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# Exploring the Cultural, Managerial and Organizational Implications on Mergers and Acquisitions Outcomes

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**Background/Purpose:** This work is focused on the variables that influence the outcomes of mergers and acquisitions, by learning from past mistakes, adopt better strategies and make wiser decisions to enhance the outcomes of their mergers and acquisitions. Using a qualitative approach, this research contributes to existing knowledge on mergers and acquisitions performance by exploring the cultural, managerial and organizational factors dimensions through an integrative approach using multiple perspectives.

**Methodology:** Fifteen interviews were conducted with experienced professionals in multiple areas of mergers and acquisitions. Content analysis was used to interpret the results. This enabled to achieve a more complete set of answers and potential solutions while comparing opinions on the same problems from slightly different angles.

**Results:** Results show the existence of managerial hubris, emotional attachment and over-optimism in mergers and acquisitions. There was a relative support towards standardizing the process of mergers and acquisitions deals, but respondents advise to keep some creativity and flexibility.

**Conclusion:** The article concludes by addressing key issues for mergers and acquisitions performance: capabilities and experience; organizational communication; internal coordination; and, key issues for decision-making.

**Keywords:** *Mergers and acquisitions, Synergies, Culture, Strategy, Growth, Performance.*

## 1 Introduction

The mergers and acquisitions failure rate is a matter of concern to academics and practitioners. Some authors point failure rates in the range of 66 to 75 percent (McKinsey & Company, 2010). Other shocking studies, put the failure rate of mergers and acquisitions between 70 and 90 percent (Christensen et al., 2011). The failure rate of mergers and acquisitions changes from study to study. Measuring the outcomes of mergers and acquisitions is

hard to do (Beck & Scott Morton, 2020). Both financial indicators and non-measurable abstract variables, such as the achievement of the delineated strategic goals, are important and can be considered when classifying the outcome of a certain deal (Faisal et al., 2016).

There is substantial evidence in McKinsey's survey that there are new interests and attitudes towards mergers. The respondents showed large interest in using mergers and acquisitions to move beyond the already existing lines of business and into new strategic areas and create research and development portfolios (McKinsey & Compa-

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ny, 2010). Mergers and acquisitions will continue to exist and for sure play a significant role in the future (Kuo et al., 2013). Some authors argue that researchers are not looking at the right set of variables and that the importance of non-financial variables is underestimated in theory and research (Gomes et al., 2013). However, as stated by Kiessling, Vlačić and Dabić (2019) mergers and acquisitions' research is mainly focused on the influence of the antecedents of mergers and acquisitions and the "many aspects in the decision-making process of M&A (such as strategy formulation, target identification, due diligence, pricing of the acquisition, postacquisition integration, and subsequent performance)" (p. 1). More specifically, the human dimension is still underexplored, specially the cultural and organizational preparedness (Friedman, Carmeli, Tishler, and Shimizu, 2016; Bereskin et al., 2018).

As such, the objective of this article is to understand which causes are propelling such a high failure rate in mergers and acquisitions and propose solutions on how to enhance their outcomes. To address the research gap previously mentioned, this research will focus on specific antecedents, such as cultural and organizational preparation for mergers and acquisitions. To understand the complexity of the phenomena, we follow a qualitative approach seeking to know, from the decision makers' point of view, how the various factors influencing the success of mergers and acquisitions are considered. This methodological approach is considered the most appropriate to include the decision-maker perspective (Risberg, 2015), and the cultural and organizational dimensions (Smollan & Sayers, 2009).

The article is structured as follows. Section 2 discusses relevant literature. Section 3 presents the methodology and specifies the research model. Section 4 shows the results, which are discussed in section 5. Finally, section 6 presents the theoretical and practical conclusions as well the research limitations and suggestions for future research.

## 2 Theoretical Framework

### 2.1 Pre-deal procedures

A better understanding of the reasons behind so many mergers and acquisitions failures is likely to help in conducting better deals and reduce the chances of failing. In the pre-merger/acquisition stage is when the decision to try to merge or acquire is made and with which company the deal should be done. Carefully searching and evaluating potential targets is extremely important; choosing the right target can determine the success of the deal from the very beginning. Taking enough time to deeply understand the target's business and plan accordingly, pays off in minimizing the chances of choosing an unfit company and it will help exploring additional synergy sources (Moreira & Janda, 2017).

Despite the evidence that mergers and acquisitions have played an important role in the past and will continue to rise in number and value over the next years as a new cycle unfolds, the statistics do not show positive numbers regarding merger and acquisition returns (Duan and Jin, 2019). On average the buyer pays the target all the value that is generated with the realization of combinational synergies, this value ranges from 10 to 35 percent of the target's market value (McKinsey & Company, 2004).

Predicting accurate synergy values is surely crucial to make right decisions, they are important not only to conclude if the deal should go forward or not, but at a more precise level they make an impact when making smaller decisions. With more accurate synergy estimations, better decisions can be made, and failures avoided (Garzella & Fiorentino, 2017; Moreira & Janda, 2017).

Many mergers and acquisitions deals were already condemned from the start as they would not generate enough synergy value to make the deal worth (Duan & Jin, 2019). The first step in initiating a merger or acquisition is to look for a suitable partner. The evaluation of the potential partner should take into account its strengths and weaknesses, investment requirements, quality of the target management and implementation barriers such as cultural differences (Bereskin et al., 2018; Gomes et al., 2013).

### 2.2 Culture assessment

Despite the multiple comments from authors in the field of mergers and acquisitions that culture is a variable with influence on the outcome of deals (Bain & Company, 2013; King et al., 2015), on the other hand, authors and practitioners point fingers towards the negligence organizations demonstrate when they handle cultural problems (Lodorfos and Boateng, 2006; Bain & Company, 2013).

Mergers and acquisitions can promise to deliver a lot of value (Deloitte, 2017). When this happens, the temptation to do the deal regardless of cultural problems can be hard to avoid. There can be several other reasons to why companies engage in mergers and acquisitions, such as the existence of a managerial hubris and the use of mergers and acquisitions as a way to avoid bankruptcy and achieve financial diversification (Barney and Hesterly, 2012).

Organizational culture is a deep and subjective part of an organization that possibly evolved through several years, therefore it is hard to change and the new habits to form (Marks & Mirvis, 1992). The authors highlight the use ceremonies to symbolize the transition into the new phase, these events help employees detaching from the past and embracing change.

