue that the target firm's shareholders usually receive positive return in short-term, while the bidding firms share price frequently underperforms after the M&A is implemented, and that long-term gains are insignificant. As mentioned in the Theoretical Framework, however, Straub (2007) argues that there is a risk that the share price will occasionally be over- or undervalued, although this will be corrected in the long term. Another risk he mentions is that not all relevant information is public, i.e., there is information asymmetry.

Madsen and Desai (2010) describe that companies set ambitions, and if performance exceeds these ambitions, it is defined as a success. If performance, on the other hand, is below these levels, it is defined as a failure. The researchers thus believe it is the managers of the acquiring firms who decide the ambitions and objectives, which later on determine whether the M&A can be considered a success or failure. This contributes to the fact that failure and success-ratios can differ between different companies.

As described, one of the common definitions of failure is to not reach the target, measured by a certain benchmark. In most cases, this is related to the value creation for shareholders (Tang, 2015). Thus, success is defined as value creation. Value creation is not just from the financial perspective, but from our view also other aspects, such as better processes and other synergies. As failure is the opposite of success, it leads to the idea that everything else than value creation, such as value conservation and value destruction should be seen as a failure. This is plausible from the fact that value conservation does not add any benefit for the acquiring firm or its shareholders. In other words, our definition is that value creation is seen as an improvement of the company and the failure is thus deterioration or status quo keeping.

3.3. M&A Motives

Motives can be an indicator for the reasons of why M&A fail (Rani et al., 2020; Seth, Song, and Pettit, 2002). Marks and Mirvis (2011), Rani et al. (2020), Calipha et al. (2010) and Trautwein (1990) divided the motives into two broad groups: increasing shareholder as well as company value ("synergy motive" or "motivated by strategic intent") and acting out of manager self-interest ("agency motive"), whereas the hubris hypothesis is put as a further category from agency motive by some researcher (Berkovitch, & Narayanan, 1993; Seth et al., 2002).

Nevertheless, according to Rani et al. (2020), the synergy motive has a higher positive effect on the long-term performance of M&As than agency motives. Also, Friedman et al. (2016) suggest that failure is the non-realization of possible synergies. In that sense, non-synergy driven, or agency motivated acquisitions should have a higher likelihood of failing.

3.3.1. Synergy Motive

Weber et al. (2014) define that the main driver of M&A are synergy motives, in this case growth possibilities, positioning, profitability and strategic capability enhancement. These growth possibilities can include quick market entries, new products, geographical expansion, synergy effects or technological enhancement (Marks & Mirvis, 2011; Weber et al., 2014). Such factors are closely related to the strategic management perspective, which examines which form of M&As are more likely to be successful from an acquiring firm's perspective, as well as M&As' impact on individual companies (Straub, 2007). There are a number of characteristics that stand out for having a positive impact on profitability, including market share, relative size and experience. Relatedness is also an important concept, which suggests that synergy value can be created (Straub, 2007).

The efficiency theory views mergers as planned and implemented in order to achieve synergy effects, and Trautwein (1990) argues that three types of synergies are particularly significant: financial, operational and managerial.

Financial synergies focus on reducing capital costs and can be achieved through one of the following three ways: (1) a reduced systematic risk in the company's investment portfolio by investing in companies in other industries; (2) increasing the size of the company and thus getting access to cheaper capital; and (3) create an internal capital market that can operate on insider information and thus allocate capital more efficiently. However, Trautwein (1990) only

find evidence for a correlation between company size and access to cheaper capital, but he does not find any correlation for alternative one and three.

Operational synergies means that costs for the companies' units can be reduced or that the company can offer unique products and services. These synergies are achieved by combining companies' processes or from knowledge sharing between the companies.

Managerial synergies occur when the acquirer' company's management provides knowledge that can be utilized in the company being acquired. If the company wants to create financial synergies, operational synergies, or synergies through management, it is important to weigh these synergies potential benefits in relation to the costs arising from a M&A (Trautwein, 1990).

Trautwein (1990) and Porter (1987) criticizes both operational synergies and managerial synergies for rarely being realized and summarizes the efficiency theory with that its record being unfavorable and that it does not comply with company's actual performance. The idea of a financial synergy has also been criticized on the grounds that financial synergies cannot be achieved in an efficient market (Rumelt, 1986; Montogomery & Singh, 1984).

Other researchers find that synergy is not only about growing the company by expansion or cost reduction but also the reduction of risks, increased leveraging possibilities as part of the increased negotiating power and know-how (Calipha et al., 2010).

3.3.2. Agency and Hubris Motive

Agency motives compromise hubris hypothesis (e.g., overconfidence), empire building and increasing managers own wealth (Marks & Mirvis, 2011; Rani et al., 2020; Tanna, Yousef & Nnadi, 2020). It is mainly caused by the agency problem due to information asymmetries and different interests between managers and shareholders (Rani et al., 2020). This motive has, according to the findings of Rani et al. (2020), at least a lower positive effect than synergy motives, and no effect or even negative influence on the long-term performance. Managers are more likely to pay higher premiums which is decreasing the value they gain from the acquisition (Marks & Mirvis, 2011). Piesse et al. (2013) also find different outcomes of overconfidence and went so far as to argue that it can end in a value-destroying merger. This is indicating value destruction in the financial sense.

The financial perspective is based on whether M&As create value and if they do, for whom (Straub, 2007). This perspective also focuses on issues related to the purchase price. The method that this perspective uses is to measure the share price changes in the period around the M&A announcement, in order to observe the performance impact of M&As. Thus, this perspective is about M&As influence on the economy. Within the financial perspective, there are a number of basic concepts. The first concept is the agency theory. According to Jensen and Meckling (1976), the central in agency theory is the relationship between principals and agents, and the problems that can arise between them. The agency/principal relationship is based on the principal transferring responsibility to the agent, who through his actions influences the return to the principal (Eisenhardt, 1989). According to Ravenscraft and Scherer (1989), the agency theory contributes to acquisition premiums and thus that an excessive purchase price is paid. Another concept is a market for corporate control, which, according to Jensen and Ruback (1983) is a platform on which groups of managers compete for the opportunity of running company's resources.

The empire-building theory argues that mergers are implemented to maximize the benefit of the managers at the expense of shareholders. This theory originates from studies on the separation between ownership and management of a company. Since the management plans and realizes the transaction, Black (1989) claims that it is common for the management to overpay for the company being acquired. This is because the management is over-optimistic regarding the purchase and because their interest deviates from their shareholders. In an efficient market, this overpayment should lead to a reduction in the bidder's share price, however, Black argues that this does not happen since the investors can predict that there has been an overpayment.

Besides the agency motive there is also the hubris motive, which is driven by unconscious behavioral factors such as overconfidence. The process theory explains strategic decisions and argues that these do not occur as a result of rational choices, but the arising of the influence of one or more of the following factors (1) incomplete decision process affected by individuals only have a limited part of information processing capacity, (2) organizations adhere to routines that have previously been successful and adhere to them until they failed so they are forced to create new routines, and (3) the political interaction between the organization and other outsiders (Trautwein, 1990). According to Trautwein (1990), the M&A motives, under this theory, can be affected by the decision-making individuals, the organization's routines and the

influence from outside factors. Another concept under process theory is Roll's (1986) hubris hypothesis, concluding that there is an over-optimism of managers' expectations, which leads to management over valuate target firms.

The valuation theory's approach is that mergers are carried out by managers who are more and better informed of the targets' value than the stock market is, for example by having access to private and/or unique information. Trautwein (1990) argues that there is widespread evidence that valuation theory is used by merger makers to justify their actions.

3.3.3. Other Motives

Piesse et al. (2013) take, like Trautwein (1990), theories such as efficiency and agency theory into account but also other hypothesis such as free cash flow, market power, diversification, information, bankruptcy avoidance, and the accounting/tax hypothesis. Market power is also the focus in the monopoly theory. This theory argues that mergers are planned and implemented to gain market power, and this can take place both in a horizontal acquisition and in a conglomerate acquisition. This is possible through the following three activities: (1) by cross-subsidizing products; (2) by restrict competition in several markets, either through tacit cooperation with competitors or through cross-trading and unifying business functions; and (3) by deterring other companies from entering its markets. According to this theory, merger benefits the bidders through wealth transfer from customers by competitor's share price rises by the announcement of an M&A and then falls if the merger is not implemented. Trautwein (1990) concludes that the record of this theory is even more unfavorable than the efficiency theory as it is difficult to evaluate the activities. Jensen (1984) rejects this theory since his studies shows that competitors' share price does not fall, however, he considers that shareholders may benefit from mergers but that a M&A cannot create monopoly. According to Straub (2007), monopoly theory is nowadays limited by laws, enforced to hinder this kind of actions.

