Introduction

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For the last four decades, researchers in various disciplines have been trying to explain the enduring paradox of the growing activity and volume of mergers and acquisitions (M&A) versus the high failure rate of M&A. Recent meta-analyses that examined the most studied variables (King et al., 2004; Stahl and Voigt, 2008) did not provide clear answers for this paradox or for the high failure rate of M&A. Scholars indicate that the results of many studies including those concerning the predictors of M&A success are inconsistent and confusing. It is clear that existing research on M&A provides limited and insufficient understanding of this important phenomenon.

Possible answers to this paradox may be that research on M&A as well as practice need new directions, some improvements and a different focus. These new directions and focus may include different, maybe new, variables, as well as different relationships among variables in this complex managerial task.

Some scholars (Weber and Fried, 2011a; Weber, 2011b, Weber et al., 2011; 2012) point out that a major drawback of existing literature is that, while the M&A is a multi-stage, multi-leveled, and multidisciplinary phenomenon, most of the research tends to be conducted in a single stage (for example, pre- or post-merger), omitting the stage of negotiation (a recent exception is Weber et al., 2011a), at a single level (for example, macro or micro) and in single disciplinary (for example, strategic management, or organizational behavior). Thus, current literature lacks a systematic framework that combines M&A stages and points at possible relationships between variables within and between all stages.

The goal of this book is to stimulate scholars to focus on such new directions and new relationships among variables in M&A. This complex, widespread and growing phenomenon of M&A will require the incorporation of multidisciplinary, multi-level and multi-stage models and analyses. Therefore, this book also aims to explore how underlying concepts and methodologies can make an important contribution towards understanding M&A process and its performance.

DIFFERENT STREAMS OF RESEARCH: DIFFERENT M&A STAGES

Several possible explanations exist for the lack of consistency that permeates recent studies on the relationship between success factors and M&A performance. For example, Teerikangas and Very (2006) focused on the sources of complexity underlying these relationships. Others suggested that different measures of performance (Zollo and Meier, 2008), national culture of the acquirer (Weber and Tarba, 2010), focus on micro- or macro-levels of analysis only, negotiation (Weber et al., 2011a) or taking into account either pre- or post-merger variables are not sufficient to find consistent relationships (Weber et al., 1996; Weber, 1996; Weber and Fried, 2011a).

The latter explanation relates to lack of connections between M&A stages. For example, the failure of past research to find a consistent relationship between synergy and M&A success may stem from an over-emphasis on the pre-merger stage at the expense of the post-merger stage and the mechanisms inherent in processes of firm integration. It is interesting to see that historically, two main independent streams of management research have studied either the *pre-acquisition* or *post-merger* integration stages. One stream that focuses on the pre-acquisition stage examined the relationship between firm-level measures of financial performance and the strategic fit between buying and selling firms (for example, Singh and Montgomery, 1988; Palich et al., 2000), with a focus on the potential synergy and added value of the acquisition to the buying company, in other words, on choosing the right merger. The implicit assumption in these studies is that the activities and actions of the acquiring firm, during the pre-merger stage, are the sole determinants of value. Accordingly, studies either observe how managers in the acquiring firm search for alternatives or probe the content of their strategies, devoting less attention to the actual process of its implementation. For example, strategic theories, especially the “strategic fit” concept, suggest that relatedness between the buying and target firms depends upon synergy potential, and as such, it is the key determinant of value creation. Curiously, though, the empirical evidence drawn from studies of M&A that exhibit relatedness is mixed at best. Furthermore, the finance literature suggests that M&A, on average, do not add value to the acquiring firm, and that more probably, they are seriously detrimental to long-term shareholder value (King et al., 2004). The results of a recent meta-analytical study on the effects of finance and strategy variables on M&A performance by King et al. (2004: 197) led the authors to conclude, “Researchers simply may not be looking at the ‘right’ set of variables as predictors of post-acquisition performance.”