Culture is inseparable from any deal because it is embedded in both organizations (Gordon, 1991), so it would be great to overcome the cultural problems barrier and find a way to make the deal happen well by addressing and/or

dodging the cultural problems. It is imperative to conduct further research on cultural problems and the possibility to minimize their negative impact, that is, how to minimize the negative impact of cultural incompatibilities.

### 2.3 Culture incompatibilities

Organizational culture results from the adaptation towards shared beliefs and expectations, it is particular of one firm and it has both a subjective and objective dimension (Kuo et al., 2013). Cultures are hard to change and combine because they have unique characteristics that relate to the orientations and goals of the previous separate organizations, they can also evolve and consolidate throughout several years (Gordon, 1991). One example is the failed merger between the auto makers Daimler and Chrysler which has increased the awareness towards the importance of cultural compatibility in mergers and acquisitions (Badrtalei and Bates, 2007). On the other hand, some studies with positive results prove that mergers and acquisitions are sources of efficiency and value generation (David, 2014).

A merger or acquisition with a high cultural fit happens when cultures are similar and combine well, there is a reduced need for organizational integration efforts (Bauer & Matzler, 2014). Having a poor cultural fit is bad because the uncertainty that is associated with cultural distances reinforces the need for monitoring and control and can create managerial conflict (Bereskin et al., 2018; Denison & Ko, 2016).

In a Bain & Company survey, the number one cause appointed by executives on why deals fail to deliver the promised value was a cultural clash (Bain & Company, 2013). Despite the evidence supporting the importance of a proper cultural assessment and management, culture is still found to have been neglected in a substantial percentage of deals (Schraeder & Self, 2003).

The results from McKinsey's study point out that 92 percent of executives believe a better cultural understanding prior to the deal would be beneficial, and 70 percent of them agree too little attention is given to culture (McKinsey & Company, 2010). Several questions can be asked: are companies being just negligent towards the importance of culture or is there also a need for a structural change in the way cultural evaluation is conducted? It can also be argued some companies might lack the expertise to properly conduct a good cultural evaluation, in such case, should they seek help from an external entity?

### 2.4 Mergers and acquisitions value approaches

The approach towards deals observed during the last decades, referred to by some practitioners as the traditional

risk-mitigation approach, is producing too many failures (Christensen et al., 2011; Faisal et al., 2016). There is substantial support towards the idea of a broader approach to value creation, referred to as the value-seeking approach. The numbers indicate an increase in value creation between 30 and 150 percent (McKinsey & Company, 2010).

In a risk avoidance strategy, the managers, the merger and acquisition teams and external consultants focus on preventing bad events from happening. The analysis and decisions are made quickly and one of the usual assumptions that make the deal profitable is the cost savings associated with merging the companies (McKinsey & Company, 2010). These cost savings often involve cutting the less profitable operations and downsize the number of employees, this practice has negative implications towards employee morale and cultural conflicts often emerge (Weber & Fried, 2011).

The returns on the investments made in transformational areas (areas with new markets, new customers and new products) are, on average, much higher than the investments made in core business areas. However, companies invest 70 percent of their innovation investments in core areas in which they achieve average returns of only 10 percent. At the same time, merely 10 percent of the innovation investments are made in transformational areas and these generate average returns of 70 percent (Deloitte, 2017).

People respond differently to the changes being imposed during the integration process, it is up for top management to recognize these discrepancies and try to have some degree of flexibility. There is no such thing as a general integration process, with all its specific steps, that works for every type of deal. The integration should adapt to the type of deal being pursued (Deloitte, 2017).

Communication is also a variable of great importance in mergers and acquisitions, excellent communication throughout the whole process helps overcome uncertainty (Angwin et al., 2014). Failing to properly communicate with key line managers and give them a chance to be involved in the decision-making process can have replications throughout the entire organization (Friedman, et al., 2016). They often are the closest superior for many baseline employees and if they express discontent and uncertainty towards the merger or acquisition it will negatively impact employee morale and performance, these key line managers can also promote a communication climate that facilitates effective integration (Friedman, et al., 2016). Other authors point out that acquirer returns are significantly lower and there is less value creation when in the presence of social ties between senior executives and directors of both companies (Ishii & Xuan, 2014).

## 2.5 Organization preparation

As defended by some practitioners, transformational deals can generate a lot more value when compared to typical deals (McKinsey & Company, 2010), it is however important to know about how to better adjust companies in mergers and acquisitions to extract more value and avoid risk. It is specifically important to study what practitioners think about generating value and avoiding risk in transformational deals, as this is a topic lacking exploration.

Having a feeling of participation and understanding the reasons behind the need for change is important, even the individuals that express the largest resistance to change are more likely to support the deal (Schraeder & Self, 2003). Getting employees into feeling involved in the merger or acquisition process is vital to make them more cooperative with the organization's strategies and consequent actions, a good way to achieve this is by dividing people into teams and creating a feeling of excitement about the future (Marks & Mirvis, 1992).

Having trust in top management is a key factor into stimulating obedience and positive action in employees towards the deal. A good leader should inspire, be competent and transmit credibility into others. When top management builds a relationship of trust and induces a feeling of security it is much easier to get employees into cooperating with actions that will somehow affect those (Schraeder & Self, 2003). Managers should deal with employee concern issues as fast as possible to destroy the negative rumours, however, it is not advised to make commitments or statements that the company might not keep (Morrison & Robinson, 1997).

## 3 Methodology

### 3.1 Research model

To address the research objectives an explorative qualitative research was conducted to obtain deeper insights about the causes related with mergers and acquisitions high failure rate and to identify solutions to enhance their outcomes. Furthermore, this research explores specific antecedents, such as cultural and organizational preparation for mergers and acquisitions. We followed a 'systematic combining' approach (c.f. Dubois & Gadde, 2002) by promoting an intertwined application of the different activities in the research process since it is better suited for qualitative research than a "standardized conceptualization of the research process as consisting of a number of planned subsequent 'phases'" (Dubois & Gadde, 2002, p. 555). Table 1 specifies the relationships between the investigation specific objectives and the interview questions, as well the

link with relevant literature.

According to Vilelas (2009), the number of interviews is said to be in an acceptable interval when it is located between 15 to 20 interviews. However, we followed Fusch and Ness (2015) and Saunders et al. (2017) recommendations by stopping the interviews when the data saturation was obtained. This means that the last two interviews added no new topics or themes.

Following a purposive sampling (Patton, 2005), a total fifteen interviews were conducted to business consultants randomly selected from a professional database. Each interview was conducted face to face and had an average duration of 73 minutes and was conducted by three researchers. Even though the number of interviews is in the acceptable interval, the results of this research should be taken with caution. Table 2 details the respondents' characteristics. The interview sample was intentional and was selected according to several requirements; such as their expertise and experience and their functions in mergers and acquisitions.