Another theory explaining M&A purchase is the raider theory (Straub, 2007; Trautwein, 1990). This theory means that a person, a "raider", buys shares in a company and thus creates wealth transfers from the shareholders in the acquired company (Trautwein, 1990). These wealth transfers include expensive back-purchase of shares in the company or excessive compensation after a merge or acquisition has been completed. According to Trautwein (1990), this theory lacks beneficial evidence. Holderness and Sheehan (1985) came to the conclusion that the

target company's shareholders nevertheless draw the greatest advantage in such business arrangements.

Kumar (2012) looks at mega mergers in various industries to find what their motives was. Overall, their driver are scale effects, market share, expanding geographically and in regards of technology. Many motives are the same across the industries, however, some motives appeared to be industry specific (Kumar, 2012). This shows that there is a large number of possibilities of how to categorize motives (Straub, 2007).

4. Literature Survey

After M&A failure has been defined in the previous chapter, it is possible to find and categorize concepts of M&A failure. The main part of this survey will be to summarize the failure concepts described by the research of articles published between 2010 to 2020. This chapter will thus provide an overview of the latest view on M&A failure causes.

4.1. Concepts of M&A Failure

Figure 2 shows a summary of how often the respective factors for explaining M&A failures have been mentioned in the articles of the last decade. Most articles, 43%, mention learning as an important factor. Thus, almost half of the sample of articles have stated that M&A failures can be explained by companies not learning from previous transactions. The second most common factor is integration and strategy, with its 38%. However, this factor is more or less related to many of the other factors, which contributes to the fact that there may have been a certain skewed categorization. The third and fourth most identified factors are both company characteristics and process, which are mentioned in 28% of the articles. In addition to these, researchers find a link between M&A failures and the factors behavioral (23%), organizational culture (23%), relatedness and complementarity (23%), communication (20%), and political and cross-border (20%). The least common factors in the articles over the last decade are industry (15%), synergy (15%) and financial (13%). However, this may have its explanation in, at least for synergy and financial, that these are factors that are well researched in the past.

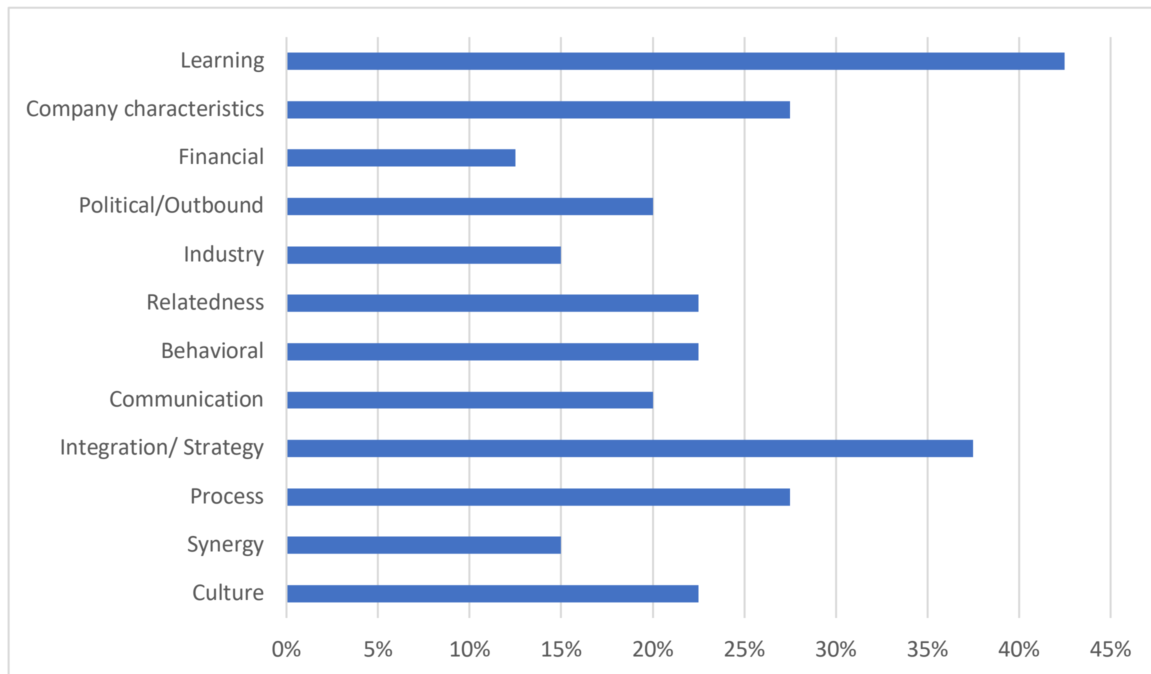

Figure 2: Most frequently identified concepts in articles.

The sample is the 40 articles summarized in Table 1

4.1.1. Learning

In the last decade, learning and experience were the most relevant topics in the eyes of researchers. For example, Calipha et al. (2010, p.19) mentions that "It is clearly desirable for a firm to gain competencies in aspects of M&A along with M&A experience".

Learning and experience are important for:

- Better decision making of management (Friedman et al., 2016),
- Choosing targets and create a network of experts (Zhou et al., 2016),
- Better integration of acquisitions (Chen & Wang, 2012; Maxwell, 2014; Schriber et al., 2018),
- Survival even after the acquisition (Steigenberger, 2017),
- Deal completion (Meschi & Metais, 2011; Tanna et al., 2019),
- Better acquisition performance (Leepsa & Sekhar Mishra, 2013; Marks & Mirvis, 2011; Schriber et al., 2018),
- Adaption to changing situations (Schriber et al., 2018),
- Translation of possible synergies into gains (Marks & Mirvis, 2011), and

- Implementing mechanisms to avoid failures in the future (Meschi & Metais, 2015; Papadakis & Thanos, 2010).

Friedman et al. (2016) argue that open communication is necessary to start the learning process, which should be integrated into management systems (Calipha et al., 2010) to develop knowledge (Friedman et al., 2016; Meschi & Metais, 2011). However, for learning to be effective it should be continuously revised and improved for every acquisition (Marks & Mirvis, 2011), which needs feedback procedures and other mechanisms (Meschi & Metais, 2011).

Learning and experience are driven by country distance, which involves uncertainty and complexity (Ermolaeva, 2019; Steigenberger, 2017; Zhou et al., 2016), similarity and complementarity between both companies (Steigenberger, 2017), changing situations of deals (Leepsa & Sekhar Mishra, 2013), number of acquisitions and countries they had contact with in the past (Ermolaeva, 2019; Meschi & Metais, 2011), failures as stimulus to learn (Thelisson, 2020), success (Ermolaeva, 2019), magnitude of failure (Madsen & Desai (2010); Meschi & Metais, 2011; Meschi & Metais, 2015), depreciation of experience (Meschi & Metais, 2011) and timeliness/age of experience (Meschi & Metais, 2011).

Nevertheless, as Tanna et al. (2019) mention, the findings are mixed. Failure is found to have a greater impact on the learning than success (Madsen & Desai, 2010). This implies that companies learn better to implement mechanisms to avoid future failure from failure itself than from success. However, this depends on the magnitude of the failure, as said before, and it should also be considered that experience gained from failure depreciates faster (Meschi & Metais, 2011). Meschi and Metais (2015) are also arguing that in the case of a huge failure the probability of future failures increases. Ermolaeva (2019) and Meschi and Metais (2015) mention that failures might even deter learning and Madsen and Desai (2010) find that failure experience does not mean that the next acquisition will be a success – it only increases the likelihood.

Steigenberger (2017) finds that more successfully executed M&As can lead to false trust and overconfidence or misapplication of previous gained experience (Madsen & Desai, 2010; Meschi & Metais, 2015; Schriber et al., 2018), implying a negative learning curve. As Thelisson (2020) argue, failures are needed to incentivize learning, but organizational unlearning might as well help to not misapply knowledge and focus on new knowledge.

4.1.2. Integration and Strategy

A key driver of failure in M&As lies in the integration process between the companies (Moosa Mustaffa, 2017; Steigenberger, 2017; Bhimani et al., 2015). According to Calipha et al. (2020), Chen and Wang (2012) and Ermolaeva (2017), a critical element of the M&A is to coordinate and execute the integration process. Marks and Mirvis (2011) have also found that the processes for integrating companies are fundamental to whether it ends up as a failure or not.

