

**The Effects of Mergers and Post-Merger Integration:
A Review of Business Consulting Literature**

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Introduction and Main Findings

Beginning in the mid-1990s, several consulting firms commissioned surveys concerning the outcome of recent mergers. The surveys and related analyses were used to examine three general questions: First, did the mergers tend to achieve the goals and objectives of the executives involved in the deals? Second, on a more objective basis, did the deals enhance shareholder value relative to industry benchmarks? That is, were the deals a financial success? Third, and perhaps most important to the consultants, what were the characteristics of the more successful deals compared to those of the less successful deals?

The surveys tend to focus on larger, transnational mergers and acquisitions examining the views of top managers in the acquiring companies regarding the success or failure of a deal.¹ The questions to be answered often include the original purpose of the merger, how the merger performed relative to plan and expectations, how the acquiring firm went about the post-merger integration process, what types of synergies or strategic advantage were expected and achieved, and what types of problems developed in implementing the merger.²

In addition to summarizing and analyzing the results of the interviews, the consulting studies often bring objective data to bear on deals covered by the surveys, examining whether the post-merger stock prices rose or fell relative to the pre-merger trend and/or relative to the industry average share price. The results of this financial analysis often differ from those obtained in the executive survey portion, because the firm perhaps succeeded in the deal, but paid too much for the assets. In that instance, executives might think that the deal achieved their strategic and cost reduction objectives (e.g., reducing real costs or positioning the firm for future growth), but it did not achieve an increase in shareholder wealth. Indeed, unless the deal improves the position of the firm relative to its rivals in the race for consumer patronage, it may not increase shareholder wealth at all.

Answering the third general question - what are the characteristics of successful deals? - requires drawing overall tendencies from the surveys based on up to 700 idiosyncratic

¹Most of the surveys were conducted for the consulting firms by marketing firms, who interviewed someone in the acquiring company (e.g. an involved board member or top manager) about the merger.

²The survey questionnaires are not generally available, and thus one cannot be sure exactly how questions were phrased. This can often matter when trying to interpret survey results. For example, if a respondent were asked whether a merger fully attained all its goals, the likely answer would be “no” simply because the question asked about *full* attainment rather than general success. Because survey results are likely to have been highly dependent on how the survey’s questions were worded, a reader of the results cannot effectively evaluate the answers without knowledge of the survey instrument itself.

transactions. This is often done by comparing the deals on several criteria drawn from the survey of executives.

Results of Merger Outcomes Analysis in the Consulting Literature

The first question - did the deal meet the objectives of its creators? - receives a positive response in most of the surveys. Executives often indicate that their mergers achieved their objectives in 70% to 80% of cases.³ Many of these same studies, however, indicate that the full potential of the merger was not attained. One can readily ask whether these surveys, using executive opinions as a benchmark for success, provide a valid test, because one can hardly expect the executives involved in the deal and responsible for its success to be unbiased evaluators of the deal.

The second question - was the deal a financial success? - often elicits a negative response.

- When compared to industry share price indices or broad-based averages, mergers are often found to succeed less than half the time. In many cases transactions fail to enhance shareholder value (as measured against overall stock market performance, industry average returns, pre-merger trends, or a variety of other definitions). If, however, the trend found in KPMG's 1999 and 2001 surveys is correct, firms are getting better at doing mergers and are less frequently reducing share value.⁴
- Revenue growth is found to decline post-merger for both the target and the acquiring firm in a majority of cases.⁵

³Other surveys focus on whether the deal met the firms' expectations. Upper level managers may tend to have more positive views of mergers than do operating-level managers according to some sources (Shay, PwC, April 23, 2002). If so, the choice of a particular interviewee may affect the outcome of the survey. Some surveys of executives indicate only a 55% success rate even using the subjective benchmark (MAPI 1998).

⁴This result is consistent with results reported by Lajoux and Weston (1998, p. 37) who report that early 1990s deals worked better than 1980s transactions, with 52% of deals beating industry average stock price appreciation rates in the 1990s sample. Mercer Management also found that 1990s deals tended to turn out more favorably than 1980s deals, with success rising from 37% in the 1980s to 52% in the 1990s (see McKinsey presentation 2002, p. 9).

⁵Bekier, et al. (2001) of McKinsey find this negative revenue effect for mergers generally, which is supported by BCG's findings with regard to banking mergers (Viner et al. 2000).

Whether a merger is considered a financial success can depend on the benchmark chosen.⁶ Sometimes the benchmark is the post-merger share price performance of other merging firms. Oftentimes the benchmark is whether the share price of the firm rose relative to an industry-specific average or an all industry average. In other instances, revenue growth relative to recent trends appears to be the benchmark. The best benchmark might consist of a financial performance index based on a set of matched firms in the same industry that did not go through a merger event.⁷ Unfortunately, the world seldom presents a natural experiment that well-designed.

Beating your industry average can be a tough test. Firms are constantly striving to out-do each other in the race for customer loyalty. Beating your rivals in that race one or two years after a merger is difficult. In addition, mergers can be a financial failure, but a success in a societal sense, if they reduce the use of real resources in producing output or if they result in better products or more diverse choices for consumers. For the most part, one would expect financial results and social outcomes to coincide, but if a firm overpays for the assets or if rivals quickly copy and surpass a merging firms' innovations, the merger might have been socially successful, but a financial failure.

The results of several of the consulting firm surveys of merger outcomes are summarized in Table 1.

⁶On occasion, the use of particular categories becomes confusing. Results are sometimes presented in two categories, success or failure. "Success" is sometimes said to occur only if the deal results in share price appreciation beyond the average for all comparable firms. Thus, continued average growth is considered a failure. For certain studies presenting data in that way, mergers can be shown to "fail" as much as 75% of the time. How the "no significant change" category is counted often drives the tone of the presentation.

⁷For a discussion of situations in which matched sets of firms may provide the best benchmark, see Alope Ghosh (2001, p. 177).

Table 1
Selected Results from the Business Consulting Literature on Mergers
and Post-Merger Integration

Sponsor	Selected Results	Sample, Methods, Comparison Group
KPMG 2001	82% considered successful in executive survey. 30% added value, 39% no change, 31% lowered value. A focus on synergy attainment increased chances of success by 28% relative to the average deal.	Survey of executives for 118 companies doing 700 cross border deals from 1997-1999. Compares equity price trends relative to industry trend just before and one year after the deal.
KPMG 1999	75% considered successful in executive survey. 17% add value, 30% no change, 53% reduce value. Firms that focused on choosing a strong deal management team and performed in-depth integration planning did 66% better than average. Pursuing synergies vigorously and communicating well improved performance by 45%. A focus on cultural issues improved the chances of success by 26%. Early action was a key for the successful firms.	107 companies surveyed for 1996-1997 cross border deals. Same comparison as above. Basis of certain percentage comparisons are not always fully explained.
Booz-Allen & Hamilton 2001	53% of deals do not meet expectations; 47% of deals fail to attain the objectives stated in the merger announcement; 55% of same-industry deals met expectations, only 32% of cross industry deals met expectations. 42% of CEOs of disappointing mergers are gone within 2 years vs 16% for successful CEOs.	Methods not fully described.
Business Week/ Mercer 1995, Sirower BCG 2002	Mercer Mgt 1995 results: 27% increase value, 33% no change, 50% reduce value. Nonacquirers outperformed acquirers, and experienced acquirers outperformed tyros. Sirower/BCG 2002 results: 61% reduce shareholder value one year later, on average buyers do 4% worse than industry peers and 9% worse than S&P500. The study examined 302 large 1995 to 2001 deals.	Reviews 150 large, 1990-1995 deals. Share value 3 months before versus three months after compared to S&P500. Results regarding types of deals that work best are inconsistently reported. Some comparisons to non-acquiring firms.
Mercer Consulting 2001	Over half of trans-Atlantic mergers work. Managers of the successful deals credit acquirer and target complementarities, especially careful planning, and speedy, well-directed implementation.	152 trans-Atlantic deals from 1994 to 1999 using 2-year post-deal comparison to industry-specific S&P stock price index.