The study aimed to understand the meaning people attribute to this phenomenon more than just interpret it. This is because words, actions and gestures have their own context and therefore they must be interpreted using induction (Vilelas, 2009). In terms of the qualitative analysis technique used for the data interpretation in the interviews, this can be resumed to an analysis of content that tried to relate the semantic and sociologic structures in such a way that the answers are interpreted and put into context with the factors that determine their characteristics, such as the psychosocial variables, cultural context and ways of reproducing the message (Duriau et al., 2007).

In the figure below, the interview "corpus" is shown. This scheme illustrates how the objectives of the research translate into the interview questions. The broad topic of the variables that influence mergers and acquisitions ramifies into the generic categories and later into the sub-categories. This ramification is the result of the literature review and can be interpreted as going deeper and deeper into the subject- Figure 1.

The process of clarification, systematization and content expression of the messages was organized in conformity with the three chronologic pillars of Bardin (1977). The interviews were chosen as the preferred method to gather information because even though there is an inherent subjectivity in the information collected by using this method, it allows the collection of information from the very own social actors with the possibility to dynamically adjust the direction of the speech as the interview flows (Vilelas, 2009).

Table 1: Relating the investigation objectives to the interview questions and the theoretical support

Investigation specific objectives	Interview questions	Authors
Study the variables and actions negatively influencing the decisions at the pre-deal stage and achieve a set of recommendations to improve them.	What is failing in the estimation of synergies and what could be done to improve their accuracy?  (a clarification what synergy meant was conducted by the interviewer)	Bijlsma-Frankema (2001); Schraeder and Self (2003); Garzella and Fiorentino (2017); Lodorfos and Boateng (2006); McKinsey & Company (2010); Barney & Hesterly (2012); Bain & Company (2013).
Understand how practitioners perceive the importance of culture and if companies are neglecting this variable.	Are companies neglecting the importance of culture and that translates into a bad cultural evaluation or do they also lack internally the capability to evaluate culture?	Schraeder and Self (2003); Lodorfos and Boateng (2006); Badrtalei and Bates (2007); Weber et al. (2009); Sarala (2010); Weber and Fried (2011); Bain & Company (2013)
Comprehend why companies engage in deals between "incompatible" companies.  Develop a set of recommendations on how to extract value on this type of deals.	If cultural problems are expected but the deal must go forward, what can be done in terms of integration stage agenda, organizational structure and others to minimize their negative impact?	Bijlsma-Frankema (2001); Schraeder and Self (2003); Lodorfos and Boateng (2006); McKinsey & Company (2010); Barney & Hesterly (2012); Bain & Company (2013).
Understand how practitioners perceive the current state of making mergers and acquisitions, if they think the process is too standardized and if there is benefit on investing more time and resources trying to capture more value.	Is it true that deals would benefit of changing towards a less standardized and more flexible approach as some practitioners point out? If yes, how to optimize time and resources consumption with the need to make a more extensive research and evaluation in the value-seeking approach?	McKinsey & Company (2010); Weber and Fried (2011); Christensen et al. (2011); Bauer and Matzler (2014); Faisal et al. (2016); Deloitte (2017).
Achieve a set of recommendations on how to prevent negative outcomes and how to generate more value through deal-making	How can organizations prepare, and which actions can they develop to more easily integrate in deals and extract maximum value with minimal risk?	McKinsey & Company (2004); McKinsey & Company (2010); Bauer and Matzler (2014).

Table 2: Characterization of the sample of participants in the interviews

Nº	Function	Country	Gender
1	Financial Director	Portugal	Male
2	Head of M&A	Germany	Male
3	Director of M&A	Germany	Female
4	Senior Consultant	Germany	Male
5	Head of Acquisitions	Germany	Male
6	Senior Expert of Field Development M&A	Germany	Male
7	M&A Associate Advisor	Germany	Male
8	M&A Communications Lead	Germany	Female
9	M&A Expert	Portugal	Male
10	M&A Director	Germany	Male
11	M&A Partner	Germany	Female
12	Strategy & Investments Senior Manager	France	Male
13	CEO and Owner	Belgium	Male
14	CEO and M&A Consultant	Germany	Male
15	M&A and Strategy Responsible	Germany	Male