Researchers have for a long time had an interest in the relationship between M&A failures related to poor integration (Steigenberger, 2017). According to Dauber (2012), integration is referred to as the process in which both the acquirer and the target adapt to each other in order to form a new entity. Different researchers, however, refer to integration in different ways, but what is common is that most of the researchers use it as an umbrella term for different and distinct strategies (Dauber, 2012). In the integration process, there are a number of factors that need to be taken into account, such as communication strategy (Aslan & Zaim, 2014), culture (Aslan & Zaim, 2014; Hirsch, 2015), learning (Chen & Wang, 2012; Maxwell, 2014), etcetera, which are explained in more depth in later sections.

Researchers find it difficult to measure integration as M&A requires time-consuming integration activities (Graebner, 2010). Uncertainty and time delays are also common aspects in the post-M&A integration process (Maxwell, 2014). Papadakis and Thanos (2010) examine acquisition performance by looking at the first two years after the acquisition and argue that two years are sufficient for the implementation of the integration process. However, this is rejected by both Schrieber et al. (2018) and Marks and Mirvis (2011) who argue that integration takes several years to complete. Furthermore, Schrieber (2018) argues that this is a reason why it is difficult to implement integration planning, as the issues that are relevant at a certain point in time can quickly become obsolete. Another risk is that the acquiring firm's managers put too much attention on the integration process and hence forget to focus on other important organizational activities (Graebner et al., 2010).

The post-M&A phase is referred to as the integration phase, and in this phase is value creation a critical goal (Dauber, 2012; Joshi et al., 2020). However, it is a fact that the majority of completed M&A fails to create value. According to Joshi et al. (2020), the company's post-M&A performance risks being affected by the method of integration used. Maxwell (2014) argues that there are mainly two reasons why M&A fails. The first situation is that the company lacks a clear and well-defined strategy, while the second situation is that the company has a

strategy but fails to implement it. This is partly consistent with Moosa Mustaffa's (2017) findings where the most common answer to why respondents felt that integration was not successful was due to the lack of an integration strategy. An important factor to remember when integrating two firms into one entity is that there is no one-size-fits-all approach (Joshi et al., 2020). Without having this in mind, future performance could be risked.

To avoid failure due to the integration process, it is important to have a clear vision and post-M&A plan (Maxwell, 2014). Both companies' managers need to be involved when developing this plan and strategy (Le Floc'h and Scaringella, 2017). Thelisson (2020) argues that failures can be managed through managers acting as knowledge advisors in the new entity and by deconstruct the organization.

4.1.3. Company Characteristics

In the last decade researchers were looking at company characteristic such as acquirer and target size and whether they were listed or not to identify if those had an impact on the M&A outcome.

Firm size

Relative size is part of the strategic management perspective, described in the Theoretical Framework. Researchers find that the size of the target firm is negatively correlated to the deal completion and failure (Attah-Boakye et al., 2020; Li & Huang, 2018; Tanna et al., 2019), which could be because larger target firm size 1) decreases the integration flexibility (Schriber et al., 2018), 2) are related to higher purchase price increasing thus the cost and complexity (Attah-Boakye et al., 2020) or because 3) larger target size decreases the gain for the acquiring company (Tang, 2015).

However, larger acquirer size in comparison to the target has the contrary effect on deal failure probability (Attah-Boakye et al., 2020; Sedlacek & Valouch, 2018; Tanna et al., 2019). Large acquirers are more diversified, have better financial prospective (liquidity) which lowers a deal abandonment, can make better use of economies of scale (Attah-Boakye et al., 2020), have better negotiation power and are less influenced by the outside (Sedlacek & Valouch, 2018). The better access to cheaper capital was also mentioned in the efficiency theory.

The relative size of both firms, which is the ratio of both their total assets in this case, are likely to increase the premium paid while acquirer and target size is likely to reduce the premiums

paid (Gong et al., 2019). Calipha et al. (2010) find that different size between acquirer and target can lead to 1) misunderstandings, 2) emphatical shortfalls, and 3) missing expertise to manage a company of different size. Nevertheless, M&As between companies of the same size are also difficult to realize according to Tang (2015).

There is also research that had opposing findings, suggesting that there is no correlation between size and the outcome (Craninckx & Huyghebaert, 2011; Leepsa & Sekhar Mishra, 2013; Sedlacek & Valouch, 2018), like Leepsa & Sekhar Mishra (2013) arguing that integration is the leading factor. However, Friedman et al. (2016) write that depending on the company's size, firms follow different strategies and have different complexities which makes communication even more important to realize integration. This suggests that there must be a link between firm size and the outcome of M&As.

Listing of Company

Researchers find that public companies reduce M&A announcement returns and have a higher failure likelihood (Craninckx & Huyghebaert, 2011; Tanna et al., 2019; Tang, 2015), which is in line with Martynova and Renneboog\s (2011) findings that returns from bidding on private targets are higher than those of public targets. Explanations for that can be that 1) shares from private companies tend to be illiquid leading to a higher willingness of private owners to trade at a price discounts (Martynova and Renneboog, 2011; Tang, 2015) making overpayment less likely (Martynova & Renneboog, 2011), 2) better negotiation power of private firms due to more concentrated shareholder leading to higher chances of deal success (Martynova & Renneboog, 2011; Tanna et al., 2019), and 3) there is a higher likelihood of shareholders from public firms to free ride on bids (Tanna et al., 2019). According to Martynova and Renneboog (2011), one disadvantage of private firms is the higher risk due to a higher information asymmetry.

4.1.4. Process

The M&A process is made up of several stages such as due diligence and the purchase of the target company (Calipha et al., 2010). Usually, integration and strategy are also counted into this category (Calipha et al., 2010). However, due to the large amount of research spent on this topic in the last decade, as it can be seen in Figure 2, it was put under a separate heading.

Hostile Takeover

One way of acquiring a company, which is often researched, is the hostile takeover. Those have, however, a lower likelihood of being completed than friendly takeover (Caiazza and Pozzolo, 2016). Martynova and Renneboog (2011) mention that hostile takeovers are often related to prior negotiations. Those negotiations are an explanation for information leakage which drives the share prices of the target company up but decreases bidder's takeover announcement returns. Caiazza and Pozzolo (2016) find that the higher the number of bidders is, the more likely is the abandonment of a takeover.

Payment Method

Attah-Boakye et al. (2020) find that most of the deals and payment are not hostile, which enables better acquisition negotiations. Whether to do cash or stock payments is an important decision as it is proved to have an influence on the deal completion probability (Attah-Boakye et al., 2020; Caiazza & Pozzolo, 2016; Tanna et al., 2019; Zhou et al., 2016). There are, however, mixed results about which payment method that holds the most benefit and increases the probability to complete the deal. Attah-Boakye et al. (2020) and Caiazza and Pozzolo (2016) have results indicating that payments done with shares have a lower likelihood to lead to deal completion as the future market price might create a lower appeal to undertake the deal. Both authors are looking at data taken on a worldwide basis and a period of more than 15 years. Leepsa & Sekhar Mishra (2013), who uses data from the Indian Economy Prowess database looking at the time frame between 2000 to 2008 find no relevant indication that there is a difference between cash or share deals, even though share deals had a slightly higher probability to lead to success. They explain that cash transaction might fail due to liquidity issues while share deals offer greater financial flexibility, which increases the chance of a success (Leepsa & Sekhar Mishra, 2013). Attah-Boakye et al. (2020) is like other researchers (Caiazza & Pozzolo, 2016; Tanna et al., 2019) looking at a relatively long timeframe and collected data from all around the world. According to them, stock payments do not have an impact and cash payments hold a higher likelihood of deal completion as they signal target firms if they are high value bidders or so-called lemons (Tanna et al., 2019). Zhou et al. (2016) are looking at acquisition failure in the BRIC states between 1995 to 2010 and find that cash payments might help for outbound/cross-border transactions as it is a positive signal to the target company and government which increases the deal completion likelihood, but also the risk.

Both Tanna et al. (2019) and Malmendier et al. (2016) identify the payment method as a method to disclose information and thus to reduce the information asymmetry, even though it cannot indicate further strategies used on the target. Another factor that should be considered is that cash is, according to research in the US, often traded 15% above pre-announcement value while share deals mostly do not have to be revalued (Malmendier et al., 2016). This indicates that cash deals are more likely to entail premium payments. Martynova and Renneboog (2011) find that in Europe on the announcement day of stock deals, not only bidders but also targets share prices drop. The different findings between Malmendier et al. (2016) and Martnova and Renneboog (2011) might indicate that announcement return might differ between the markets.