Table 1
Selected Results from the Business Consulting Literature on Mergers and Post-Merger Integration

Sponsor	Selected Results	Sample, Methods, Comparison Group
McKinsey 2000, 2001	65%-70% of deals fail to enhance shareholder value; 36% of target firms maintained revenue growth in 1 st post-merger quarter, only 11% by 3 rd quarter; revenue growth 12% below industry peers, 40% of mergers fail to capture cost synergies. In a related study, 42% of acquiring firms had lower growth than industry rivals for 3 years following the merger.	193 deals from the 1990 to 1997. Industry-specific benchmarks are used. Earlier related study examined 160 deals by firms in 11 sectors in 1995-1996.
PriceWaterhouse Coopers 2000	Acquirer's stock 3.7% lower a year after a deal relative to peer group stock changes. 39% of firms reached their cost-cutting goals, while 60-70% achieved their market penetration goals. Success rates were uniformly higher if the firm moved early and quickly with transition teams, communications, and integration. Vast majority (79%) of executives regretted not moving faster in integration.	Survey of executives in 125 companies across a broad range of industries in 1999; 72% of firms were U.S.-based.
Accenture 2000, 2001	39% fully achieved their anticipated gains from alliances in the oil industry. In the finance industry, the best deals improved revenues 14%-19% and shareholder value 65% above industry share values.	Oil industry and financial industry focus. Financial study reviews 72 deals from the 1990s.
A.T. Kearney 1999	58% of deals reduced shareholder value. Top performing deals were done in closely related businesses & had a higher percentage of assets in the firm's core areas. 74% of successful deals were run by managers with deep merger experience.	115 large 1993-1996 deals; total shareholder returns 3 months before versus two years after the deal. No explicit non-merger comparison group - comparisons made to average or quartiles in the sample.
CSC Index Genesis 1997	Slightly more than 50% beat the benchmark, with a wide variance in post-deal performance	71 large deals from 1989 to 1993 compared to peer group market value change from one year before to two years after the deals.
MAPI 1999	54% successful, 24% little change, 11% failures	Survey of 80 senior executives; criteria for success unclear.

<p align="center">Table 1 Selected Results from the Business Consulting Literature on Mergers and Post-Merger Integration</p>		
Sponsor	Selected Results	Sample, Methods, Comparison Group
Boston Consulting Group 2000, 2001	Doubling of asset size for financial firms leads to 20% reduction in unit cost of servicing accounts. For industrial firms, savings of 10-15% in materials and components are common as a result of scale gains.	Based on BCG internal research.

What Makes Some Mergers Work Well?

The third question addressed by the consulting firm literature involves the characteristics of the deals that make them succeed or fail. The list of factors that help in achieving success vary depending upon the type of transaction, but commonly reported findings that apply to a wide range of circumstances based on the results of the surveys of corporate executives include:

- Mergers that retain the main focus of the firm result in better outcomes.⁸
- Mergers of equal-sized firms work less often than others.⁹

⁸Booz-Allen & Hamilton (Swerdlow et al. 2001, p. 2), and A.T. Kearney (Habeck et al. 1999, pp. 6-7), and CSC Index Genesis (McCauley 1997, p. 9) all come to this conclusion, as does Bower (2001, pp. 99-100). Better outcomes for mergers in the same or related industries may be due to the possibility of scale or procurement gains around the time of many horizontal mergers and the greater predictability of mergers in a known industry.

⁹See, for example, A.T. Kearney (Habeck et al. (1999)). Interestingly, this is one common business consultant survey result that was not found by Ravenscraft & Scherer (1987, pp. 194, 219) in their extensive review of 1960s and 1970s deals. They found mergers of equals worked better than less equal deals. In their sample, the mergers of equals tended to be conglomerate in nature.

- Early planning for the integration of the new physical and human assets improves the chances of success.¹⁰
- Fast-paced integration and early pursuit of available cost savings improves outcomes.¹¹
- Managers must designate the merger integration leader and provide appropriate incentives.¹²
- Managers must be cognizant of cultural differences between organizations and avoid conflicts, in part, via frequent, tailored communication with employees, customers, and stakeholders.¹³
- Particularly in mergers involving technology and human capital, managers must retain the talent that resides in the acquired firm.¹⁴
- Customer and sales force attrition must be minimized.¹⁵

While the overall financial outcome of mergers is clearly of interest in many of the consulting firm studies, the surveys also focus on why mergers might have performed as they did, and whether performance could be improved by better implementation of merger-related changes. These factors are discussed in more detail below.

¹⁰KPMG (1999, pp. 2-4), Accenture (2001), A.T. Kearney (1999), and Booz-Allen & Hamilton (1999, pp. 4-5, and Adolph et al. 2001, p. 9).

¹¹PwC (2000, pp. 8-15), Booz-Allen & Hamilton (1999), Conference Board (2001, p. 15), McKinsey (2002, p. 10), and CSC Index Genesis (1997).

¹²McKinsey (2001), Booz-Allen & Hamilton (1999, p. 4), and KPMG (World Class 2001, p. 13).

¹³Conference Board (2001, pp. 12-13), KPMG (1999), A.T. Kearney (1999), Booz-Allen & Hamilton (2001)

¹⁴Conference Board (2001, pp. 12-13), and CSC Index Genesis (1997).

¹⁵McKinsey (2001).

(1) The Right Strategic Focus

Several studies criticize the fundamental idea driving certain transactions,¹⁶ because a viable basic idea is a necessary condition for a successful deal. Sometimes problems with the fundamental idea occur because the acquired assets did not fit into a broad strategy of the acquiring firm. Sometimes the broad strategy includes the intention to move the firm beyond its traditional area of competence and the firm is simply unable to effectively integrate the assets in this new area of endeavor. The first case is a mistake in matching, the second case is a mistake in over-reaching.

Presentations by certain consulting firms have focused on management hubris or uninspired ideas as reasons for failure. The consulting firm surveys do not, however, provide sufficient information to distinguish those mergers that were “bad ideas” from those that were simply “badly implemented.” Indeed, knowing that a transaction is a bad idea, is much easier in hindsight, than it is at the time the transaction is conceived. For example, before the fact it is hard to tell whether an expansion into a new area is a bold stroke of managerial genius or an egomaniacal power grab doomed to failure. Furthermore, the inherent uncertainty in bringing together two or more disparate organizations is undoubtedly one reason that the returns to merging appear so difficult to capture. In addition, knowing how much to pay for the assets in these one-of-a-kind deals is difficult. Overpaying for the target company’s assets is only occasionally mentioned explicitly as a problem in the consulting literature, although it is a key factor in the business/finance literature.¹⁷

Both bad ideas and bad implementation are less likely to occur if the acquiring firm has experience with the type of assets it is acquiring. One factor that has often been found to make deals work more frequently is a close relationship between the acquired assets and the core expertise of the acquiring firm. Geographic market extension and capacity expansion deals are

¹⁶Bower (2001, p. 101) criticizes the front-end of the merger process. Likening late 1990s CEOs to bluefish in a feeding frenzy, he implies that too little thought goes into the initial plan, forcing managers to try to salvage what they can in the post-merger period. McCauley (CSC Index Genesis 1997) also notes that deals to expand revenue with no other discernable goal were more likely to fail than those that had a more well-defined purpose. Also see Business Week/Mercer (Zweig 1995, pp. 122, 124). Booz-Allen Hamilton (2001, p. 3) however notes that failure of deals to meet expectations has more to do with poor implementation than a poor initial fit.

¹⁷Shay of PriceWaterhouseCoopers (2000) and McCauley (1997) both argue that overpaying is not a driving force behind the failure of deals. They argue that deals fail due to poor implementation, not because the buyer just paid an unrealistically high price for the assets. McCauley (p. 5) finds no correlation between the percentage premium paid and the “success” of the deal, based on an industry benchmark standard.

thus more likely to be successful than are cross-border transactions aimed at corporate diversification.¹⁸

(2) Appropriate Planning and Implementation

Although the business consulting literature mentions the value of a good initial idea, even more emphasis is placed on a failure to plan effectively or sufficiently, or to implement changes quickly. Some studies focus more narrowly on the synergies or cost savings that the merging firm hopes to gain from the merger. These studies often emphasize failure to identify synergies early-on in the process and move ahead quickly to achieve these synergies and to integrate assets.¹⁹ Other factors that are revealed in the surveys include the importance of maintaining pre-merger revenue growth rates, the importance of clearly delimiting responsibility for merger implementation, and the need to communicate to all the parties involved in the transition.

A number of other financial and organizational aspects of post-merger integration are found to be important in the consulting firm surveys. Early integration planning is almost universally recognized as a way to increase the probability of success in a merger. Similarly, many studies emphasize the need to define corporate goals and clearly transmit these goals from the management team to the new merged entity, while simultaneously addressing differences in the corporate cultures of merging businesses. The importance of retaining customers and key staff during the initial transition period is another highlighted factor, as is timely handling of regulatory issues. In terms of enhancing shareholder value, authors lay varying amounts of stress on maintaining or expanding revenue growth after the merger, and identifying and achieving cost synergies.

Not surprisingly, the various consulting studies find differing results in some areas. For example, the speed of a post-merger transition is frequently said to be a key factor in improving merger performance, but in mergers such as those done to acquire new skills or technology, this factor may not be of primary importance.²⁰ The studies also differ in their emphasis of various

¹⁸Bower (2001), Habeck (1999), and Booz-Allen & Hamilton (Harbison et al. 1999, p. 4).