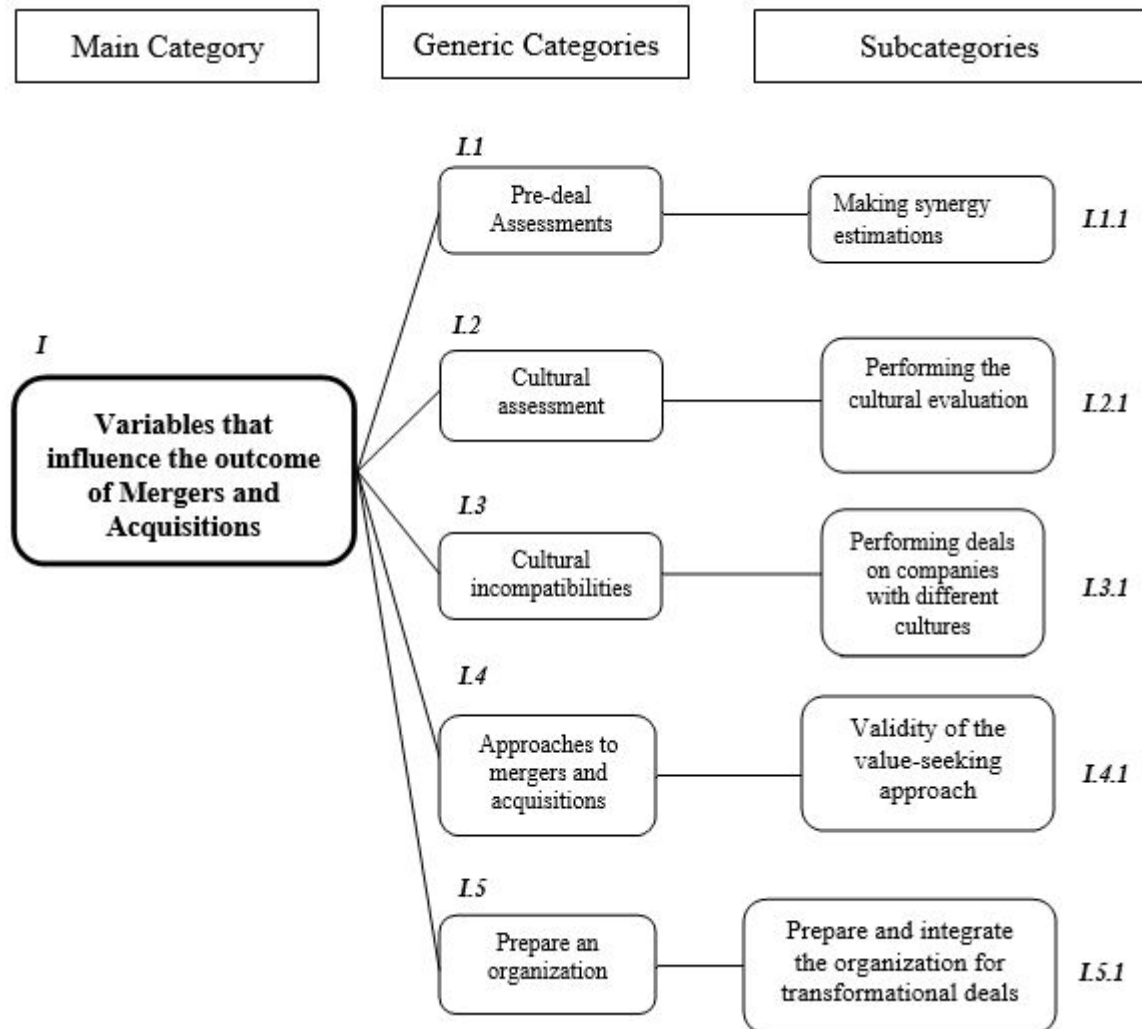


Figure 1: Categorization and codification of the interview "corpus" for qualitative analysis

The semi-structured technique was developed on an organized and standardized set of questions; however, it was implicit that the direction of the conversation would flow naturally, and in some occasions, questions were generated as the interview run and a deeper clarification on a target concept was necessary (e.g. synergy). This spontaneous nature of the interview has contributed for a lot of information that would otherwise be missed or left unclear (Werr & Styhre, 2002).

As defended by Vilelas (2009), this flexible way of conducting the interviews has abolished the need for rigid criteria that would damage the level of detail collected in the investigation. Regarding the disadvantages of having such flexibility is that the results were not standardized and there was a high degree of difficulty and required time when it came to organize, compare and reach conclusions on the results.

## 4 Results

### 4.1 Pre-deal assessments: synergy estimations

Five respondents pointed indirectly to a managerial hubris as a cause for the inaccuracy of the synergy estimations. This managerial hubris might be particularly strong in SME's because leaders have always used their intuition to reach their success. As observed in the literature review, it can also interest management to grow through mergers and acquisitions to receive bonuses and to gain reputation. However, some respondents mentioned the lack of technical capabilities of companies to correctly estimate synergies.

Several respondents also mentioned the emotional attachment of people for the realization of the deal to why companies over-estimate synergies. These people can be quite emotionally driven and even be willing to manipulate numbers in order to promote a positive decision of the board of directors towards the realization of the deal.

Another mentioned factor that adds to the over-estimation of synergies is that in the most exciting deals, there is many times a lot of competition to acquire the business, a conservative bidding proposal based on conservative synergy estimations is unlikely to win against the competitors.

In a general way, over-optimism can be appointed as a reason to why estimations end up being short of what was expected. But as six respondents directly mentioned, synergies can be difficult to estimate, and people often work with imperfect data. When trying to extract information from the target or a potential partner companies face several obstacles. The information they are seeking can also be confidential, one of the respondents pointed to confidentiality as a reason to why he often is confronted with difficulties in calculating synergies.

Two respondents pointed fingers at banks and how

Table 3: Characterization of the sample of participants in the interviews

Content Analysis		
Nº	Text	Category
1	I have a very well-formed opinion about this... I think that there is clearly Hubris and it is constant in this type of businesses. This hubris happens very often on the buyer side.	I.1.1
3	When they want to buy a company, they make high estimations, because they are excited and want to buy it.	I.1.1
5	Probably also that the people who are making the acquisitions are too aggressive (...), and over-optimistic.	I.1.1
9	The main factor that influences this gap is the excess of optimism from the buyer's side and overconfidence in the capacities to execute.	I.1.1
14	Mergers and acquisitions are many times driven by heart and not by facts, I would say.	I.1.1

they operate with rules of thumbs, others mentioned that companies are not really worried into making these estimations and they are just used to justify what they have already emotionally decided. One of the critiques respondents gave to banks is that they have expertise in finance,

and it is something they are really good at; but they lack the operational expertise to be able to accurately estimate synergies. In question four some respondents also touched the point of the current practice of banks as being the result of an adaptation towards efficiency and that this is unlikely

Table 4: Evidence for the difficulty in making accurate synergy estimations

Nº	Text	Category
3	What we try to do is to quantify these synergies bottom-up. Yes, they are still much based on assumptions, but we do try to quantify each synergy as much as possible and always ask how high is the likelihood that this is going to happen.	I.1.1
5	I think it is difficult to estimate the synergies; really, these are cost savings and specially going forward. Most of the time you are working with imperfect data, so you need to make some assumptions.	I.1.1
6	When it comes to acquire something and realizing what it is. Again, there are a lot of unknowns and it all has to do with the amount of data available at the time of this decision to move into this asset.	I.1.1
10	I don't think you can improve the estimations. What you can do is to prepare a wider arrange of variants. In many cases you get a wrong estimation because you didn't know things in advance.	I.1.1
12	As an M&A director you often need to get permission to discuss the details with the operational people, because that is confidential information. You cannot ask for bottom-up analysis, so then you have to do top-down analysis and rely on statistics.	I.1.1

to change because this is the result of many decades of experience and a deviation from current practices is likely to induce more mistakes and increase the risk of not realizing deals.

Three respondents mentioned the importance of making bottom-up synergy estimations as opposed to top-down synergy estimations. In bottom-up synergies estimations, companies calculate the impact change will have on the micro and detailed aspects of the business and then arrive at the final result by multiplying that for the scale that synergy is repeated. According to respondents, making top-down synergy estimations is more abstract and opens room for biased perspectives with lack of reality.

A fact that is appointed by some respondents and that is later indirectly confirmed by an analysis of the responses

and how the work of the respondents is performed is that many times the team that is responsible for making the deal happen is different from the team that is responsible for the integration of the company and all the strategic aspects.

One of aspects that make companies not achieve the results they predicted is that they also fail to account for revenue dis-synergies. These revenue dis-synergies can happen for the very fact the deal is realized, one of the respondents gave the example that a company acquired another and achieved a big market share in the region. As a consequence, one of the previous clients decided to break the contract because the monopolization of the market from this company was making it concerned about being overly-dependent on the firm.