Due Diligence

According to Clayton (2010), due diligence is one of the leading factors of acquisition failure. Marks and Mirvis (2011) argue that due diligence is an important combination of steps to identify if firms match, which is similar to what was mentioned in the Theoretical Framework. Moosa Mustafa (2017) finds therefore that time, care, and focus are important factors in the due diligence process. If possible, human resource management should be part of this process as soon as possible to align communication and make sure that behavioral factors are considered (Marks and Mirvis, 2011; Moosa Mustafa, 2017). Marks and Mirvis (2011) argue that taking care of behavioral as well as cultural aspects in the due diligence process is more related to successful acquirers indicating that it is a critical factor to deal completion.

Other important factors influencing the deal process are the following:

- Time: Caiazza and Pozzolo (2016) summarizes that the longer the negotiations take the more unlikely is the deal completion, at least when the deal is paid in cash. The speed is hence not only necessary for the negotiations but also for the integration as Aslan and Zaim (2014) find. Graebner et al. (2010) add that waiting is risky as more information will be published which attracts competitors bidding on the same target and thus decreasing the gain from possible synergies.
- Quality: Aslan and Zaim (2014) argue that quality of negotiations is one of the important factors influencing the deal completion probability.
- Deal size and value: Caiazza & Pozzolo (2016) find that (1) the larger a deal is the unlikelier is the deal completion; 2) higher deal value in comparison to the bidder size

the unlikelier is the deal completion; and 3) deal size in comparison to bidder size is irrelevant when both factors are controlled independently.

As explained in the Theoretical Framework, the due diligence process is depending on the team brought together to execute this process, which indicates the influence of behavioral factors as well.

4.1.5. Behavioral Factors

Behavioral factors are including the managerial self-interest (agency theory) related to the empire-building theory and hubris theory, which are all explained in the Theoretical Framework.

Behavior of Employees

The acquisition process is connected to uncertainty and information asymmetry (Banal-Estanol & Seldeslachts, 2011; Ghosal and Sokol, 2013). According to the process theory in the Theoretical Framework, M&As are influenced by irrational decisions such as incomplete and incorrect decision making due to incomplete information as well as fixed routines.

Internally employees feel stressed and unsure about their future, leading to negative feelings towards the merger (Aslan & Zaim, 2014). This shows, like mentioned before, why communication is so essential (Papadakis & Thanos, 2010) and that it is important for employees to accept the new identity (Joshi et al., 2020). Marks and Mirvis (2011) emphasize that employees need preparation for planned acquisitions as it would otherwise leads to negative feelings towards said transaction, resulting in decreased work performance. It is also shown that failures appear when behavioral factors are not considered (Marks & Mirvis, 2011) and managers made bad decisions (Joshi et al., 2020). Considering behavioral factors, failures can appear at 1) senior management level who often fail to emphasize with employee's uncertainty, and 2) middle management being insecure and stressed themselves (Marks & Mirvis, 2011). Thus, they are unable to communicate even though both should be supportive in such processes, having the right timing for decisions to have effective integrations (Aslan & Zaim, 2014; Marks & Mirvis, 2011).

Other factors that should be considered are the number of acquisitions and change which additionally stress employees making them get negative feelings (Marks & Mirvis, 2011) as

well as to retain good feelings of employees, even for the case, that they decide on leaving the company (Graebner et al., 2010).

Behavior during acquisitions

Motives are a driver for behavior and Rani et al. (2020) find that it has a significant impact on an acquisitions long-term performance. The more the motive is directed towards synergies instead of agency motives the better it is for the performance (Rani et al., 2020). Bhimani et al. (2015) find, however, that M&As are mostly pursuit by managers (agency motives) which does not necessarily have to be bad for the company. Nevertheless, acquisitions might be unintentionally driven by human biases (Friedman et al., 2016). Such biases are reflected by overconfidence due to success in prior acquisitions (Leepsa & Sekhar Mishra, 2013), poor governance of shareholders and investors (Renneboog & Vansteenkiste, 2019) leading to higher premiums paid for the target company (Marks & Mirvis, 2011), underperformance (Renneboog & Vansteenkiste, 2019) and increased likelihood of failure (Leepsa & Sekhar Mishra, 2013). It is possible to reduce those biases by looking into the behavioral pattern of decision making (Marks & Mirvis, 2011), enhancing, or implementing governance mechanisms (Rani et al., 2020) which might increase deal succession (Friedman et al, 2016) but is difficult as shareholders are rather distant parents (Bhimani et al., 2015).

Behavior towards targets and customer

Due to information asymmetry both companies try to collect information to decrease this disadvantage (Banal-Estanol & Seldeslachts, 2011). Yet, sometimes both try to only exert as much effort as needed to see if the merger would create enough value and try to free-ride on the remaining information which leads to losses and failures (Banal-Estanol & Seldeslachts, 2011). That shows the importance of having a common mindset including trust, interests, and skills, between both partners to not fail (Marks & Mirvis, 2011).

Reputation is often driven by the behavior of the company, which is important as it will affect the impression of the target company as well as future acquisitions (Graebner et al., 2010). According to Ghosal and Sokol (2013), positive governance and compliance can lead to better branding and reputation. There is an information asymmetry regarding the target's regulatory compliance, which also should be examined as it otherwise could lead otherwise to penalties or sanctions in the post-acquisition stage (Ghosal and Sokol, 2013).

Consumer perception regarding mergers is hard to grasp as it depends on the value and perception that they have towards the brands involved in the merger. However, communication can be used as a tool to mitigate these negative feelings (McLelland et al., 2014).

4.1.6. Organizational Culture

Previous research indicates that culture has a significant impact on the M&A outcome (Dauber, 2012) and that it is one of the most important factors in the post-merger integration process (Aslan & Zaim, 2014; Joshi et al., 2020; Calipha et al., 2010). According to Dauber (2012), the reason for the high failure rate within M&As is due to cultural differences. This argument is supported by Li and Huang (2018) who believe that culture conflicts are one of the main reasons for M&A failure. This is because cultural distance involves challenges (Steigenberger, 2017). However, culture clashes tend to be downplayed or ignored by the management (Marks & Mirvis, 2011).

Cultural differences and the work to integrate these during the post-merger integration are considered to be crucial for performance (Calipha et al., 2010). Aslan and Zaim (2014) supports this by arguing that reducing the cultural differences between the acquiring and target firm increases the entity's performance. Moosa Mustaffa (2017) states that non-management of organizational culture is a contributing factor to failure. Despite this, a majority of the executives in a study conducted by Marks and Mirvis (2011) stated that they did not consider cultural differences to be an important issue. This may be an explanation for the high failure rate in M&As.

According to Marks and Mirvis (2011), however, the cultures of the acquiring and the target firms do not have to be identical for the combination to be successful. Instead, they argue that a moderate degree of distinction between corporate cultures is the best combination, as they can take advantage of each other's differences. Furthermore, Dauber (2012) argues that it is not differences in the cultural values that cause M&A failure, but that it is the management of these differences. Thus, it is important for leaders to develop solutions to mitigate cultural differences (Steigenberger, 2017). Another important factor for the management to keep in mind is what motivates and inspires the employees at the target firm. These then need to be transferred to the new entity for the M&A to be successful (Hirsch, 2015).

Finally, however, it needs to be added that cultural effects at M&A are a relatively young and unexplored area (Dauber, 2012). Thus, more time and effort from both analysts and

managements need to be invested in investigating and understanding how acculturation problems can be mitigated in the post-acquisition process, in order to avoid M&A failures (Joshi et al., 2020).

4.1.7. Relatedness and Complementarity

The relatedness and complementarity between the acquirer and the target firm has a critical part in the post-takeover performance (Leepsa & Sekhar Mishra; 2013; Steigenberger, 2017; Renneboog & Vansteenkiste, 2019; Joshi et al., 2020). The main reason for this is that the level of relatedness and complementarity affects the integration in the post-merger integration process and thus also reduces the entity's integration risk (Schrieber et al., 2018; Renneboog & Vansteenkiste, 2019; Steigenberger, 2017; Chen and Wang, 2012; Aslan & Zaim, 2014). According to Renneboog and Vansteenkiste (2019), long-term underperformance in M&As stems from low implementation and integration.