¹⁹Business consultants indicate that firms often do not have good estimates of efficiency potential prior to closing a deal and the efficiencies that ultimately are realized often come from unexpected sources. In addition, firms usually underestimate savings, in part, due to the fact that a failure to produce any savings claimed prior to a merger is punished by downward stock price revisions.

²⁰Compare PwC's emphasis on rapid post-merger integration to reduce "uncertainty and its debilitating effects" (Shay et al. 2000, p. 11) with Accenture: "We found that successful postmerger integrations do not necessarily depend on speed. Rather it is the way in which speed is applied – where and when – that distinguishes integration winners from losers" (Spence and Johnson 2000, p. 5). For a description of the experiences of five integration managers and the

sources of merger gains. Several consulting firms focus on gains from traditional synergy sources such as scale and scope economies, while others focus more on cross-selling, bundling, and various revenue-side effects of mergers.²¹ In addition, some disagreement exists regarding whether experience in merger activity is an important determinant of success,²² and whether the size of an acquisition premium is an important determinant of the ultimate success of a deal.

Although the business consulting literature is illuminating, it does have some clear weaknesses. The surveys are never described in detail and analytical results tend to be presented superficially, perhaps to protect client confidentiality and proprietary information. The survey questions may induce unknown biases and the top managers of acquiring firms may not be fully objective observers of the outcomes of their firms' mergers. Analysis of the survey data, which is many times done by firms other than the consulting firm, is often limited to one-by-one simple correlations of various characteristics of the merging firms or the process of pre-merger planning and post-merger integration. Thus, relatively little is held constant across the deals in the sample when the analysis is done. None of the consulting literature uses an explicit model to determine what the firm's performance would have been *but for* the merger, although an industry-specific stock price index is sometimes used to adjust for this factor. As a result, one cannot be sure whether the merger might have "failed" on paper, yet saved a bad situation from becoming much worse in reality.²³

need for speed from deal announcement through the first 100 days after closing, see Ashkenas and Francis (2000).

²¹BCG, A.T. Kearney (Habeck et al. 1999, p. 5), Booz-Allen & Hamilton (2001, p. 9) and Bower (2001) place emphasis on scale effects, sometimes noting that up to two-thirds of mergers are undertaken to obtain increased scale in the same or related industries, while McKinsey places more weight on revenue-side effects and KPMG (Kelly 2001) lists several revenue enhancement synergies. Although BCG focuses on scale effects from mergers, they also note that revenue losses in banking mergers can be substantial (Viner, et al. 2000, p. 3).

²²It may be difficult to gain and retain in-house experience with mergers because the staff with the knowledge tend to leave the firm. At least two sources indicate that such experience does not improve merger performance: McKinsey (May 8, 2002 presentation by Shelton and Sias); and KPMG (Cook and Spitzer 2001, p. 11). Studies by several others however, indicate that experience is valuable: Business Week/Mercer (Zweig 1995), PwC (April 23, 2002 presentation by Don Shay), A.T. Kearney (1999, p. 3; Habeck et al. 1999, p. 6), McCauley (1997, p. 20), and Booz-Allen & Hamilton (Harbison et al. 1999, p. 4).

²³See Meckstroh (1998, p. 11). A recent paper provides a theory, based on stock market valuation errors, that explains why mergers that might have appeared to be financial errors actually enhanced firm values when the market returns to an equilibrium. The outcome is caused by the incentives of highly over-valued firms to use stock to purchase those firms that are less over-valued. See Andrei Shleifer and Robert Vishny, "Stock Market Driven Acquisitions,"

The consulting literature uses its interview technique to search for factors that likely apply to a large number of merger implementation situations. Differences between types of mergers may, however, be an important factor in determining which deals are likely to work and how each deal might be best implemented. Bower (2001) provides a categorization of differing types of mergers and indicates various deals in each category that have succeeded or failed. Consistent with Bower's work, various consulting studies indicate that many (perhaps most) recent mergers are undertaken to increase size geographically or to expand current product lines in the same or related industries. These transactions have readily understandable motivations and appear to be somewhat more likely to succeed than are other mergers. Deals that are intended to move firms into completely new product areas or to expand the use of a technology where it had previously been unused, appear to be more speculative ventures.²⁴ The recent consulting firm studies demonstrate an increasing awareness that different types of mergers must be handled in somewhat different ways,²⁵ but that certain generalized recommendations about post-merger implementation are applicable across almost all categories of deals.

Is the Business Consulting Literature Consistent with Academic Results?

The broad pattern of results reported from the consulting firm studies does not differ much from that found in the finance/business academic field. Studies in the academic genre based on stock market expectations show that mergers in general produce a small net abnormal stock value appreciation upon announcement of 0 to 1%, with virtually all of those gains going to the target shareholders (Andrade, Mitchell, & Stafford, 2001). Those results thus predict small, positive gains from mergers on average. Such a result is readily consistent with the modest success rates we observe in the consulting literature. Hou et al. (2000) use a more controversial long-term stock market approach and find that mergers appear to be profitable for shareholders on average even with longer time horizons (this is especially true of cash mergers, but not stock mergers).²⁶

NBER working paper 8439, August 2001. In addition, it would be possible for a merger to provide real resource savings, yet be considered a failure in a financial sense, if the buyer mistakenly overpaid for the assets.

²⁴See KPMG, Kelly & Cook, "Synergies," (2001, p. 17).

²⁵CSC Cap Genesis (McCauley, 1997), in particular, noted the need for differing approaches to different types of deals.

²⁶Hou et al.'s conclusion may be inconsistent with recent work by Agrawal & Jaffe (2000), although Hou et al. adjust for the factors that should bias long-term return estimates.

Failure rates for mergers in the range of 35% to 60% are common in academic studies depending on the benchmark chosen for success.²⁷ The largest studies done by industrial organization economists indicated that about one-third of 1960s and 1970s mergers later lead to divestitures and of those mergers that held together, more than half were associated with profit declines relative to the pre-merger upward trends of most target firms (Ravenscraft & Scherer 1987, pp. 192-194, 219).²⁸ Lower market shares post-merger were also found for most mergers (Mueller 1985). Having said this, a subset of the economics literature implies that mergers may produce good outcomes, such as improved productivity in plant-level studies, at least for asset transfers and ownership changes if not for whole mergers,²⁹ and lower costs in hospitals where post-merger concentration is not high. Some large scale studies have also found significantly improved cash flow returns following mergers.³⁰ Very recently, results from a 1980-1997 sample of Fortune 500 takeovers indicated that post-merger firm performance improved in some important dimensions (e.g., costs per unit revenue) relative to 2-digit industry benchmarks.³¹

The consulting studies and the academic literature on merger success raise a major question: What rate of return or success rate should we expect from risky ventures undertaken with lots of rival bidders for the assets?³² Should returns resemble those seen in the pharmaceutical industry, or should we expect to see the minimal returns that we see on average, with large returns limited to a few very successful deals that cannot be easily imitated? After all, competitive markets tend to limit the upside success of mergers, while downside loss is bounded only by zero.

²⁷See for example, Kaplan (2000) case studies, Kaplan & Weisbach (1992), and Sirower (1997).

²⁸For a review of 1980s literature arguing that mergers are not efficient on average, see Caves (1989).

²⁹See Lichtenberg & Siegel (1990), McGuckin & Nguyen (1995), and Maksimovic & Phillips (2001).

³⁰Healy, Palepu, & Ruback (1992) studied 50 large 1980s mergers. In an extension of this test, Andrade, Mitchell, & Stafford (2001, p. 116) report that from 1973 to 1998, mergers produced an average post-merger increase in the cash flow to sales ratio of about one percent relative to pre-merger trends in that measure. Scherer (2002, pp. 14-15) argues that these results are either biased or inconclusive.

³¹Trimath (2002).

³²Pautler (September 2001, pp. 11-15, 40, 53) covers much of this literature and asks the key question it raises.

Consulting Firm Studies and Presentations

Before delving into the individual consulting firms studies, it is helpful to note one precursor to those studies. In the late 1980s, Haspeslagh and Jemison collaborated to produce a study of merger implementation that would become a model for others to follow.

Haspeslagh & Jemison, *Managing Acquisitions* (1991)

Managing Acquisitions is an early model of many of the current consulting firm reports that attempt to provide a “how to” book for top managers of acquiring firms. A brief description of its contents is useful in framing discussion of the genre of merger studies examined in this paper. The book provides 270 pages of advice for managers on how to best handle M&A decisions: deciding who to buy, how to plan the deal, how to handle employees of acquired assets, how to integrate various assets and obtain synergies by transferring learning and capabilities, and how to follow-up and measure the end results of the transaction.