Table 5: Evidence for the preference for making bottom-up synergy estimations

Nº	Text	Category
3	Indeed, I think that many companies don't do it in this diligent way. Often times, the synergy targets have been made by investment bankers, advisors or by the top management in a top-down manner.	I.1.1
9	The difference in knowledge between sectors makes all the difference when it comes to the capacity to make calculations. When we are dealing with a horizontal acquisition, then things are much easier, and the estimations must be done in a bottom-up manner.	I.1.1
12	You cannot ask for bottom-up analysis, so then you have to do top-down analysis and rely on statistics. (referring to that as a less accurate method)	I.1.1

Some appointed solutions include having an experienced and neutral team that has minimal emotional attachment to the realization of the deal. When there is enough time and resources, to calculate synergies in multiple ways and compare those perspectives to check for asymmetries. Using available databases of past synergies that were achieved in similar circumstances also provide another way to check if the estimations are realistic.

Holding people accountable for the achievement of predicted synergies and incentivize them with money to achieve the expected results is another appointed way to force people into making accurate predictions and achieving them. Other referred path to improve the accuracy of estimations include having a solid plan B in case something goes wrong, so that it minimizes the negative impact of a deviation from the expected results.

Table 6: Problems related with synergy estimations

Nº	Text	Category
4	Mergers often fail because it is very difficult to execute, the reason could be anything, and there could be cultural clashes, delay in the implementation or improper execution on the operational part of the advisors or even the target company.	I.1.1
7	The full process of M&A takes a long time. A long time after the acquisition is done, a new team which is responsible for executing the integration takes place and I think it is because these teams are separated. (referring to what is failing in synergies estimations)	I.1.1
10	In many cases you get a wrong estimation because you didn't know things in advance. If you are more conservative you can reduce the failure rate, on the other hand it also lowers your chances of closing the deal because your offer is lower than competitors.	I.1.1
12	There is also an effect of not being able to predict the future. In a company, when you do a strategic plan, you do a lot of mistakes because macro-economic effects are not predictable.	I.1.1



## 4.2 Cultural assessment: importance, problems and solutions

This question has received very wide and conflicting answers. Six respondents strongly defended the importance of culture, sometimes pointing fingers and blaming the negligence companies have when it comes to cultural

variables. Three respondents showed no agreement to the statement that culture is important, several others were in a neutral opinion zone or gave no comments on the topic.

Some of the practitioners who agree with the importance of culture mention that there can be substantial differences between companies of the same country and that these are the ones that are more likely to go “under the radar”. Defendants of the importance of culture also point

Table 7: Appointed solutions to improve synergy estimations

Nº	Text	Category
1	I think that for this, clearly is to have independent teams. I believe that they are often despised by the business owners, the business leaders are not “dumb” but they have a lot of incompetence’s.	I.1.1
3	It’s important to have a check for example from the board of management or in our case the M&A department that are not emotionally involved in the deal and takes a really realistic view to cross-check if this makes sense.	I.1.1
6	You can’t just have “plan A”, you need to have plan A, B, C...	I.1.1
7	You also have to do really profound work and from my personal view, bankers don’t do this. If management can’t do this, they should employ experts. To make it better I would say to hire consultants.	I.1.1
15	During the due diligence process, you can adjust your synergy expectations. If you after all see they have very different infrastructures, then you should include a discount on your synergy expectations.	I.1.1

that there is too much optimism when it comes to culture and that people make the wrong judgment when they think that if companies operate in the same business area they may be compatible culturally.

When it comes to integrate companies, two respondents mentioned that internal teams are biased and adopt own firm culture and over-estimate how the other firm will perceive operating under a different culture.

A possible connection between the levels of agreement towards the importance of culture was found when analyzing this statement. Almost all the respondents who showed disagreement towards the importance of culture, do not work in direct contact with the integration stage where culture supposedly creates problems.

Respondents mentioned that companies can lack that capability to evaluate culture and three mentioned that hiring consultants is a good alternative, when necessary. However, the costs of making the deal happen will increase, and they advised to reflect if after adding those predicted costs the deal is still profitable. One of the respondents said that it is hard to know exactly who is on the other company, they can be manipulative and deceiving and you only really know them afterwards, said the respondent recalling past events.

Some respondents pointed as a possible way to improve cultural evaluation to take cultural research seriously and include a cultural due diligence in the timeline. Three practitioners mentioned the importance of getting involved, it can be visiting warehouses, offices, communicating and getting to know the people of the other company. Surveys to evaluate satisfaction were also appointed twice as a possible solution.

## 4.3 Cultural incompatibilities: performing deals on companies with different cultures

As one of the respondents noted, it depends on the level cultural incompatibilities are observed. According to him, these cultural incompatibilities can happen at numerous levels such as top-management or operational/employee level. He advises to evaluate which are those incompatibilities exactly and which impact will they have, because each level requires a specific set of actions and depending on the type of company and deal being pursued their impact can vary.

Table 8: Opinion of respondents on the importance of culture

Nº	Text	Category
2	I agree that companies are neglecting the importance of culture. (...). I would not say that they do lack the capability to evaluate culture.	I.2.1
3	At Bayer we are involved in many, many deals. I personally sold and acquired businesses worldwide and I haven't come across with cultural issues so much.	I.2.1
4	The key point is that the buyer should know that the cultures differ and imposing the culture on theirs can destroy value. That is the key point. Culture should be a part of the strategic evaluation,	I.2.1
7	Top management consists of highly educated and experienced people, they are also globalized, and they can deal with integrating the company well.	I.2.1
8	For us culture is always a field that we analyze to see if there is cultural fit, which is key.	I.2.1
9	I think it is something that can go unnoticed and there is overconfidence, optimism and underestimating in the ability of someone in the target company to do things.	I.2.1
10	There is little opportunity to adapt to other culture needs. There is bad preparation. You also should not underestimate culture in deals between neighbouring countries.	I.2.1
11	I think many buyers who are looking for targets fail to evaluate culture, and this is maybe two-fold.	I.2.1
13	I think both are true, on one hand companies often neglect culture and the psychological side of a deal is also the cultural side.	I.2.1
14	In my point of view, culture is not the reason. I can't say that these cultural variables are important.	I.2.1

Table 9: Opinions on how to improve cultural evaluation/planning

Nº	Text	Category
5	I think this is one of the most difficult things to do, I don't think that anything within reason can be done. It's my opinion.	I.2.1
9	Everything that has to do with getting to know the target company's people is essential, management meetings, shop visits, factories, warehouses or whatever is extremely useful.	I.2.1
13	I would say that certainly yes; by being aware of culture and by investigating, asking questions and feeling the culture. This is not exact science of course.	I.2.1
15	During the due diligence process, you can adjust your synergy expectations. If you after all see they have very different infrastructures, then you should include a discount on your synergy expectations.	I.2.1

Five respondents directly mentioned that the level of integration can be set to minimize those incompatibilities. The more culturally distant they are, the less integrated/more independent companies should be. One of the respondents also added that besides this level of integration, one should think about how well the target is running alone and in case it is a "well-oiled" company to check if an intervention is going to destroy that working efficiency. Do not integrate them, play with the level of integration (depends on how distant culturally they are and how well-oiled they are you should not destroy a well-oiled company. Two respondents mentioned that awareness is key to be ready to act.