The second stream of research focuses on the post-merger stage and examines the cultural fit of the buying and selling firms, and its impact on the success of the merged company (Chatterjee et al., 1992; Sarala and Vaara, 2010; Stahl and Voigt, 2008; Weber et al., 1996; Weber, 1996; Weber et al., 2011b). But findings are not always conclusive (Stahl and Voigt, 2008). These studies have paid little attention to cross-cultural management, for example, to the role of HR practices, given the effect of cultural differences on the success or failure of domestic and international M&A.

Note that the various bodies of literature on M&A seem to exist in a state of splendid isolation. This issue has been raised by several scholars many years ago (for example, Weber et al., 1996), but the situation has not changed much since then. Although they share some definitions and terms, authors writing about pre-merger and post-merger issues generally refrain from stepping onto each other's territory, thereby missing out on opportunities to fully understand the M&A process and the effects of each stage on M&A performance.

DIFFERENT STREAMS DIFFERENT RESEARCH LEVELS: CONTEXT VERSUS PROCESS

The strategy literature has focused primarily on strategic analysis that identified characteristics of the two firms in a merger in order to determine the best fit between the partners. These characteristics that supposedly suggest the best strategic choice, usually macro level variables, such as identification of industry and relatedness, and relative size of the two organizations, were the contextual factors that aim to predict, for instance, synergy potential, and thus, value creation in M&A.

On the other hand, organizational behavior literature has focused primarily on factors pertaining to the human side during post-merger integration. These include a focus on individual behavior and the processes during integration such as top executives' commitment and turnover as a result of culture clash (Lubatkin et al., 1999; Weber, 1996; Weber et al., 1996; Weber and Drori, 2011), structural changes (Ellis et al., 2012; Weber, Tarba and Rozen-Bachar, 2011c) and HR practices such as different effect of training and communication on M&A success in various countries (Weber et al., 2012).

As before, each stream of research focuses on different variables. These differences lead to a focus on different units of analysis that make comparison and consistency of findings very difficult.

NEGLECTED VARIABLES AND M&A STAGE

The two streams of research highlight one more difference between the types of variables that each stream investigated. This difference is related to the difference between context and process variables. Thus, while much research attention focuses more on context variables at the pre-merger stage, other research focuses on process variables at the post-merger stage. Context variables that have been studied at the pre-merger stages include, among others, relatedness, relative size of buyer to target firm, cultural differences and buyer experience in previous M&A. On the other hand, process variables that have been investigated, usually at the post-merger stages, include level of integration, identity, executive turnover, communication and structural changes.

Another characteristic of these differences between the two streams is that process variables at the pre-merger stage receive much less attention, such as due diligence process. On the other hand, research attention about the post-merger stage focuses on process variables rather than context variables.

Finally, while each stream of research focuses on specific types of variables (context versus process) in a specific merger stage (pre- or post-merger), the negotiation stage by and large has been neglected. There is a dearth of research attention to the negotiation stage, either context or process variables. A recent study (Weber et al., 2011a) pointed out the importance of cultural differences and planning to the result of the negotiation process.

Table I.1 presents examples of variables that receive relatively more attention. This table is divided into three stages, namely, pre-merger, negotiation, and post-merger stages and types (context versus process). Here, variables such as level of integration received much attention.

Table I.1 Variables that received high research attention

	Pre-merger	Negotiation	Post-merger
Context	Relatedness, cultural differences, experience, relative size		
Process			HR practices, level of integration, communication, structural changes

Table I.2 Examples of stages that may receive more research attention

	Pre-merger	Negotiation	Post-merger
Context	Trust	Cultural differences	Trust, identity, new culture
Process	Planning	Negotiation process	Integration approaches, HR practices, cultural changes

However, other variables such as structural changes and communication received attention only recently. Human resources (HR) practices in M&A have recently received much more attention in two special issues of the *Human Resource Management Journal* (2011). A recent article showed the role of cultural differences analysis, such as cultural differences analysis, in all M&A stages (Weber and Tarba, 2012). Yet, these are exceptions and most of the potential relationships are yet to be explored. Table I.2 presents examples for future research.

NEGLECTED CONNECTIONS AMONG M&A STAGES

While researchers agree that M&A are complex phenomena, most of the current research focuses on a few relationships, in many cases only context variables, or only on one stage. The overarching theme of this book is that focus on the pre-merger stage can only predict the potential of M&A performance. In fact, the failure to find a consistent relationship between context variables such as relatedness (synergy) and M&A success may stem from an over-emphasis on one stage, here the pre-merger stage, at the expense of the relationships with variables of the negotiation and post-merger stages.