Haspeslagh and Jemison prepared the book over the course of eight years and utilized the results from two major research projects. One to two hour interviews were held with over 300 top executives and operating managers of 20 acquiring companies based in 6 countries, which had done deals in 10 countries.³³ The deals ranged in value from \$3 million to over \$1 billion. The authors also obtained contemporaneous documents about the deals in many cases. Jemison was most interested in “strategic capability transfer” and so focused on deals where that was the avowed purpose. He examines mergers in four industries: banks, food, steel, and financial services. The acquisition integration process was studied in seven acquisitions among twelve firms (Haspeslagh & Jemison 1991, p. 275). Some of the 75 interviews with 63 managers occurred as many as fifteen years after the close of the relevant transaction, but most were conducted two to eight years following the deal (p. 278). Much of this work was previously described by Jemison and Sitkin (1986).

Haspeslagh focused on “acquisitive development” and conducted interviews with three large chemical firms (BP, ICI, and an unnamed US firm), covering eleven transactions in the 1980s. He validated the results later at BASF. Two rounds of interviews were conducted one year apart from each other (p. 286).

The main advice and conclusions of the studies are listed on page fifteen. The authors point out that value creation happens after the deal and managers have to insure that the strategic capabilities of the target are transferred efficiently or that they are effectively retained by a semi-independent target. Managers must determine the optimal level of interaction between the merging organizations to maximize capability transfer and begin the post-merger integration process in an evolutionary way that maintains that level of interaction. The authors’ advice is based on a large number of 1980s interviews with acquiring managers in a half-dozen firms and

³³The basis for the sample is discussed by the authors on pp. 271-291.

on insights obtained from previous management, finance, and industrial organization literature. Little information is provided about how successful various transactions were. The authors discuss some of the deals in detail, but it is impossible to ascertain whether the deals outperformed an appropriate benchmark, such as an industry-specific stock price average.

Some instructive results of the authors' literature review are that transferring learning seems to be a major source of potential synergies especially in international deals where the knowledge possessed by the merging organizations may vary considerably (p. 205); and value creation in mergers often comes from places that the managers did not originally envision.³⁴ In addition, the authors mention a 1962 Mace & Montgomery finding that the post-merger integration process was a key to making deals work. They imply that this insight was perhaps lost for 20 years until the late 1970s and early 1980s, when the point again became a focus for investigation as business researchers began interviewing businesspeople on the causes for their deals' success or failure (p. 307). Many similarities to the methodology followed in *Managing Acquisitions* will be apparent in the discussion of consulting firm literature in the remainder of this section.

CSC Index Genesis 1997 (now Cap Gemini/Ernst & Young)

In this 1997 study, Dean McCauley examines the outcomes of 71 business deals undertaken between 1989 and 1993 and valued at over \$500 million. Eighteen of the best and worst of these deals are examined in significant detail.³⁵ Success is defined as a positive change in market value from one year before to three years after the deal relative to a peer group market value change measure. According to this definition, mergers in the sample were successful, on average, with a fairly wide distribution of outcomes. Several deals beat their peers by over 20% while a couple lagged by over 20%.

The merger between Quaker and Snapple is the biggest identified loser, while the Chiron/Cetus merger in health care is the biggest identified winner. The goal of the research was not to find that many deals did not work, already a well-established fact by 1997, but rather to identify the specific factors that made some deals work and others fail. McCauley argues that compared to the 1980s, acquiring firms got better at doing deals; they used more stock swaps to share risk with the target shareholders, they changed compensation contracts so investment bankers had less incentive to "overprice" the deal, and average premiums fell.³⁶

³⁴See Haspeslagh & Jemison, p. 303 regarding "relatedness." This finding is consistent with consulting firm presentations to the FTC staff from 2002.

³⁵This work was done in conjunction with Krishna Palepu of Harvard Business School.

³⁶The study did not find that overpayment was a problem among the deals examined; in the sample, the size of the percentage premium was unrelated to the success of the deal (p. 5).

The question then posed was why many deals still failed to provide value. First, in some cases acquirers were not clear about the rationale behind the deal. The mergers that seemed to fail most often were those done to expand revenue. These deals often had no other substantive strategic goal. Next in line for failure were those mergers undertaken to pioneer new territory, an inherently risky undertaking. On the other hand, consolidations to achieve scale or scope synergies across or within markets were likely to work (although variance in returns was substantial), as were those aimed at buying talent and intellectual capital (McCauley 1997, p. 9). In all deals, cultural clashes had the potential to be a serious problem, and firms that avoided those problems had greater success (p. 27). Inexperience also seemed to hinder deal value-enhancement, as the returns relative to peers were higher for those deals done by experienced acquirers (p. 20).³⁷

McCauley argues that several factors were important in post-merger activities and which ones were critical depended upon the type of deal undertaken. For every type of deal, strong leadership and managing the integration quickly were important. For consolidators, efficiency capture was also a key element. For pioneers, setting the direction of the new firm is a key task. For firms that are buying intellectual capital, aligning the managements and engaging the employees were key elements.

Booz-Allen & Hamilton 1999-2001

BAH's 2001 study "Merger Integration: Delivering on the Promise," discusses a survey of approximately 115 merger deals from 1997 and 1998 that had been completed at least two years prior to the study (p. 2). The methodology employed is not described. A major conclusion is that 53% of transactions do not meet "expectations" (of top management presumably). Deals that do not meet expectations culminate with removal of the CEO within 2 years in 42% of cases. For successful deals, the CEO tends to be leave only 16% of the time (p. 3). The study also finds that deals aimed at achieving scale economies or growing an existing business meet expectations much more often (55% of the examined mergers met expectations), than do deals aimed at adding new capabilities or adding a new business model (only 32% met expectations). In addition, mergers of equals were found to be twice as likely to fail as the average deal (p. 3).³⁸

³⁷Many consultants argue that experience is a key factor in merger success, but some argue that experience is often not important because firms tend to lose their knowledge as the managers who led previous acquisitions leave the firm. Cook and Spitzer (2001, p. 11) argue that experience is unimportant.

³⁸This study also provides extensive lists of actions that should be taken to enhance the probability that a merger will succeed. These actions include extensive and frequent communication with employees, customers and shareholders, making decisive choices on several

Another 2001 study concludes that 47% of deals fail to achieve the objectives stated in the merger announcement (Swerdlow et al. 2001, p. 2). This paper argues that procurement synergies often comprise 50% of the gains from a merger. This area is fertile ground to find cost savings, because for many firms outside expenditures can account for 50% to 70% of costs. They noted that a merger might be said to "work" if synergy savings covered the premium paid for the stock even if the deal was done to achieve cross-selling or other revenue opportunities (p. 2). Procurement savings may come from scale effects, tougher shopping, or enhanced strategic sourcing. This last area, strategic sourcing, refers to systematically optimizing purchasing options and relationships (pp. 11-13).

In their 1999 study "Making Acquisitions Work: Capturing Value after the Deal," BAH discusses a survey of 34 firms active in M&A and incorporates information on 50 client experiences. The benchmark appears to be whether the client/respondent considered the deal a success (Harbison et al. 1999, p. 4). The report indicates that less than half of mergers work (p. 1), and stresses the need to make mergers produce value by following BAH's approach focusing on vision (knowing where you are going), architecture (knowing the parts of the deal, the capabilities of the parts and what more is needed or needs to be changed), and leadership (quickly appointing dynamic transition leaders). The authors found that experience matters - successful merging firms had undertaken the process much more often than had unsuccessful firms (p. 4). Failures were often due to overestimating the synergies available, overpaying, and inadequate integration planning. One chart indicates various sources of procurement cost savings available in connection with the mergers (p. 14). These savings come from many areas, including raw materials purchase, component buys, other product-related costs, and other general functional (e.g. travel or insurance) reductions.

Business Week/Mercer Management Consulting 1995, BCG 2002

In October 1995, a *Business Week* article, "The Case Against Mergers," by Phillip Zweig that discussed the lackluster performance of mergers, generally. The study looked at total shareholder return 3 months prior to the merger versus returns up to 3 years after the merger. The author had a consulting firm examine hundreds of deals from the first half of the 1990s and found that "their performance [had] fallen far short of their promise." Out of 150 deals involving \$500 million or more, about one-half reduced shareholder value in comparison to the S&P500, while "another third contributed only marginally to it."

Other findings include: experienced acquirers do somewhat better than others (72% of experienced firms beat industry average returns whereas 54% of less experienced acquirers beat the benchmark); on average, however, non-acquirers do better than acquirers (relative to their respective Standard & Poor's industry indices, 69% of non-acquirers beat the average versus

fronts to move the integration forward and produce a cohesive whole, and rigorous integration planning.