A low level of relatedness increases the probability of M&A failure, just as a high level of complementarity reduces the risk of failure (Banal-Estanol & Seldeslachts, 2011; Meschi & Métais, 2011). Leepsa and Sekhar Mishra (2013) support this in their research where they find a higher proportion of successful M&As where the targets belong to the same industry, compared to those that belong to an unrelated industry. Steigenberger (2017) argue that relatedness increases the possibility of cost synergy realization. Leepsa and Sekhar Mishra (2013) similarly argue that related M&As are more successful because the acquiring firm is both more familiar with the targets' activities and that the entity can coordinate its functions. Steigenberger (2017) supports this by arguing that a good fit between the acquirer and the target increases the chance of value creation by being able to combine the two companies' resources. This is also in line with the strategic management perspective, which, as previously mentioned in the Theoretical Framework, assumes that relatedness is an important concept that increases the chance of creating synergy value.

Both Leepsa and Sekhar Mishra (2013) and Renneboog and Vansteenkiste (2019) point out that relatedness should not only be talked about in terms of operations, but that it should also measure the relatedness in the form of industry, products, technology and product markets. According to Renneboog and Vansteenkiste (2019), however, all evidence supports that M&As delivers superior performance with high relatability compared to unrelated. Chen and Wang (2012) summarize their work by recommending companies to use an M&A strategy that

maximizes the synergy effects that come from internal resource similarities and external resource complements.

4.1.8. Communication

Moosa Mustaf (2017) finds in his survey that according to respondents, failures are often caused due to lack of communication. This is also reflected in the way that no explicit acquisition and integration plan is being communicated at the day of the acquisition announcement as well as missing possibilities to share problems leading to high resistance of staff which increases the risk of negative outcomes (Moosa Mustaf, 2017). It is both an organizational behavior and strategic management issue and can be linked to the process theory which was discussed before. This theory emphasizes that irrational decisions are made due to lack of information, which can be caused by lacking communication.

Communication is a leading factor for:

- Keeping and making employees committed (Aslan & Zaim, 2014; Clayton, 2010; Maxwell, 2014),
- Aligning firm’s norms and visions (Clayton, 2010),
- Fully creating value (Le Floc’h and Scaringella, 2017),
- Reducing rumors and uncertainty, which helps to have a more effective integration and strategy execution (Aslan & Zaim, 2014; Friedman et al., 2016; Maxwell, 2014),
- a more effective due diligence process (Clayton, 2010),
- understanding direct consumer perceptions and convince consumer of a consistent quality of its services even after the merging announcement (McLelland et al., 2014),
- Reducing the information asymmetry which can lead between both parties to less effort conducted resulting in a failure (Banal-Estanol & Seldeslachts, 2011; Maxwell, 2014).

For communication to be successful it must be reliable, understandable during the implementation (Aslan & Zaim, 2014), two-way directed – giving the employees the possibility to interact and participate (Aslan & Zaim, 2014; Calipha et al., 2010; Clayton, 2010), open to share the same vision (Clayton, 2010), combine internal and external communication (Maxwell, 2014), be reflective (Clayton, 2010) and shared in the whole organization to develop skills (Le Floc’h and Scaringella, 2017).

External communication should focus on both companies' brand message during the acquisition process and be affirmed by actions to convey the message that the quality of products and service is going to be consistent or even improved (Clayton, 2010).

Even though openness is determined as one of the factors of good communication, many firms fail to keep employees updated about plans as they regard it less important to monitor the integration than moving onto the next project (Maxwell, 2014). One reason to not be completely open is to avoid rumors which could have a negative effect on the employee's motivation (Aslan and Zaim, 2014). However, obfuscating problems is, according to Maxwell (2014), making situations only worse as it adds to confusion and uncertainty. Also, employees have difficulties to openly acknowledge, communicate and deal with failure, which hinders learning (Madsen & Desai, 2010).

It is the managements job to provide a good communication climate to enable an effective deal and integration process (Friedman et al., 2016), which involves emotion and humanity to get a positive communication (Aslan & Zaim, 2014; Clayton, 2010). Yet, a good communication pays off as employees will feel more assured, accept then the M&As and support the transaction (Friedman et al., 2016).

4.1.9. Political and Cross-Border Factors

Political and outbound factors are both part of the organizational behavior and strategic management perspective. Rani et al. (2020) found that inbound (domestic) acquisitions create more value than outbound ones and according to Zhou et al. (2016) are outbound transactions also more difficult to integrate and manage, but resource similarity can reduce the risk (Chen & Wang, 2012). The difficulty of outbound transactions is also reflected in the lower likelihood of deal completion in relation to inbound transactions which can be due to foreignness of acquirers and high country distance (Zhou et al., 2016). Caiazza and Pozzolo (2016) find for the banking industry that outbound deals have, though, a lower probability of being dumped as alone the organization of such a deal incurs higher costs and the industry itself is risk-averse making those firms only undergo announcement when the success probability is sufficient. However, according to Graebner et al. (2010) it is at least for technology acquisitions not certain if outbound acquisitions are worse than inbound acquisitions as the results are mixed.

Regulations

Regulations affect acquisitions in regards that high property rights protection in the target country lowers the chances of a deal completion (Attah-Boakye et al., 2020; Ermolaeva, 2019) as 1) more business freedom holds growth opportunities for acquirers (Ermolaeva, 2019; Martynova & Renneboog, 2011) especially for technology firms (Ermolaeva, 2019), and 2) for acquirers from low property right protected countries, such as Russia, acquirers need to spend more resources and effort to become familiar with regulations and laws which lowers the likelihood of a deal announcement under those circumstances (Attah-Boakye et al., 2020; Ermolaeva, 2019).

Country distance

Country distance is, especially in regards of emerging markets, a highly uncertain undertaken, which does incur high costs in case of failures (Zhou et al., 2016). However, Graebner et al. (2010) argue that differences between countries in Europe led to expectation clashes and information asymmetry as well. Attah-Boakye et al. (2020) mention that the deal outcome is affected by a countries economic and legal system. Better inbound institutions decrease outbound deal announcements as domestic market offers better conditions, as well as less effort and challenges of doing an outbound acquisition are needed (Ermolaeva, 2019). In case that acquirers who have experience with the host country fail, the penalty is even larger as the company might be worse in learning from major failures when it cannot learn from prior failures (Meschi & Metais, 2015).

4.1.10. Industry

Previous factors mentioned are generally applicable to different industries. Yet, there are also industry unique characteristics. Leepsa & Sekhar Mishra (2013) analyze the success rate of companies depending on the industry they operate in and found that 1) the most successful industries in regards of M&As belong to the non-metallic and mineral products, transport equipment and chemical industry, 2) miscellaneous manufacturing, diversified, and textiles industry have a higher likelihood of failing, and 3) relatedness of industries has a positive effect on success (Leepsa & Sekhar Mishra, 2013). Specific industries researchers looked at in this timeframe are the banking industry (Caiazza & Pozzolo, 2016), telecommunication industry (McLelland et al., 2014) and the water industry (Maxwell, 2014).

Looking at current topics such as environment many countries implemented regulations which affect some industries such as electric industry more than others (Ghosal & Sokol, 2013). Thus, depending on the industry 1) companies need to share more information reducing thus information asymmetry and costs of collecting information, 2) there are regulations which can also differ in the industry depending on the country, 3) the risk of penalties and sanctions when regulations are not obeyed, and 4) compliance can be an additional help to reduce information asymmetry as it can act as a signal (Ghosal & Sokol, 2013).

4.1.11. Synergy Realization

As mentioned in the Theoretical Framework, the main motives are synergy, managerial self-interest, and hubris theory. According to Rani et al. (2020) and Weber et al. (2014) synergies are the main motive of pursuing M&As, which is why companies' expectations, the realization of such synergies and value creation are so important (Attah-Boakye, Guney, Hernandez-Perdomo & Mun, 2015). According to Friedman et al. (2016) the non-realization of synergies is a failure, as it was mentioned before in the Theoretical Framework. Also, the before set failure definition of this thesis suggests that every other outcome than value creation will lead to a failure. Thus, by not realizing synergies no value is created which will therefore result in a failure.

Synergy realization is a strategic decision (Banal-Estanol & Seldeslacht, 2011) increasing the probability of completing the deal as decision makers will recognize enhancement for the company and have a higher incentive to complete the deal announcement (Boakye et al., 2015). Nevertheless, achieving synergies can be a costly undertaken and it needs both companies to believe in the gains and try to pursue those for a merger to be successful otherwise it will end in a failure (Banal-Estanol & Seldeslacht, 2011). Yet, firms with pre-merger knowledge need less effort to realize synergies (Banal-Estanol & Seldeslacht, 2011).