Firing the target employees, especially the top-management was a frequent topic to be touched by the respondents. Around four practitioners advised to deal with people in a very precise and well thought manner. The leaders of the target company can be quite resistant to the change and they have a lot of power to negatively influence the outcome of the deal. What can be done, according to the answers is to deal with these people very carefully, and if they are causing problems to fire them.

As observed in the literature review it was proposed by some authors that making a commitment to retain people is beneficial to the outcomes of deals because people get less anxious. However, one of the respondents who have

experience in the topic said that from her experience the several times that commitment was done, that she saw it negatively influencing the profitability of the deal, sometimes in severe way. One of the respondents mentioned the importance of thinking about the long-term value-erosion of dealing with conflicting cultures. He defended that the negative effects might perpetuate for longer than expected, and he advised that when in doubt that it is better to find someone else.

#### 4.4 Approaches to mergers and acquisitions: standardization and viability of a value-seeking approach

The answers for this question were more abstract and complex than other questions, their opinions also referred to specific contexts. When carefully analyzing the possibly conflicting answers, it is visible that they are directed at

Table 10: Appointed solutions on how to perform deals in culturally incompatible companies

Nº	Text	Category
1	I think that, in addition to the prior evaluation that there should be (...), it is fundamental to have in the central decision-making team people who understand the culture of the other company (...). And then it is the adaptation of internal procedures so that they do not collide with that culture. For example, a Portuguese company cannot reach Spain and expect the workers to accept it at eight in the morning.	I.3.1
5	Sometimes it makes sense to impose your culture as the leading culture and sometimes they should be independent and without a full integration, it's about the level of integration.	I.3.1
7	In a recent deal, a German company has made a promotional video for the employees about the future of the company. I can say that for the lower-skilled employees this has been really helpful, they were very excited.	I.3.1
8	Leadership is extremely important in such a case, if you get the leaders of the acquired company behind you and be promoters of the change, then you've done a great thing already.	I.3.1
9	There are internal integration actions that can be launched where the resources of the two companies are combined and where one does not only seek to produce something together, but to create team spirit and integration.	I.3.1
10	First of all, you talked about integration. But that is not the only way you can create value; the other way would be to keep them separated.	I.3.1
15	This kind of situation would be very unlikely to happen. If it's a geographic thing, then keep them independent as the time gap between companies would also make it difficult for integration.	I.3.1

specific contexts that can complement and fit each other without necessarily conflict. Four respondents said that standardization exists and that it is essential on an operational level; several others indirectly defended standardization.

What four practitioners argued against standardization can be interpreted as a critique to standardizing the reasons for mergers and acquisitions. And that over-standardization, when paired with a lack of creativity, can be a value-destroying combination.

Three participants referred that the counter-side of implementing a less standardized approach that tries to seek and capture value on deeper levels is that it increases the risk of the deal not happening. One respondent mentioned: having more time to do such things would certainly add value; however, no one is interested in giving the target

more time to create problems. Some respondents highlighted the importance of time and that the less standardized you are, the more time you will require and depending on the context it can destroy more value than what it adds.

Even though their answers were sometimes abstract and hard to compare, it can be said that they agree on the fact that standardization with a touch of flexibility is key. Some areas only benefit of a high standardization such as the legal area, depending on the context, adding a bit of time and flexibility can be beneficial. One of the respondents mentioned that such an approach could work if the team was entrepreneurial and experienced enough to think outside the box and in an efficient manner.

Table 11: Opinions on the standardization of mergers and acquisitions

Nº	Text	Category
1	I think there is parameterization. It has some disadvantages, but it is also important.	I.4.1
4	No, it's not too standardized. What fails is the reason to do the deal, if I can produce something myself why should I purchase a company?	I.4.1
6	You can possibly extract guidelines, but remember you need to accustom things to work on the situations you are presented with.	I.4.1
7	Process standardization in my personal view needs to exist as much as possible, and it is good. It lowers the risk and reduces the time and effort.	I.4.1
9	The biggest driver is the level at which the management team thinks outside the box. This will determine how the company looks at the approaches.	I.4.1
15	I don't think that merger and acquisition transactions are standardized. It's probably only M&A theoretical people that say such a thing. On one hand, standardization is helpful.	I.4.1

Table 12: Opinions on being creative and flexible in the process

Nº	Text	Category
1	I think what is important is to maintain creativity, in a given scenario, to imagine and create something with more value.	I.4.1
6	You need to formulate and adapt to the situation based on the criteria and the principles that you are faced with. So yes, you need to be flexible without a doubt.	I.4.1
9	I think the main variable is the degree of entrepreneurship of the management team and the company. This will determine the risk aversion that happens in these more transformational acquisitions.	I.4.1

#### 4.5 Preparing an organization to perform mergers and acquisitions

One of the most cited solutions that can help companies prepare for transformational deals, as pointed by five respondents, is having a proactive, multifaceted and experienced team that can make the deal-making process more entrepreneurial while having enough expertise to know what they are doing. Team experience will reduce the risk of failure due to lack of process regulations. One of the respondents also noted that it is not uncommon that the people involved in the process are working with different IT systems and according to him; it would improve coordination if people were all working with the same system.

Communicating more and in a clear manner, was referred by three respondents as a way to make a good preparation for an upcoming deal. One of the respondents added, in case you are trying to sell our business, you should take care of all the marketing to be as visible as possible and increase the number of interested companies. There are important things, such as having a nice and professional website page that enables you to pass the image of being a modern and professional company, something you should

want to achieve if you are trying to sell your business. Two respondents pointed to the importance of fixing internal problems before engaging in any deal. First, they say, you should optimize what you have and make sure it is running in an efficient and stable way. Two practitioners pointed to the importance of prioritizing the upcoming merger or acquisition event, to define a timeline and allocate the resources necessary to make a smooth transaction. About making a more extensive research and looking for deeper sources of value, one of the respondents mentioned that it should not be more complex than a regular deal; it is just a matter of evaluating and preparing with more time and having attention to details.