58% among acquirers).³⁹ The article cites several merger consultants who note the difficulty of making mergers work after the deal is done (post-merger integration) and in not overpaying for the assets (Porter, Sirower, etc.). Zweig offers no concrete conclusions regarding the conditions under which mergers should or should not be undertaken or how to improve their prospects for success, but does urge greater caution on the part of CEOs who might be contemplating prospective mergers.

A second Business Week study was reported by David Henry and Frederick Jespersen in October 2002. The study, designed by Mark Sirower of BCG, examined 302 mergers from mid-1995 to August 2001. To be in the sample each deal had to be valued at \$500 million or more, comprise more than 15% of the buyer's capitalization, and not be followed by another deal for the same buyer within a year. These sample criteria tend to weed out small deals or deals by large firms who make repeated purchases. The bottom line finding was that 61% of the deals studied reduced shareholder value one year after the deal, with the average deal achieving stock market returns 4.3% below industry peers and 9.2% below the S&P returns. The returns relative to peers were equally bad two years later. Further, the stock market's initial reaction to news of the deals was a reasonably good predictor of later returns - of those deals that were panned early, 66% did badly later; and the majority of those that were met favorably by the market on day one, later succeeded. The authors also argue that the returns to deals are getting worse (61% failed to improve values in the 1995-2001 study compared to 50% in a study covering deals from 1990 to 1995). The studies, however, may not have been done in comparable ways, however, so the comparison over time may not be valid. The authors favorably cite to academic studies implying that markets are useful predictors of the future (Sirower 1998) and those implying that market systematically mispredict real values (Shleifer & Vishny 2001). They do not appear to appreciate the conflict. The only way to justify the two is to argue that markets mispredict firm value levels, but accurately predict changes from those mispredicted levels. Why this might be true is unclear.

A.T. Kearney 1999, 2000

The 1999 paper "Corporate Marriage: Blight or Bliss?" reviews the results from A.T. Kearney's Global Post Merger Integration (PMI) survey. The PMI survey examined 115 large deals valued at \$1 billion to \$10 billion from the years 1993 to 1996 from around the globe in a range of major industries (A.T. Kearney 1999, p. 17), and compared total shareholder returns three months prior to a deal with total returns two years after the deal. From the description in the paper it is not clear if this method adjusted for industry averages or used any other more specific control mechanism. As is consistent with other such studies, the survey found that 58%

³⁹Lajoux and Weston (1998, p. 36) indicate that *Business Week*/Mercer Consulting examined 248 acquirers and 1045 deals compared to the industry-adjusted returns to 96 non-acquiring companies to arrive at this result. Many of these percentage results in the Business Week article are confusingly reported. It cannot be true that every subset of deals is above average, but some of Zweig's results imply that result.

of the sample transactions reduced shareholder value (p. 1).⁴⁰ The introduction indicates that after three years, profits of the merged firms fell by an average of 10% (p. 1). Another section of that report (p. 7, figure 3), however, implies that profits tend to fall relative to pre-merger earnings one year after a merger, but rebound significantly in the next year, rising 9% above pre-merger Earnings Before Interest and Taxes (EBIT).

The author of “Corporate Marriage” also lists several examples of successful transactions, including: Otto-Versand/Spiegel (mail order companies), Valeo SA’s various acquisitions (French vehicles manufacturing), International Paper/Federal Paper, and Ciba/Sandoz becoming Novartis (pp. 4-6). The final deal listed above is noted for increased cash flow and savings well above target levels. Also mentioned is the SmithKline/Beecham drug merger, after which sales rose by 40% and operating profit by 60% (p. 8). It is likely that each of these deals added to shareholder value, but this is not explicitly stated in the paper.

Another Kearney report, “After the Merger: Seven Rules for Post-Merger Integration,” indicates that companies that have been successful in the merger arena have tended to do five things: relied on experienced managers who have done M&A before; stayed close to their home markets and purchased related businesses; focused on a strong core business; had deep financial resources; and avoided mergers of equals (Habeck et al. 1999, pp. 6-7). Several other factors are listed as being important in the merger integration phase of the deal, including: getting new employees to buy-in to the plans, choosing integration managers early, defining their roles, and communicating quickly and effectively from the top what plans are for the organization in order to orient employees toward the corporate goal.

Habeck et al. predict a surge of cross-border industrial-consolidation mergers (pp. 16-17), but with the current economic recession, this surge has yet to materialize. The consultants generally seemed to see the Daimler/Chrysler combination as a harbinger of similar transactions. This seems not so much because it succeeded, but because it involved big dollars and multiple countries. Indeed, stories of both success and failure exist for that particular merger, but by 2002 stories of failure seem to predominate. The aforementioned A.T. Kearney paper “Corporate Marriage” indicated that prior to the Daimler/Chrysler deal, Daimler had lost substantial shareholder value on a merger with MBB that attempted to tie together technologies used in trains, planes, and automobiles (p. 10). The authors also indicate that the principle goal of 70% of current mergers is to achieve scale economy gains (p. 5), implying that this “old-fashioned” notion is far from gone in the business world. It might now be that we are simply looking at worldwide scale gains.

KPMG 1999, 2001

⁴⁰A 2001 A.T. Kearney paper, “Merger Endgames: Industry Consolidation and Long Term Strategy,” (p. i) reports that 56% of examined merger deals failed to produce shareholder value.

KPMG conducted a survey in 1999 of 107 companies (700 large deals) involved in cross-border M&A activity from 1996 to 1998 (Kelly et al. 1999, pp. 5-6). A similar study in 2001 covered 118 firms doing an unstated number of deals in 1997-1999 (Cook and Spitzer 2001, pp. 9-10). In both instances a confidential telephone interview was done with a leading board member who was knowledgeable about each transaction. The studies compared equity price trends just before and one-year after the deal versus a benchmark trend from a relevant industry segment.

The chief result of share price analysis in the 1999 survey entitled “Unlocking Shareholder Value: Keys to Success,” was that 17% of the deals added shareholder value, 30% caused no significant change in share value, and 53% lowered value. The interview portion of the survey, however, indicated that 82% of the survey respondents thought their firms’ transactions were successful. In the 2001 version, “World Class Transactions: Insights Into Creating Shareholder Value Through Mergers and Acquisitions,” 75% of respondents characterized the relevant transaction(s) as successful, while share price analysis numbers improved somewhat: 30% of these deals added shareholder value, 39% caused no change, and 31% lowered value (Cook and Spitzer 2001, pp. 10-11). Comparing the firms that succeeded with those that did not in the survey, KPMG argued that six factors were particularly important keys to achieving M&A success. These included three “hard keys” of synergy evaluation, integration planning, and expanded due diligence, and the three “soft keys” of management selection, cultural integration, and communications.

Acquiring companies themselves were found to use several measures of post-merger success with shareholder value being used by 25% of the firms. Other performance measures included profitability, various pre-set goals, synergy levels obtained, and so on (p. 20).⁴¹ This survey also found that 75% of companies do some formal post-merger analysis of the value of the deal, but whether such analysis was undertaken was found to be uncorrelated with the success of the deal. Also somewhat surprising, the “World Class Transactions” study indicates that experience in takeovers is not an important determinant of performance (p. 11). This result flies in the face of a common statement by other consulting firms. KPMG also found that US firms are somewhat better at making M&As pay-off than are European firms, and that those firms who succeeded tended to take planning and integration actions earlier than did the average firm (p. 8), and those firms that assigned dedicated project manager with wide authority to the deals did better (p. 13). In addition (and perhaps somewhat surprisingly), in this study there was no

⁴¹Some consulting firms make a major point of noting that only a minority of firms state that "maximizing shareholder value" is the goal of the merger. It is not clear if this is an important result or rather just an overly compulsive analysis of the words chosen by a particular survey respondent. Without having the survey instrument in hand, it is impossible to know if firms really indicated that they do not intend to maximize shareholder value via their transactions. It seems likely that respondents who said they set high goals and met them or that they improved the profit derived from the assets, are indicating that they were trying to maximize shareholder value, but they said it in different, less all-encompassing words.

correlation between the stated objective of the deal and the probability of shareholder value increases (p. 16).