Even though synergies have been mentioned as being the main motive behind M&As, they were not the main focus of research in the last decade as it can be seen in Figure 2, with synergies being mentioned in 15% of the articles. One reason could be that synergy as factor has already been extensively researched. Articles are thus not questioning its relevance but build upon the knowledge that has been found. Therefore, previous mentioned points in the Theoretical Framework are still seen as relevant, and the new findings add to this foundation.

Following reasons are used to motivate synergies:

1) Synergies are essential to reduce stress during the merging for employees but also for the coordination (Aslan & Zaim, 2014). To implement synergies in the post-acquisition period the integration process is essential (Leepsa & Sekhar Mishra, 2013).

2) Synergies are a way to integrate resources which cannot be traded but must be integrated to attain benefits in expertise or capabilities after merging (Banal-Estanol & Seldeslacht, 2011).

3) However, one of the more common reasons for synergies are potential cost-savings, which can be realized by merging administrative functions such as sales to reduce overhead costs (Maxwell, 2014). This is a typical reason from the financial perspective.

The value of synergies that can be created during a M&A play one of the most important factors. However, organizational factors should be taken into consideration as well (Banal-Estanol & Seldeslacht, 2011; Malmendier et al., 2016). Trautwein (1990) criticizes in relation to the efficiency theory that operational and managerial synergies are rarely realized.

4.1.12. Financial Factors

One of the less frequently mentioned factors in previous literature is the financial factors. The reason for this can be assumed to be due to the fact that the financial factors are a topic that has been popular for research in previous time periods and thus is not perceived as innovative. This is evident not least in the Theoretical Framework, where both the financial perspective examines how the share price changes around the announcement period of the M&A and the purchase price in relation to the agent theory, as well as in the different theories where monopoly theory and empire-building theory discuss how financial factors affect the M&A. The financial factors that are said to affect M&A failures in our previous research are overpayment, return and leverage.

In their study, Craninckx and Huyghebaert (2011) find that a relatively large number of observations are missing for their control variable "payment method" and point out that this may be intentionally hidden because this information can reveal whether an overpayment has been made for the target company. Caiazza and Pozzolo (2016) find in their study that failed M&As have usually had a number of bidders, which may have indirectly affected the price paid and thus there is a risk that an overpayment has taken place.

Varmaz and Laibner (2016) find, by examining European banks, a significant negative correlation between the announcement of M&As and abnormal returns. This is especially distinctive for the bidders who were characterized by high efficiency, low liquidity and high profitability. This is partly consistent with Craninckx and Huyghebaert (2011), who find that there is a significant relationship between lower announcement returns and higher M&A failure when both the acquirer and the target are listed. However, they find no such connection when the target is privately held. Tanna et al. (2019), on the other hand, argue that their results do not indicate that there is any significant difference between announcement returns for successful or unsuccessful M&As.

Attah-Boakey et al. (2020) measure leverage as the ratio of total debt to total assets of the target and find no correlation between liquidity or leverage and the deal being withdrawn. Caiazzo and Pozzolo (2016), on the other hand, measure leverage as a ratio of the acquirer's total net debt to total assets. They find a significantly lower leverage among bidders from failed M&A. Similarly, they also find a link between bidders with higher leverage and successful M&A, although this is not as significant.

4.2.Summary of the Concepts

The findings of this chapter show that the main concepts related to failure in the last decade were learning, integration and strategy, company characteristics and process related characteristics. Those four concepts build the frame to explain what drives failure.

Learning compromises the whole acquisition process considering that failure often is needed as an incentive to start the learning process. On the other side, failures are exactly what companies try to avoid by creating learning mechanisms. Not implementing such mechanisms can lead to choosing wrong targets (pre-acquisition), bad decision making of managers (whole process) and bad integration (post-acquisition) which can hinder synergy translation and deal completion. Therefore, companies should embrace learning from failures which is only possible when there is an open and reliable communication inside the company. Also, the magnitude of failures is essential. Thus, it is suggested to have rather small failures from which the company can enhance from while large failures should be avoided.

Integration and strategy are, as mentioned, a post-acquisition process. Most of the research found that this process is essential for the M&As outcome as it is the part where the value

should be created. However, there is not a one size fit approach, which is intensified by main factors of integration changing over time. This makes planning more difficult and continuous learning even more important.

Company characteristics, such as size and listing, are shown to have an influence on liquidity, behavior (misunderstanding because of huge size differences between the companies, etcetera) and the flexibility of the integration process. Especially when the target company is larger, the acquisition shows to become more difficult as the process is more costly, complex, and less flexible.

Process consists of the kind of takeover (friendly vs. hostile), payment method, due diligence process and other deal characteristics. It was found that the number of bidders can drive the purchase price and that hostile takeovers have two disadvantages: higher purchase price and less efficient negotiations, which can be linked to bad communication being essential for the integration. The payment method should be carefully considered as it is a signal to the market of how likely a deal completion is. Some researchers, for example, argue that shares offer more liquidity while cash can signal if bidders are lemons or not. Thus, there are mixed findings, but overall, the payment method has the possibility to reduce information asymmetry. The due diligence depends on communication and the behavior of the due diligence team and management. It is their responsibility to make sure that target and acquiring company match.

Thus, this thesis suggests that the main factors of failure in the last decade are learning, integration/strategy, company characteristics and process related factors. Communication and behavioral factors act as a catalysator, which can trigger failures because they can make concepts like learning and integration more difficult to realize. This is in accordance with the findings of Friedman et al. (2016), who suggested that behavior and communication have an important influence. The other concepts mentioned add more to the risk of failures but are according to the findings of this thesis not the main cause for large failures to occur.

5. Case Study

5.1. Microsoft

Microsoft, founded in 1975, was and still is a worldwide leader in software, services, and solutions, operating in the technology sector (Kumar, 2012; Kumar, 2019). With offices in more than 190 countries, the company is geographically very diversified (Kumar, 2019). Looking at the time period between 1987 to 2011, it had already 148 acquisitions and in the next decade more than 100 acquisitions followed with most of its biggest ones failing (Kumar, 2012; Microsoft, 2021; Novet, 2019; Wingfield, 2016). This is in line with Clark (2016) who mentions that Microsoft has a mixed outcome of acquisition in regards of large acquisitions. It should also be mentioned that acquisition failures such as Skype and Nokia were before Satya Nadella became the CEO of Microsoft in 2014 (Wingfield, 2016). According to him, the acquisitions did work when they followed strict rules like working close to Microsoft's core business (Wingfield, 2016).

5.1.1. AQuantive (2007)

AQuantive was acquired in 2007 to strengthen Microsoft's competitive position against companies like Google and Yahoo! in the advertising business and to gain a larger market share (Auchard & Wakabayashi, 2007; Isidore, 2007; Kumar, 2012). According to Microsoft (2007) this acquisition was supposed to help to get better relations with advertisers and publisher, and it would be more cost efficient. Goldman (2012) however mentioned that even five years after the acquisition, Microsoft's online advertising was still unprofitable. He gave as an example that only in that one year, they had almost $2 billion of losses.

However, Auchard and Wakabayashi (2007) mention that Microsoft might be too focused on keeping up with Google instead of seeing what is best for its company. Google was bought for $6.3 billion and written-off for $6.2 billion incurring a huge value destruction, which lead to Microsoft's first quarterly loss in history (Kumar, 2012; Johnston, 2021; Novet, 2019). The purchase price incurred according to Isidore (2007) and Goldman (2012), an 85% premium of its closing price on the May 17, 2007. Dignan (2012), Goldman (2012) and Johnston (2021) also mentioned that this acquisition was related to underperformance regarding the growth that Microsoft expected.

5.1.2. Danger Inc. (2008)

A year later, Microsoft acquired Danger Inc. for $500 million (Kumar, 2012). According to Microsoft (2008) this transaction was supposed to help improve the consumer mobile experience. The company was however having losses of $12.4 million and an accumulated deficit of $188.1 million (Savitz, 2008). ZDNet (2016) even declared this deal as one of the worst mergers in the IT industry. The data loss in 2009 caused them to be unable to continue operating and the deal was therefore ending in a huge failure (ZDNet, 2016).