Two respondents advised to have more transparency in the process. And one respondent mentioned the importance of adjusting the dynamics of both companies so that the target knows it is a two-sided process. Regarding other aspects that could be improved, one respondent also mentioned to define leadership more clearly; the idea is to always have a board or a committee that is ready to take care and supervise the deal. Two respondents mentioned that it is a human thing that people don't like unexpected change, especially when it is not in their interests. Therefore, they can try to resist changing. What one practitioner advised is

to educate people on these issues and to pay them well to keep them satisfied and motivated via the achievement of financial bonuses. One respondent commented on the fact that trying to extract deep synergies from attractive deals has its disadvantages when compared with easier deals. Easier deals can also create value by having less competition and being less time and resources consuming. Another responded commented that in mergers and acquisitions if one side wins a lot the other side must be losing.

## 5 Discussion

### 5.1 Pre-deal Assessments: synergy estimations

In the estimation of synergies, this study found proof that there is indeed a presence of a managerial hubris and an over-optimism involving the realization of deals, this

Table 13: Opinions on how to prepare an organization to perform mergers and acquisitions

Nº	Text	Category
7	If you are acquiring to make a completely new company, with a new branding, do it step by step. Do it gradually, it is quite important. You need enough time to get everybody used to the idea and deploy the resources.	1.5.1
9	What I would say in a simplistic way is that the more knowledge you have about the industry and the more referrals you collect from the target company, the lower the associated risk because the greater the understanding and the ability to choose what you really want.	1.5.1
10	You can prepare your organization, (...) having people with experience that can react to that specific situation.	1.5.1
15	A board or an integration committee that is installed to control the process. This is normal in large M&A deals. Feedback from employees is also crucial and that goes back to the cultural question, when things are not going as expected.	1.5.1

goes in conformity with the statements of Barney and Hesterly (2012). As the authors mention, too often people are emotionally attached to the deal and think with their heart instead of reason. In an interview, one transaction consultant with many years of experience pointed a figure regarding this topic, according to him; this happens more than a half the cases a transaction is done on an SME.

It was also pointed that synergies estimations can be hard to estimate, and that it is no problem of the companies and managers themselves. One interviewed director pointed to his experience as he felt many times frustrated after not being able to get essential confidential information from the target. The data itself can be imperfect, no one can calculate everything to the most minuscule of details, even the most well-made synergies estimations are just estimations and there are many non-financial variables involved, these results are in conformity with the arguments of Gomes et al. (2013).

The importance of making bottom-up synergy predictions instead of top-down estimations was highlighted a couple of times. Whenever it is possible and advisable, companies should perform bottom-up analysis. This finding is in conformity with the previous literature such as the arguments of McKinsey & Company (2010), however expands existing knowledge by alerting to avoid over-optimistic

involving decision making as suggested by Garzella and Fiorentino (2017).

### 5.2 Cultural assessment: importance, problems and solutions

Regarding the cultural variable, the interview responses were contradictory. Some people defended strongly the importance of culture, while others even mentioned that during their decades of experience they never observed the effects of culture to be a significant problem. Most of the reviewed literature defends the importance of culture although with divergent result (Schraeder and Self, 2003; Lodorfo and Boateng, 2006; Badrtalei and Bates, 2007; Weber et al., 2009; Sarala, 2010; Weber and Fried, 2011; Bain & Company, 2013). The results of this study bring additional information on this issue, by identifying that culture is effectively important. The belief of some of the interviewed professionals that think otherwise only prove the existence of cultural negligence, which is defended by some authors as a cause for the failure of mergers and acquisitions (Schraeder and Self, 2003; McKinsey & Company, 2010). The majority of interviewed people who disagreed with the importance of culture work at the pre-

stage and due-diligence phases and hold positions in banks or large corporations with highly specialized deal-making functions and have no responsibility in integrating organizations, this might be a factor contributing for their view on the importance of culture.

### **5.3 Cultural incompatibilities: performing deals on companies with different cultures**

The obtained results are in conformity with the arguments of the authors studied in the literature review. When dealing with deals that are predicting large financial benefits, but companies have cultural incompatibilities, one of the mentioned solutions was to play with the level of integration; to keep the companies independent if it doesn't generate much damage to the capability to reap the synergies. This complements the argument of Schraeder and Self (2003) on the importance of developing a well-supported plan as well as the argument of Barney and Hesterly (2012) that managers should balance the interests of employees, managers, shareholders and stakeholders of both companies in a neutral way and while avoiding conflicts of interest.

Another finding consistent with the literature review was on the benefits of communication; to try getting connected with the leaders of the target company to plan things together and to involve employees as well. According to the authors in the literature as well as the respondents, this communication and participation creates team-spirit and reduces the resistance to change by changing the perception of people that the ones behind the deal are on their side (Schraeder & Self, 2003). Gundry and Rousseau (1994), also mentioned the importance of having integration activities. Communication is also important in the perspective of Marks and Mirvis (1992), their argument is that uncertainties destabilize employee performance, good and clear communication certainly helps reduce uncertainties.

Some respondents mentioned that when dealing with distant cultures, managers should not immediately impose one over the other. Managers should instead develop integration activities that slowly build a team-play spirit between the two sides and after that the speed and degree of cultural change can be molded to avoid major conflicts. As Gordon (1991) mentions cultures are abstract and hard to change. This article expands previous knowledge about cultural and human factors on mergers and acquisitions (Bereskin et al., 2018; Denison and Ko, 2016) by identifying the managerial hubris as a key factors that creates an over-optimism in decision making.

### **5.4 Approaches to mergers and acquisitions: standardization and viability of a value-seeking approach**

The value-seeking approach concept as proposed by McKinsey & Company (2010), did not receive much approval from the respondents. However, respondents agreed that keeping creativity and flexibility in some areas is vital, therefore giving partial support to a possible change in the way mergers and acquisitions are conducted. The consensus among respondents is that standardization leads to a faster and more efficient process, but when things are running too automatically, some variables are not observed and are left untreated because people are working with guidelines. Trying to search and explore deeper synergies could indeed add value for the deal, but it is also not in the interest of the buying company to, in many cases, give the target more time to cause problems.