“Synergies: A Business Guide” lists categories of synergies from the 1990s compared to the current 2001 synergies (Kelly and Cook 2001). The older style categories focused on cost reductions while new-style synergies include “revenue-enhancement”. The list of synergies includes: cost reduction synergies, which encompasses overhead reduction, rationalization of premises manufacturing, scale economies from purchasing power, efficiency gains from process improvement, and financial engineering (tax reduction); and revenue enhancement synergies, such as cross-selling, leveraging market power, enhanced new product development, portfolio expansion, transfer of knowledge and skills, and faster time-to-market (“Synergies,” Kelly and Cook 2001, p. 4).⁴²

The “Synergies” paper indicates that firms focusing on achieving synergies were 28% more likely to create value for shareholders from their transaction than were firms that placed greater importance on other factors (p. 6).⁴³ In addition, “Unlocking Shareholder Value” found that firms focusing on integration project planning increased their chances for success by 13% compared to the average deal. Focus on due diligence improved the chances for success by 6%, while a focus on financing or legal issues reduced the probability of success by 15% compared to the average deal. KPMG noted that in their sample, the nine merging firms that focused on pre-merger integration planning in conjunction with improved employee communications, resolving cultural issues, and early selection of a management team, all succeeded in increasing shareholder value (Kelly et al. 1999, pp. 2-4).

Mercer Consulting 2001

Mercer Consulting performed a study of the outcomes of 152 large, completed trans-Atlantic mergers announced from 1994 to 1999. The quantitative analysis compares stock price performance over the two years following the merger using industry-specific S&P indices as the benchmark. Mercer finds that 54% to 61% of the transactions (numbers or valued-based) were associated with subsequent stock price increases relative to the benchmark. Thus over half the deals “worked” in a financial sense. Mercer also examined simple correlations of industry-adjusted post-deal stock price returns with stock price premiums paid, pre-deal performance of the acquirer, size of the target relative to the acquirer, and the strategic motive for the merger

⁴²An earlier alternative list is provided in KPMG’s “Merger & Acquisition Integration: A Business Guide,” (Kelly and Cook 1999, p. 2).

⁴³This finding is taken from “Unlocking Shareholder Value: Keys to Success” (Kelly et al. 1999, p. 2).

(e.g., expansion, consolidation, diversification) and found that none of those factors appeared correlated with the post-deal industry-adjusted stock price outcome.⁴⁴

In addition to the quantitative work, interviews were conducted with some of the executives of the firms who had successfully undertaken these large trans-Atlantic mergers. Those interviews indicated that the factors leading to success included complementary capabilities in the merging partners, careful screening of the potential deal⁴⁵, and speedy, but well-directed post-merger integration aimed at achievement of cost savings and revenue synergies. In addition, as with most studies in this area, continued customer service and communication, corporate culture harmonization, and retaining talented staff were considered important.

McKinsey & Co. 2001, 2002

The results of studies conducted by McKinsey & Co. were somewhat more pessimistic than most of the other business/consulting literature, but still seem to suggest that substantial improvements might be attained in the area of post-merger integration. “Why Mergers Fail,” by Bekier, Bogardus, and Oldham starts with a review of 193 merger deals from 1990 to 1997. A main finding is that relative to industry peer groups only 36% of targets maintained their revenue growth rates in the first quarter following the merger announcement. Even fewer (11%) did so by the third quarter following the merger. On average, the targets’ revenue growth was 12% behind that of industry peers. The problem was not only with the target assets, but the acquiring firms also lost customers. McKinsey argues that revenue growth is really the key to profits because a small (2-3%) increase in revenue can potentially offset a large (perhaps 50%) failure to realize expected cost cuts from a merger. Those firms that succeeded in mergers often focused on the revenue side of their business and let operating managers worry about cost savings (Bekier et al. 2001, p. 3). They also tended to be repeat buyers, who had developed experience in choosing and integrating assets and in instilling a culture and reward system that enhanced growth.⁴⁶ In the article, the authors cite other consulting research indicating that 40% of mergers

⁴⁴These simple correlations may be inconsistent with some commonly stated beliefs that overpayment is a major cause of financial failure, that certain types of deals (especially within-industry consolidations) work out more often, and that mergers of equal-sized firms work less often.

⁴⁵Interestingly, Mercer argues that the existence of multiple stakeholders and review layers makes businesses more careful about the deals they undertake on a trans-Atlantic basis, possibly leading to improved average results.

⁴⁶This experience effect may be most pronounced for the few firms that had become “master acquirers”.

fail to capture the cost synergies undertaken before embarking on the merger and that the stock market severely penalizes firms that fail to meet such cost reduction targets (p. 3).

Another study by McKinsey covered 160 deals undertaken by 157 public companies in 11 sectors in 1995 and 1996 is also discussed in “Why Mergers Fail.” That study indicated that only 12% of the firms were able to accelerate growth relative to the industry average three years after the merger. Overall, 42% of acquirers lost ground relative to rivals and the average target had a growth rate 4% lower than that of its peers. One *Wall Street Journal* article entitled “Corporate Marriages Aren’t Made in Heaven” by George Melloan, cites McKinsey & Co. research on 115 mergers from the early 1990s in the US and UK, finding that only 23% were successful based on return on a capital benchmark.

Presentation by Mike Shelton and Diane Sias of McKinsey & Co. 2002

On May 8, 2002 two members of McKinsey’s post-merger management practice presented evidence regarding merger outcomes. The written presentation reviewed the results of 6 previous consultant studies of mergers done since the late 1990s indicating that the majority of mergers do not succeed, based on a variety of success definitions (Shelton and Sias 2002, pp. 1-10). This lack of success was reflected in share prices, revenue growth, *and* profitability. According to their assessment, however, failures were due to poor implementation of a transaction much more often than to a flaw in the transaction itself (pp. 4-7). In addition, mergers with rapid transitions were found to be more likely to succeed (p. 10).

More positively, the written presentation also argued that true success might be measured as achieving a strategic goal and that the end results of deals may look better when evaluated on that basis (p. 11). Participants questioned what the proper benchmark for success should be, one participant pointing out that a 70% failure rate might seem disappointing, for example, but that 90% of new products fail. McKinsey’s work focuses on revenue growth and shows that most acquirers do not achieve revenue growth similar to that of their rivals and their revenue growth slows more as time passes post-merger (pp. 13-17).⁴⁷ Companies with experience doing mergers were no more successful than others because personnel changes cause them to lose their knowledge from prior deals (p. 16), a result consistent with the conclusions of KPMG discussed earlier. Instead of learning from the past, companies “reinvent the wheel” each time they pursue a merger.

Next, the presentation focused on how companies should manage their transitions to maximize results (pp. 19-30). This is the post-merger management service that McKinsey sells to its clients. The material provides prioritized “to do” lists for handling integration. Merger

⁴⁷This is the result from the Beckier et al. 2001 study summarized above, but may also include evidence from more detailed interviews with eight firms that realized positive growth.

success stories (pp. 32-33) included BP/Amoco/Arco (1998-2000) and Unilever/Bestfoods (2000). In the case of BP, success came from moving quickly to obtain synergies and to impose BP's culture on Amoco (losing the Amoco managers in the process), with the CEO actively involved as a cheerleader. In the case of Unilever, success came from quickly reorganizing, aggressively handling regulatory issues, and "leveraging" the various distribution channels and brand names of the two firms to grow revenues (it is unclear if this was achieved through pricing, output, or both). Similarly, McKinsey listed "market power" as one of their strategic rationales for undertaking a deal (pp. 11, 35), but did not explain whether this meant the ability to reduce purchasing costs or the ability to increase product prices.

The oral presentation initially focused on managerial hubris as a cause of many merger failures. One participant argued that in the 1970s firms were forced into inefficient deals because regulators would not allow efficient ones. The results from deals are getting better, but a large percentage still fail. Cisco's mergers in the 1990s are good examples of mergers that worked well and allowed more output to be pushed through Cisco's sales and distribution chains, leading to higher revenues due to output enhancement. The presenters focused on the fact that firms often underestimate synergy gains from mergers, in part because they do not know where gains will really come from until they get the assets,⁴⁸ and also because the market punishes over estimation. Conservatism is the watchword when estimating synergy gains. Diane Sias noted anecdotally that the Exxon/Mobil and Texaco/Chevron deals each achieved more than double the level of initially announced savings. She also noted that some gains may come from "unfreezing" the organization, or in other words, fixing things that should have been fixed before, but were not. They were generally fuzzy on how substantial this factor might be. Mike Shelton noted that, because of regulatory restrictions, a "clean team" approach was the only way to obtain good estimates of potential efficiencies prior to approval of the merger.⁴⁹

Shelton went on to argue that mergers might never achieve more than a 50% rate of success because buyers must pay a premium for the assets they are acquiring and this premium limits the upside potential on a financial basis. This raised the question of whether financial gains might not be great in some situations, even if cost savings and revenue growth are substantial. It also raised the issue of whether premium levels are really related to merger success, a topic on which research results have been ambiguous. Shelton opined that if the

⁴⁸This was the same message we heard from PwC's Don Shay (2002). Diane Sias indicated that it takes six to ten weeks after a deal closes to get reliable cost savings estimates.