Past literature, for instance about the pre-merger stage, with few exceptions, has not considered the possibility that management of the acquired firm, as well as interaction between buying and target firms following the merger, play a key role in M&A success. Indeed, the management of the post-merger stage and the integration process is crucial in determining the extent to which synergy potential is realized. However, to this point, only a limited number of management studies about the pre-merger stage have focused on identifying the factors that might contribute to post-merger integration success. It is likely, then, that strategic fit interacts with other systematic variables in the negotiation process and post-merger integration process in order to produce robust performance results.

There are numerous possible research questions and connections among variables within each stage and between different M&A stages. For

example, looking at relationships between context and process variables at the pre-merger stages may lead to better understanding of the strategic analysis, the screening process and the recommended merger for executives. Such research questions may focus on the importance of a thorough and longer process of planning to the screening process. Similarly, the involvement of experts in the process of screening, from buying firm and the time and use of consultants, may shed light on what leads to M&A success.

These can be extended to relationships with other M&A stages. For example, does better planning of negotiation steps lead to better negotiation outcomes, as was recently suggested (Weber et al., 2011a). Does inclusion of implementation challenges in the choice of target firm make the post-merger integration process more successful than cases where these challenges were ignored?

In terms of context variables, what information (variables) can best be used in the negotiation process? What information and in what situations (cultural differences level, relatedness, relative size), when (timing), and how should it be used during negotiation steps?

Similarly, what information from the pre-merger stage will be needed for a successful post-merger integration process? And, what information should be used from the negotiation stage during post-merger integration? How does the information from the negotiation stage influence the strategic choice of buying a company? For the process part, how is information from the negotiation stages used in the screening process during the pre-merger stage? Will it influence the inclusion of executives and experts in the negotiation stage and in the pre-merger stage?

Similar research questions can be developed for the relationships between context and process variables in the post-merger stage. For example, Weber et al. (2012) found that the effect of training and communication processes on M&A success varied in different countries. This raises questions about the role of national culture of the acquirers on the effectiveness of various processes such as HR practices during the post-merger integration process.

What is the importance of context variables versus process variables? Are some necessary for success while others are sufficient?

Thus, scholars and executives must understand that to seize the potential of M&A that is usually identified in the pre-merger stage, the steps to be taken in the integration process must be discussed as part of the merger choice. For example, with its breadth of acquisition experience, Teva has structured HR tools for due diligence. Due diligence covers all HR aspects (legal, economic, structural, demographic, and turnover data) as well as other “soft” issues, especially culture (Claus, 2006).

Finally, negotiation is also an essential part of a successful M&A (Weber et al., 2011a).

Although the chapters in this book reflect a wide array of theoretical and empirical perspectives, their thematic focus hones in on three primary issues. First, some of the chapters take on the important task of incorporating both pre- and post-merger stages into their research, while others conduct interdisciplinary research. Second, other chapters consider the status of theory and research in specialized areas of M&A and investigate context variables that are under-explored, such as trust, and knowledge transfer, among others.

The chapters that follow thus focus attention on the connection between M&A stages and context variables, identifying gaps in the current research, presenting new findings, and generating new insights into important issues in M&A and how to manage them. The book is divided into four parts:

Part I: New models and empirical findings on connections between M&A stages

Part II: Research agenda and theoretical development on connection between M&A stages and context variables

Part III: Methodological issues in M&A research

Part IV: New and under-explored context and process variables in various M&A stages.

A brief overview of each part follows.

Part I: New Models and Empirical Findings on Connections between M&A Stages

This part focuses on empirical findings of new models that show the promise of the perspective that aims at connecting M&A stages. In Chapter 1, Günter Stahl combines context and process variables from pre- and post-merger stages to present an integrative model of the antecedents and consequences of trust in M&A, with the target firm members' trust-worthiness perceptions as a key mediating process. He provides empirical evidence supporting this model.