Some respondents said that the theoretical reasoning behind the value seeking approach is correct and makes sense, but that too often there are very tight time constraints as well as other variables such as the negative perks of giving the target more time that make this more extensive approach not look as good. Therefore the concept for this new approach of McKinsey & Company (2010) can work out if the proper conditions are in place and more research needs to be conducted.

### **5.5 Preparing an organization to perform mergers and acquisitions**

Having experienced and proactive teams with a well-defined leadership was one of the mentioned topics by respondents to prepare organizations to better perform deals, this is in accordance with the view of McKinsey & Company (2010). Another mentioned action to make sure an organization is prepared to perform mergers and acquisitions is to make sure that the company is running smoothly and efficiently before engaging in a merger or acquisition deal, this finding is consistent with previous research (c.f. Kiessling, Vlačić, and Dabić, 2019).

The importance of have a good amount and quality of communication for the success of mergers and acquisitions was appointed by the respondents, this opinion is in line with what was observed in the literature review (Wiltermuth and Neale, 2011; Faisal et al., 2016). As mentioned by Konstantopoulos et al. (2009), when there is lack of communication, it creates feelings of insecurity and allows negative rumors to spread. On this vein, this research extends previous research (e.g. Friedman, et al., 2016) by providing a more deep detail of the communication climate that must be developed to prepare the organization for mergers and acquisitions. This article also expands ex-

isting knowledge about mergers and acquisitions synergies (Moreira & Janda, 2017) by including the cultural dimension besides the financial one.

## 6 Conclusion

This investigation reinforces the arguments of some previous authors and brings light into several topics of mergers and acquisitions. Regarding synergy estimations, the managerial hubris and over-optimism need to receive more attention from managers and organizations. This study reinforces the argument for the presence of a managerial hubris that has been indicated by Barney and Hestery (2012). Multiple respondents referred to this variable as being a negative impediment for the neutral and efficient realization of deals. In the future, the field needs regulate itself by making sure professionals are not emotionally biased in the deals. The process of decision-making needs to avoid rules of thumbs and engage in more rational data calculations by adopting clear and standardized methods. Another proposed solution achieved in this work is to make people accountable for their mistakes as well as their achievements, by adopting this reward system people will be more careful to check if they are building their arguments without emotional bias.

The cultural variable received controversial and conflicting answers, overall, professionals gave both positive and negative answers regarding the importance of culture. This conclusion means that there is a misalignment between the beliefs of practitioners regarding the importance of culture, which obviously will influence how they handle the variable when they are performing deals. The results also conflict with the authors studied the literature review, since most of them defended the importance of culture. If culture is important, this study brings evidence and reinforces the argument of authors blaming cultural negligence as a contributor for failure in mergers and acquisitions. If culture is important after all, a solution needs to start by raising the awareness of professionals for its importance, this can be done by performing more studies to prove why and how culture can influence the outcomes of mergers and acquisitions.

When dealing with culturally distant companies, this study also makes several suggestions, it might be advisable for firms to not impose culture and try to excite the leader of the target to avoid having conflicts and do things in a friendly way instead. Employee integration actions help as well, when there are cultural conflicts and employees from both companies need to work collectively, companies can progressively develop projects that slowly integrate employees and build the team spirit.

The value seeking approach is a relatively new concept in the field of mergers and acquisitions. This study brings light into what practitioners think of adopting such

an approach and how they perceive the current state of the sector. Standardization on mergers and acquisitions received support from most respondents, however, they also advise to keep some level of creativity and flexibility. Another contribution to the field of mergers and acquisitions is how practitioners perceive the need to change the way mergers and acquisition are conducted, there were divided answers, some practitioners believe that the process can be improved and others don't.

For managers and entrepreneurs without much experience that want to be prepared to engage in a merger or an acquisition, this investigation suggests several actions. Firstly, firms can start by defining the leadership very well and include people with experience in mergers and acquisitions in the team. Leaders also need to consider the importance of communication from the very beginning, an increase in quantity and quality of the information being communicated can have positive results in many levels. It can be internal and lead to an increase in internal coordination, or it can be external and lead to an increase of the awareness in the context of the deal and enable firms to make better decisions.

Considering the nature of the current research, as well as the topic being investigated, it is imperative to reflect on several limitations. Performing a broad and holistic study is very hard given the limited resources available to perform this investigation. Therefore, the achieved conclusions need to be taken with caution as the study is not broad enough to induce in undeniable conclusions. It also needs to be well-thought-out that the achieved conclusions might be true only for the context upon which they were extracted. Therefore, this research is restricted regarding both contextualization and sample size. Another limitation was that some of the respondents favored to not disclose their identity or to not allow the interview to be recorded, which affected the detail of the information. In any case, the ones who opted for anonymity all agreed to disclose their identities for the evaluation committee in case there is scrutiny over the validity of their interviews.

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### **Kulturni, vodstveni in organizacijski dejavniki vpliva na rezultate prevzemov in združitvev**

**Ozadje / namen:** Raziskava se osredotoča na spremenljivke, ki vplivajo na rezultate združitvev in prevzemov, izhajajoč iz analize preteklih napak, da bi managerji lahko izluščili boljše strategije in sprejemali modrejše odločitve za izboljšanje rezultatov združitvev in prevzemov. Študija prispeva k obstoječemu znanju o uspešnosti združitvev in prevzemov z raziskovanjem razsežnosti kulturnih, vodstvenih in organizacijskih dejavnikov s pomočjo integrativnega pristopa z več perspektivami.

**Metodologija:** Opravljenih je bilo petnajst intervjujev z izkušenimi strokovnjaki na več področjih združitvev in prevzemov. Za interpretacijo rezultatov smo uporabili vsebinsko analizo. To je omogočilo celovitejši nabor odgovorov in možnih rešitev, ob primerjanju mnenj o istih problemih, obravnavanih z nekoliko različnih zornih kotov.

**Rezultati:** Študija kaže na vpliv vodstvene ogroženosti, čustvene navezanosti in preveč optimizma pri združitvah in prevzemih. Pokazala se je zmerna podpora standardizaciji postopkov združitvev in prevzemov, vendar anketiranci svetujejo, da ne pozabimo na kreativnost in prilagodljivost.

**Zaključek:** Članek zaključuje z strnitvijo ključnih vprašanj glede uspešnosti združitvev in prevzemov: zmogljivosti in izkušnje, organizacijska komunikacija, notranje usklajevanje in ključni dejavniki pri odločanju.

**Ključne besede:** *Združitve in prevzemi, Sinergije, Kultura, Strategija, Rast, Izvedba.*