⁴⁹The term "clean team" or "clean room" refers to independent consultants or "quarantined" employees that are used to handle sensitive data from the merging entities that they otherwise would be prohibited from sharing by regulators. The clean team examines and compares confidential suppliers' agreements, makes recommendations for post-merger actions, and estimates potential cost savings, which it can report to senior management without disclosing competitively sensitive information. The concept of a clean room is discussed in Booz-Allen & Hamilton (Swerdlow, et al. 2001, pp. 9-10).

success rate were over 50%, then people might be encouraged to pursue bad deals, which subsequently would bring the success rate down. One of McKinsey's main points is that revenue growth often falls following a merger as customers and sales force leave for alternate suppliers, and as competitors take advantage of the acquiring firm's vulnerability during its transition period.

Shelton and Sias also noted that customers are not guileless sheep; they want to have supply options and will alter their purchasing strategy to attain this if they think a merger has reduced their flexibility. This can be interpreted to imply that customers are often able to discipline any potential market power effects of a merger.

The success of the BP/Amoco/Arco consolidation was due, in part, to the fact that BP had all its people in place on day-one of that combination. This fact led to a discussion of "gun-jumping."⁵⁰ Regarding gun-jumping, Sias suggested that moving early at the top of merging organizations to get managers in place actually reduces the type of middle-level "coordination" that is not desired by the Antitrust Agencies. She implied that without strong direction from the top to control inter-organizational coordination, operating managers often call their counterparts in the other firm on their own initiative.

Boston Consulting Group 2000-2001

BCG tends to place substantial weight on achieving scale economies as a source of merger gains. Their work on European banks clearly focuses on scale as the major issue. They find that a doubling of assets leads to a 20% reduction in client service costs for financial products (mortgages, credit cards, brokerage services, etc.). In "Making Mergers Work: Turning Big Deals into Good Deals," BCG reports that customer attrition can amount to 5% to 15% in banking mergers (Viner et al. 2000, p. 3). This finding is consistent with the McKinsey focus on revenue losses following mergers, and with the conclusions of Steven Pilloff (Pilloff 2001, p. 3) who finds a 12% to 13% loss of deposits from divested bank branches in the average merger where divestitures are required. The BCG report also lists several successful deals that were each said to have reduced average cost by 10% to 15% - Lloyds/TSB (UK banks), ABN/AMRO (Dutch banks), and Chase/Chemical Bank (Viner et al. 2000, p. 1).

In "Maximizing Post-Merger Savings from Purchasing," BCG states that most industrial companies can save 10-15% on costs of common materials and components during the post-merger integration phase of a merger (Andrew and Knapp 2001, p. 1). Thus, in "The New Importance of Scale," BCG praises the Citibank/Travelers deal for saving \$1 billion in overhead costs and said Citibank had done well with mergers to achieve scale gains (Dyer and Jansen

⁵⁰Gun-jumping refers to a situation in which the merging firms move too quickly to coordinate their pricing, production, and other strategies, thereby raising concerns with antitrust enforcement agencies that are charged with ensuring that merging firms will not harm competition by coordinating their activities before the merger review is completed.

2001, p. 3). This last observation must be contrasted, however, with A.T. Kearney's (1999, p. 10) observation that the Travelers deal resulted in substantial attrition of valuable employees.

PriceWaterhouseCoopers 2000

“Speed Makes the Difference: A Survey of Mergers and Acquisitions” points to a 1998 PwC survey that found the price of an average acquirers' stock to be 3.7 % lower than that of its peer group in the year following a deal (Shay 2000, p. 1). The report also cites a Wall Street Journal article, which observes that acquiring firms in eight of the 15 largest deals in the past five years trailed the performance of the S&P500. The survey in this particular report did not measure post-merger returns relative to a benchmark. Rather, in this study, PwC concentrated on surveying top executives to determine whether they thought their deals worked and why they felt these mergers and acquisitions did or did not succeed. The survey covered 125 corporations, 72% of which were based in the United States.

The firms covered a wide size range and were drawn from a broad array of industries (pp. 17-18). The top three objectives of acquiring firms were to gain access to new markets, grow market share, and gain access to new products. Reducing operating costs was number six, and reduction in the number of competitors was ranked nine out of ten (p. 5). According to this survey, buying technical talent via merger was the fourth most prominent objective in 2000, rising from sixth in 1997 and being named in one-half of all mergers (pp. 3, 5). 39% of those surveyed claimed to have fully achieved their cost cutting goals, whereas 60% to 70% achieved their market penetration goals. Success was not explicitly defined in the interviews. Integration of information systems was the leading problem (rising to 72% from 39% two years earlier (p. 6).⁵¹

PwC's general finding from the survey of executives was that firms that moved faster than their normal operating speed to integrate newly acquired assets and communicate with new employees, considered their deals to be more successful and to gain more in all dimensions than did firms who moved more slowly than their normal speed to integrate new assets (pp. 8-15). Faster transitions also reduced the costs imposed by the three leading integration hurdles: incompatible information systems, divergent management philosophies, and incongruent management practices. One particularly striking result was that early use of transition teams led

⁵¹ This result is almost too stark to believe. Did information technology get harder to integrate over time, or did it just become a more prominent category?

to much better employee retention (p. 14).⁵² PwC thus concluded that speed of integration is important. No absolute measure of such speed was provided, however.

Presentation by Don Shay of PriceWaterhouseCoopers 2002

Don Shay of PriceWaterhouseCoopers gave a presentation to the FTC staff on April 23, 2002 regarding merger outcomes. Much of the presentation was based on PwC's 2000 report on post-merger integration, "Speed Makes the Difference."⁵³ He noted the results from four typical studies indicating that a majority of mergers fail to enhance shareholder value. Often companies pay 40% or higher premiums to buy another company, which is very difficult to offset through growth and/or cost savings. He also cited a Booz-Allen study finding that most deals fail due to poor integration efforts, rather than failed strategic concepts.

The consulting firm studies use a variety of measures of success and no single measure appears to be widely accepted as the "best" metric. Qualitative measures focus on achieving the strategic intent of the deal (gaining expertise or an ability the acquirer otherwise would not have had). Empirical measures focus on either cost projections or attaining some benchmark share price appreciation or revenue growth rate relative to industry rivals or a broad index. Some analysts also use an implied growth rate that would be the growth rate necessary to attain the pre-merger net operating profits after tax, accounting for the stock price premium paid. Shareholder value is Alfred Rappaport's favorite measure of success.

Shay argues that deals are done for a variety of reasons, with the CEO's view of the future being a key factor (Shay 2002, p. 14). CEOs know that the odds are against successful deals, but they sometimes are pressured by boards or stockholders. In almost all cases, earnings growth is a main element. In his comments, Shay indicated that most companies do not look at mergers in the context of cost reduction. Mergers are done to create revenue growth, with cost savings the frosting on the cake. Shay did, however, provide several examples of mergers occurring to minimize costs and achieve appropriate scale to use new information technologies – as with intermodal trucking, for instance (p. 15). He also noted that the low-return, paper and packaging industry is consolidating worldwide (p. 16).

When making their initial evaluations of a potential merger, companies do not adequately take into account the cost of further investments (beyond the price paid to buy the assets), that will be required to achieve cost reductions. Having said that, he reported that 46% of the top

⁵²One might wonder whether some reverse causation exists in the survey results. It seems likely that inherently easier (and thus more successful) deals might move forward faster than more challenging deals. If so, faster transition speed may be a result, rather than a cause, in the success of certain M&As.

⁵³This study was discussed in the August 14, 2000 edition of Securities Data Company's *Mergers & Acquisitions Report*.

senior executives surveyed included reductions in operating expenses as one of the top three reasons for pursuing their deals. Prior to a merger, an acquiring firm frequently cannot know the assets they are acquiring well enough to accurately predict cost savings. Savings often occur, but come from unexpected sources. It is even harder to do revenue projections for the combined entity.

Another set of conclusions, state that market power-based price increases do not drive deals because they will not get past a Hart-Scott-Rodino merger investigation. Furthermore, the longer an HSR period, the more damage is done to the merger and the acquiring company. As Michael Shelton of McKinsey & Co. also noted in his presentation, due to legal restrictions, companies do not improve their cost estimates during the HSR period unless they bring in a third party or “clean team” because management teams are forbidden to consult with each other. Roughly 10% of deals bring in third parties to help make use of information early without violating rules regarding exchange of such information between the firms.