However, this does not seem to be the end of the problems leading to such a huge failure. Clarke (2010) mentions that the behavior of management such as autocratic leadership style, ignorance, indifference, incompetence and much more accusations were circulating. According to him, that were the reasons why staff left the company in the end. It also showed, according to Clarke (2010), that Microsoft was 1) either unable to integrate technology or employees which are the ones adding value and 2) having a culture of not accepting different views which can be an indication that communication is limited which led in the end to the M&A failure.

5.1.3. Skype (2011)

In 2011, Microsoft acquired Skype for the purchase price of $8.5 billion (Kumar, 2012; Kumar, 2019). This was considered an overpricing, as it was three times what Skype settled for 18 months earlier, and that there were no signals of other interested bidders (Wingfield, 2011). The reason for the transaction was mainly to increase the customer reach and enterprise collaboration (Ovide, 2011). Microsoft made the acquisition since it wanted to make a bigger move into IP communication, which an acquisition with Skype would allow faster than if it were to develop the products on its own. Microsoft also wanted access to use Skype on its products, such as Xbox and the Office software, to integrate the IPO communication as well as get access to other products in Skype's product portfolio (Kumar, 2012). Another benefit was that Microsoft was able to pay the acquisition in cash which it had oversea, and which otherwise would have needed to be taxed (Kumar, 2012). To pay with overseas cash was also appropriate, according to Ovide (2011), since Skype's headquarter is placed in Luxembourg. However, the acquisition did not seem to pay off (Geron, 2011; Kumar, 2012). Arthur (2013) argued that even though there was no revenue decrease from this acquisition, it did also not lead to a revenue increase.

5.1.4. Nokia (2014)

Nokia, which was acquired in 2014, is until now one of the biggest failures seeing that Microsoft had to write down $7.6 billion of the $7.9 billion it invested in the company (Johnston, 2021). At the point of the acquisition, both Microsoft and Nokia saw strategic advantages in combining their companies (PON, 2019; Mance, 2013). From Nokia's side there was a lack in liquidity and alternatives pushing it to sell (Ali-Yrkkö, Kalm, Pajarinen, Rouvinen, Seppälä, & Tahvanainen, 2013). Microsoft was thus purchasing the smartphone and the mobile device section with all its relating business operations and 32,000 of Nokia's employees to compete with Google and Apple (Ali-Yrkkö et al., 2013; Singh, 2014). However, differences in regards of products but also culture made the transaction difficult (Garside, 2013; Mance, 2013).

Singh (2014) emphasized that Nokia was competitively very weak before the acquisition and Nokia missed the right time to have a partnership. Both the companies' combined were still having gaps in their client business (Singh, 2014). Moreover, there where contradictories about this acquisition. While Microsoft's prior CEO Steve Ballmer called the transactions his "best idea", the new CEO Satya Nadella questioned why the acquisition has been done (Orlowski, 2018). Cyran (2015) emphasized that Microsoft had in the end overpaid and even had to layoff 7,800 employees. According to Orlowski (2018) it was even almost all employees that had lost their job until the write down.

5.1.5. LinkedIn (2016)

In 2016, Microsoft underwent its biggest acquisition so far by investing $26.2 billion into LinkedIn, which was the largest professional network on the internet (Kumar, 2019; Wingfield, 2016). Sacui and Sala (2018) found that the final purchase price of LinkedIn was $27.009 billion while its market capitalization only amounted to $17.48 billion, leaving a premium of $9,529 billion. This premium could be explained as the price to gain control. The main motives behind this transaction were to create growth for both companies and to improve products e.g., the Office 365 (Kumar, 2019; Novet, 2019), to increase its market power and share in the enterprise market (Sacui and Sala, 2018), to shift from an from an only software focus to selling business technology including cloud technology (Sacui & Sala, 2018), to realize revenue synergies (cross-selling synergies, up-selling synergies and synergies generated by extension on new service market) and cost synergies of $150 million at the time for the acquisition (Kumar, 2019; Sacui & Sala, 2018).

Erlichman (2019) mentioned that the transaction between Microsoft and LinkedIn has been identified as a success as 1) LinkedIn's user base has almost been doubled since the announcement, 2) the cumulative stock return in the long-term has been very positive – 28.80%, 3) revenue increased and 4) LinkedIn got the benefit of enhanced products (De Silva ,2021; Erlichman, 2019). Kumar (2019) and Erlichman (2019) stated that a key factor to the success was that LinkedIn could continue operating individually and being able to keep its brand and culture as it was before the acquisition. However, keeping cultures separate is not easy (Erlichman, 2019). Wingfield (2016) wrote that even though both companies are different, they are still similar. Jeff Weiner also described that Microsoft has been very cooperative supporting the acquisition (Erlichman, 2019). Throughout the transaction, both CEOs were closely discussing the framework of how both companies can work together (Wingfield, 2019).

It should however be considered that even though LinkedIn is growing, it is more due to outside factors and not because of own enhancements (Forbes, 2018). Cohan (2016) analyzed the acquisition and found four reasons of why the transaction was not a success: 1) The industry is not attractive as it has no economies of scale otherwise LinkedIn would have made profits instead of losses in 2015; 2) It is questionable if Microsoft can help LinkedIn to create growth and if the synergies are worth the investments; 3)It is unrealistic that the NPV will be positive in the end as LinkedIn is having losses; and 4) The integration is difficult and even though LinkedIn might keep its CEO, he is keeping his position only in name.

5.2. Bayer

Bayer is an over 150-year-old company with focus on healthcare and agricultural products, divided into pharmaceuticals/consumer health, crop science and the health business (Kumar, 2019). According to Financial Times (2019) the company is experienced in acquiring firms and had several successful and large acquisitions.

The acquisition of Monsanto, the biggest company in the agriculture industry, was one of the worst and biggest deal dis-illusional cases (Financial Times, 2019; Kumar, 2019; Mahler, Dohmen & Hesse, 2019). In the beginning, the bidding price started at $56 billion, which would have given the acquired company's executives and shareholders a 37% premium (Morgenson, 2016). Later the price rose to $63 billion (Bender, 2019; Mahler et al. 2019) and was in the end $128 per share financed through debt and equity (Kumar, 2019).

5.2.1. Motive

The acquisition of Monsanto helped Bayer to strengthen its crop science division, increasing its market share in the global seed market by bringing Bayer's pesticides and Monsanto's seeds and crops together. Thus, Bayer would become the biggest supplier of seeds and crops protection chemicals worldwide (Bender, 2019; Kumar, 2019).

Both companies are strong, with similar products and a strong R&D base helping Bayer to increase agricultural research, which would enable the doubling of the food supply of the world until 2050 (Kumar, 2019). For Bayer, it is an easier option than developing the products on its own, since that would cost them 10 years (Kumar, 2019). Monsanto's motive was to get access to data, which would give them a first mover advantage (Kumar, 2019). Moreover, the acquisition is expected to increase the earnings and growth of both companies (Morgenson, 2016).

Kumar (2019) and Morgenson (2016) mentioned that the transaction was expected to be worth $1.5 billion in synergies and additional integrated benefits. Bender (2019) said that $1.2 billion a year were due to cost synergies. Synergies include the quicker development of products through which cash is generated (Bender, 2019).

5.2.2. Problems

Monsanto already had a negative reputation before the acquisition, but still Bayer was taking the risk of buying this controversial crop company (Mahler et al., 2019). Bayer, however, underestimated the risk and had to handle later lawsuits of herbicides, which was found to cause cancer (Bender, 2019; Financial Times, 2019; Mahler et al., 2019). Risks included not only legal but also reputational risks, which are one of the important decision-making factors for investors (Mahler et al., 2019). Mahler et al. (2019) think that management was blinded by possible synergy effects and relied too heavily on information from Monsanto making it loose investors in the end due to lost trust. It should be mentioned that Bayer in the 2000's already had experienced lawsuits because of its cholesterol-lowering drug having severe side-effects (Mahler et al., 2019). It is therefore questionable why it has not learned from this.

Both Werner Wenning, chairman of the supervisory board, and Helmut Schramm, who led the crop science division, were convinced that it was the right choice, and that the decision should not be dependent on what the population thinks, even though Marjin Dekkers, a prior CEO, rejected this transaction as it was too risky (Mahler et al., 2019). According to the Financial

Times (2019) those lawsuits caused billions in liabilities and Bayer had in the US alone counted to 13,400 legal cases. Those legal cases could have a major impact and severally damage the company (Mahler et al., 2019).