In the second chapter, Weber, Tarba, Stahl and Bachar-Rozen develop and test a new paradigm that combines pre- and post-merger stages. In fact, it combines the pre-merger context variables of two main research streams on M&A that were described earlier, namely strategic fit and organizational fit, with the post-merger integration process. Thus, it is argued that the fit of integration approach mediates the relationships

between synergy potential and cultural differences on one hand, and M&A performance on the other.

Part II: Research Agenda and Theoretical Development on Connection between M&A Stages and Context Variables

This part presents theoretical development about both context variables and linkage between variables in and from different M&A stages. Chapter 3, “A research agenda to increase mergers and acquisition success” by Marks and Mirvis, highlights that the processes used to put companies together is essential for M&A success. In these processes, the chapter focuses on the factors which matter most in eventual M&A success.

In Chapter 4, Reus, Ellis, Lamont and Ranft focus on context variables and connections between M&A stages. They present four models that place process factors along with contextual factors in M&A research. These models offer insight into ways in which the understanding of contextual and process factors can be enhanced in tandem.

In the last chapter of this part (Chapter 5) “The dynamics of knowledge transfer in mergers and acquisitions”, Junni, Sarala and Vaara explore the relationships among context variables in both pre- and post-merger stages, such as collective and individual absorptive capacity and post-integration processes such as operational integration, cultural integration and political behavior. They present an integrative model that maps some of the complex interrelations between these factors, and provide suggestions for further theoretical and empirical work.

Part III: Methodological Issues in M&A Research

This part focuses on methodological limitations as well as suggestions for new directions with methodological considerations. In the first chapter of this part (Chapter 6), Risberg and Meglio challenge the methodological common wisdom that there is high failure rate of M&A based on common performance measures. They divide the research findings into different categories, and show how meaningless, if not misleading, it is to compare the results of various studies on M&A performance in an attempt to make any claims about merger and acquisition performance in general.

In “Researching mergers and acquisitions with the case study method: idiographic understanding of longitudinal integration processes” (Chapter 7) Bengtsson and Larsson review and summarize the comparative strengths and weaknesses of case studies as well as the most versus less influential M&A case studies. Their review argues that case study methodology has successfully contributed to the field. Following this they analyse

the impact of different case study designs on findings and their impact through a survey of 55 M&A cases. They conclude with methodological recommendations about how to increase case study contributions to M&A research.

In last chapter of this part, “Individual values and organizational culture during a merger: immovable objects or shifting sands?” (Chapter 8) Kavanagh and Ashkanasy investigate four methods of acculturation. They present empirical findings of a longitudinal, multi-level quantitative study and focus in particular on the extent and direction of change to individual values and organizational culture during the acculturation process that occurs at post-merger integration stage. The results indicate that the method of acculturation depended on the approach taken to manage the merger.

Part IV: New and Under-explored Context and Process Variables in Various M&A Stages

This part includes chapters that investigate new variables such as grief in M&A, and other under-explored context variables such as communication. In Chapter 9, Söderberg focuses on how communication can serve strategic purposes after a complex merger where one of many challenges is to embrace national, organizational and professional cultures in a transnational organization. She also highlights some of the benefits of adding a communication perspective to studies of post-merger integration processes and draw attention to the impact for practice and research of the communicative issues touched upon.

In Chapter 10 Ahammad, Glaister, Weber and Tarba investigate the determinants of top management retention in cross-border acquisitions. Applying both the theory of relative standing and the financial incentive mechanism of retention, they find that post-acquisition autonomy of the acquired firm and the acquirer’s commitment to the acquired organization significantly affect top management retention.

In “Grief and the management of mergers and acquisitions” Very, Metais and Hourquet investigate hostile mergers and mergers of equals. They examine the likely occurrence of employees’ grieving for their former organization during the integration process and the consequences of this grief on performance.

An overarching theme of this book is that the failure of past research to find a consistent relationship between synergy and M&A success may stem from an over-emphasis on the pre-merger stage at the expense of the post-merger stage and the mechanisms inherent in processes of firm integration. This book contains chapters that highlight and clarify some

of the complexities, interconnected processes, and synchronized activities of both pre- and post-merger stages.

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