Due to the transaction, Bayer lost $30 billion in market capitalization with the share price being 46.6% lower one year after deal completion mainly through its lawsuits (Bender, 2019; Mahler et al., 2019). Followingly, Bayer laid off employees and parts of the company and bought back shares, but still had a low stock price (Mahler et al., 2019). In 2019, Bayer was valued almost the same as what it paid for Monsanto, which is about $63 billion (Financial Times, 2019; Mahler et al., 2019).

5.3. Analysis of the Cases

In the summary of the literature survey, it was found that the main failure factors identified in the last decade were learning, integration/strategy, company characteristics and process related factors. Those categorize will provide the frame of this analysis.

5.3.1. Frame

The first and most important factor, that both Microsoft and Bayer have in common, is that both companies are experienced in undertaking acquisitions. Microsoft alone had over the years more than 200 acquisitions, indicating that it should have complex and diverse amount of experience. Despite this, the outcome of those transactions was mixed (Clark, 2016), meaning that even though not all the acquisitions were successful, they were not necessarily big failures either. From that point, Microsoft should have been able to learn and create mechanisms to avoid failures in the future. Big failures such as Nokia, however, did not lead to acquisition avoidance, which could be because acquisitions are part of Microsoft's growth strategy for a long time. This shows that one failure will not end an acquisition history of more than 30 years.

Bayer was like Microsoft experienced in making acquisitions, with several successful acquisitions completed (Financial Times, 2019). However, in the 2000s it had legal issues with one of its products, which was a similar case to the one of Monsanto. This could suggest that Bayer was not able to implement mechanisms to learn from it and use it for similar situations in the future like the acquisition of Monsanto. Considering the possible overconfidence and other behavioral factors, employees such as managers might have tried to avoid facing the failure which hindered the learning process.

Secondly, during the due diligence process, Bayer should in the ideal case find out about potential reputational and legal costs considering that due diligence is the investigating of both companies matching. To determine the matching, a profound information gathering has to be done, which should include a complex range of, for example, legal issues and public perception. However, management was aware of market perception and chose to neglect it (Mahler et al., 2019). Therefore, the decision to undertake the acquisition was related to irrational decisions such as explained by the process theory. Also, the premium was quite substantial with its 37% over Monsanto's closing price, making it arguable if the due diligence process was successful. Microsoft had the same issues of paying premiums for many of its acquisitions. It paid in cash for Skype, which could be a factor that increased the premium paid.

Furthermore, one of the factors mentioned was timing. The acquisition of Nokia was set at a bad time considering that Nokia was already very weak at that point, making it difficult to put them on the right path again (Singh, 2014). However, it is easy to say that it was bad timing now when the outcome is known. Finding the right timing and executing it is difficult. That is because timing is a tradeoff of different factors.

The third fact of Microsoft and Bayer is that both are large firms with targets being smaller in relation to them. This suggests that the acquiring firms, in this case Bayer and Microsoft, have higher diversification, better negotiation power and better financial flexibility to finance those deals which is overall increasing the chances of deal completion. Most of Microsoft's targets were smaller, which reduces the risk of a deal abandonment and failure. The merger with LinkedIn could however be considered a merger of equals. In the view of the firms having a lower size difference, their overall strategies and behavior should be more aligned which should decrease misunderstandings, lack of empathy, and most important, Microsoft should be familiar with handling a company of that size.

Also, both firms are public. Their shares were thus affected by investor perception which is reflected in their stock prices and returns. As found before, acquisitions of public firm's incur lower announcement returns and have overall a higher likelihood to fail, as overpayments are more likely to appear for public than for private firms. This seems to reflect both cases.

5.3.2. Catalyzing Factors

Graebner et al. (2010) write that the reputational damage is caused by behavioral factors, this can also be applicable for Bayer. Mahler et al. (2019) mention in their online article that

manager have been aware of the negative perceptions of market participants, but they consciously decided against considering those and even belittled their concerns. Blindly ignoring risks is a sign of bias and overconfidence. Piesse et al. (2013) found that overconfidence is the overstatement of one's ability, which seemed to be the case for Bayer.

Better governance of shareholders, like Renneboog and Vansteenkiste (2019) mention, could have reduced the effect of overconfidence which could have arisen due to Bayer's prior successes with acquisitions. Marks and Mirvis (2011) added that poor governance can also be the cause for paid premiums. Bayer paid for Monsanto a 37% higher value than what the company was worth in comparison to the closing price. In addition, Bayer had to lay off employees after the market capitalization dropped, which may cause bad feelings of employees and further decrease the work moral in the future.

Microsoft also shows signs of managerial self-interest and overconfidence seeing the number of overpaid acquisitions made. Both Marks and Mirvis (2011) and Piesse et al. (2013) indicate that overconfident managers are more likely to pay premiums and that their behavior can lead to a value destroying outcome. This overpayment can be seen in many of Microsoft's past acquisitions.

In addition, consumer perception on Monsanto have been negative before the acquisition, as mentioned before. Only good, reliable, and open communication could have helped Bayer in this critical situation to improve the stakeholder's perception. However, to be able to improve stakeholder's perception, the managers bias would need to be removed. Only then the managers are able to admit problems, react accordingly and decrease the bad reputation it caused. By holding on to the managers perception instead of having a two-way communication with stakeholders' perceptions, a failure was inevitable.

5.3.3. Supplementary Factors

As the articles mention, culture has a significant impact on whether a M&A is a success or a failure. This can explain why Microsoft's M&A with Nokia failed so fatally and why the one with LinkedIn succeeded in relation to Microsoft's other acquisitions. The merger with Nokia is one of Microsoft's biggest failures, and it is described that the different cultures made the transaction difficult. This is consistent with previous research conclusions that the post-merger integration to integrate differences and unite culture is crucial for performance. Regarding the merger with LinkedIn, on the other hand, it is described that both companies could keep their

brand and culture. This combination is in line with some of the previous research, arguing that the culture in companies does not have to be identical for the M&A to be successful. Instead, a moderate distinction between the companies could be beneficial. The most important thing in such a case is, however, how it is managed.

5.3.4. Summary

All in all, three of the four factors from the framework have been proven to be a leading contributor to the failures in both Microsoft's and Bayer's acquisitions. Those factors were, however, triggered by behavioral factors, which in this case was the overconfidence of manager. Besides behavior, communication also had an impact on Bayer's acquisition. They lost several investors and stakeholders trust by having unreliable communication and by not considering the market perception.

6. Conclusion and Recommendations for Future Research

Over the last decades, M&As have shown to be rather value destroying than value creating. After the global financial crisis, the number of acquisitions decreased implying a change a behavior in this field. This led to the question of the thesis of why so many M&As fail and how research after the global financial crisis assessed failure factors. Previous research was not able to completely answer the first question and the high number of the M&A failure rate remains a puzzle. However, it is important to study failure factors to decrease the risk of them from happening. For some companies such as Microsoft, acquisitions are part of its growth strategy. Therefore, it is necessary to reduce the risk of value destruction.

The findings of this thesis show that the main failure factors according to the literature are learning in combination with experience, integration as well as strategy, process related, and company characteristics. However, those factors are impacted by behavioral factors such as overconfidence, as well as communication which is in accordance with Friedman et al.'s (2016) findings. Those findings were also visible in the cases of Microsoft and Bayer. Concepts as synergies and financial ones, which were deeply focused on by Trautwein (1990), are still relevant but are less researched in the last decade in the failure literature, which however does not mean that those factors are less important. It overall indicates that the recent research focused on providing a more holistic view on the causes of failures instead of focusing on well research concepts. Nevertheless, seeing that there is not an end to creating a holistic view

highlights that M&As are so divers that there is not a “one-size-fits-all” approach. Rather it proves that every acquisition is special and needs consideration in combination with learning mechanisms to avoid large failures.

Limitations of this thesis might be a potential bias in the way of how factors have been categorized, as this was decisive for the highlighting of the main factors found for M&A failures. Also, as the study is based on literature studies, and previous literature has used various definitions of, for example, failure, the authors are aware that there might be information bias.

Moreover, this thesis is only looking at a limited period of the years 2010 to 2020, meaning that the indications made are not necessarily relatable to other time periods. Future research could focus on 1) new findings that relate to M&A failure, 2) on concluding a more holistic view by analyzing the articles of a larger time frame or 3) use a different approach on summarizing the main concepts. Moreover, assumptions are concluded by using the number of concepts mentioned in the articles. This might not be the most reliable way of identifying essential factors related to the failing of M&As as quantity does not necessarily indicate relevance.

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