With respect to customer base and market share, companies routinely assume they will keep 100% of their customer base. Despite difficult transition periods, companies do not usually lose customers. Shay had never seen a big loss of customers in a well-done deal (perhaps a 5% maximum loss). This seems inconsistent with McKinsey’s strong emphasis on customer loss potential. According to that emphasis, performance erodes right after mergers, during the initial transition. During this vulnerable period, there is a downturn in morale, key personnel are lost due to recruiter activity, internal competition increases, and competitors approach the merging parties’ customers. As a result, companies lose market share, productivity, profit margins, and growth. Thus, fast transitions matter because they reduce the period of uncertainty in direction and the time headhunters have to steal sales and management people.

As for underlying causes for merger failures, Shay indicated that a number of contractual terms might have perverse effects in the “deal-making” industry (p. 17). Investment bankers get paid to close the deal, not to close a deal that ultimately works out well for investors. Similarly, many CEO's are rewarded for actions, but not necessarily for successful actions. Mergers might fail because of competitive reactions, customer dissatisfaction, inadequate due diligence, difficulty of integration, or the lack of timely execution.

Some other general observations include:

- A positive correlation exists between success rates and experience doing mergers, which contradicts a McKinsey finding on this issue (see p. 16).
- Quick transitions provide greater ultimate value in almost all dimensions (pp. 23-25). After the fact, few companies say they should have moved slower, but 89% think they should have moved faster to execute the integration (p. 26).
- 20-30% of the things companies think they can do with a merger they end up not being able to do, and 30-40% of the things they end up doing are not anticipated before the merger takes place.

- Many businesses are getting bigger because global-scale customers want a global footprint from their suppliers.

Accenture 2000, 2001

Anslinger and Jenk argue that merging firms should undertake “strategic due diligence” which goes beyond standard due diligence, prior to committing themselves to a merger deal. Standard due diligence focuses on understanding the target firm’s financials, searching for legal issues, and looking for hidden surprises. Strategic due diligence would add determining whether the target has the same strategic direction as the acquirer, validating the reasons for the deal, and understanding the customer base and their loyalty (Anslinger and Jenk 2001, p. 6). This would be done by talking to a more diverse group than just the managers of the target (p. 7). Firms should pay more and earlier attention to these strategic factors. The proposed process appears to move post-merger integration issues into the “due diligence” category. To illustrate how this would work, the authors use a client-based example where a broader view of due diligence helps an acquiring firm to downgrade the synergies it thought might be attained from a merger (p. 11).

The authors provide some context from beer and beverage industry consolidations and internal growth. They indicate that growth rates over the late 1990s varied a lot across world beer industry participants and attributed some of this to strategic due diligence to avoid poor fits. Interestingly, the best returns (the highest compound annual growth rates) were obtained by firms that grew internally – referred to as “organic” growth (p. 4). The authors also indicate that a value lever in their broader strategic assessment of a merger is “reduced competitive intensity” (p. 10), suggesting that the ability to set higher prices might be an incentive for firms to merge.

Other Accenture research focuses on particular aspects of merger and acquisition management: one focusing on types of oil industry M&A and joint venture alliances; the other on more general M&A management. Regarding the oil industry, an Accenture paper indicated that oil industry M&A and alliance-making has occurred all through the industry and oil industry executives expect that trend to continue (Spence and Johnson 2000). Yet less than one-third of surveyed oil industry executives think their companies have fully realized potential gains from integration (p. 2). In addition, only 39% of oil executives think their companies have fully realized the gains anticipated from alliances (p. 7). So alliances do not seem to fare better in the surveys of executives than do mergers (a question asking whether you “fully” realized potential gains, however, is bound to elicit a large number of negative responses). This paper reports on a survey of 100 executives who undertook deals between 1993 and 1998, finding that integration speed itself is not necessarily a key factor, but might be in certain cases. Early planning, on the contrary, is almost always essential, except, perhaps for deals that were intended to bring in new skills and technologies (p. 5).

In “The Big Deal: Getting M&A Right from Pre-Deal through Post-Deal,” Dinkin and O’Connor⁵⁴ provide information regarding a number of recent studies of M&A outcomes: “Recent studies reveal 50% to 70% of all M&A activity fails to deliver the value intended. Typically, a merger loses 16% to 49% of combined market share within three to five years. Only 33% of companies recover the direct costs of the deal, some 35% of takeover targets are later divested” (Dinkin and O’Connor 2001, p. 1). On the other hand, a study of 72 financial services deals between 1989 and 1997 indicates that the best of the deals increased average return on equity from 14% to 19%, experienced average revenue growth of 47% from one year before to two years after the deal, and provided shareholder returns averaging 65% above comparable stock market levels, while price-to-book values rose 60% (p. 2). This finding may not mean much since in any large set of deals the best will surely look good, unless M&A activity is fully perverse. The authors also cite an Accenture survey, “Winners and Losers,” that examines M&A deals in a cross section of industries from 1993 to 1998 (p. 3). “Winners” tended to plan more and earlier, specified leaders for integration activities, involved the integrators in the deal-making process, and stuck to a plan. Winners also integrated quickly in certain key areas (e.g. leadership, brands, and compensation). The authors label this “smart speed,” where integration is accomplished within six months in selected critical areas that differ according to the circumstances of each merger.

Conference Board 2001

This short report was compiled in conjunction with McKinsey staff and covers various motives for mergers based on a large number of interviews and case studies from McKinsey files.⁵⁵ The interviews were done with firms that had successfully handled mergers in the recent past (p. 2). Using categories developed at SMU and client histories, McKinsey analysis was used to objectively select several merger successes to find out what went right. Dell and his coauthors examined the motives for the mergers as well as the factors that helped lead to successful outcomes. The motives for mergers were all tied to a desire to grow - gains in market share, scale, new products, or new geographic areas. Cost reduction was not a major motive, being mentioned by few respondents (p. 7).⁵⁶

The firms that were successful in handling mergers focused on five factors:

⁵⁴The paper is not focused on empirical studies of merger outcomes, but rather emphasizes the idea that pre-deal to post-deal integration should be viewed as an integrated process.

⁵⁵Dell, David, Ellen Hexter, and Paul Wesman, “Merging and Acquiring for Growth,” *Conference Board* (2001).

⁵⁶As in Mechstroh’s survey work, the failure to mention cost reduction as a motive may be a result of the fact that most business persons do not consider cost reduction to be a strategy, so it could not be a major “strategic” motive for a merger.

- Frequent and tailored communications (pp. 9-10).
- Cultural fits or misfits (p. 11).
- Managing talent to assure that it did not drift away during merger integration - an especially important point in high-tech mergers where brains are the business (pp. 12-13).
- Integrating quickly in most instances, while realizing that speed can impair knowledge transfer if that is a key asset (p. 15). In one case study, the successful firm wanted to integrate sales forces slowly to avoid disruptions (p. 21).
- Learning from the merger experience is important, to improve future results (pp. 16-17).

Other Perspectives

Joseph Bower, *Harvard Business Review* (March 2001)

In “Not All M&As are Alike and that Matters,” Bower proposes a slightly different way of thinking about M&A strategy and post-merger integration than most of the consulting literature. The article is based on a Thompson Financial Security Data Co. data analysis of all 1997-1999 deals larger than \$500 million. The author breaks M&As into 6 distinct categories according to why they were undertaken:

- Overcapacity M&A, aimed at reducing industry overcapacity and duplication (e.g. Daimler/Chrysler);
- Product or market extension M&A (e.g. Quaker/Snapple);
- Geographic roll-up M&A, designed to achieve economies of scale and/or scope, and which are associated with building industry giants (e.g. TCI cable, SCI funeral homes, Banc One);
- Industry convergence M&A (e.g. Viacom/Paramount/Blockbuster, AT&T/NCR);
- M&A as a substitute for research and development (e.g. Cisco); and
- Deals in which a multi-business company sells a division to a financial acquirer (this category of M&A is only mentioned in passing).

In his sample, most mergers were done to address industry overcapacity or to extend product lines (37% and 36%, respectively). Convergence mergers and M&As as a substitute for R&D were relatively rare in his sample of large mergers (4% and 1%, respectively), but Bower notes that if smaller M&As had been examined he would expect to see more mergers that appear to be substitutes for in-house R&D. The article provides information on the relative frequency of different types of mergers during 1997 to 1999 and provides a qualitative assessment of why some deals might have thrived and why others faltered.

Bower discusses the success or failures of several deals in his work. The criteria for success are not spelled out, but his list of successes includes: Banc One for several banking roll-

ups (p. 6);⁵⁷ GE's acquisition of Nuovo Pignone (an Italian engine maker), which he characterizes as a market extension merger (p. 7); Microsoft and Cisco for buying R&D via merger (p. 7); and Viacom and Morgan Stanley/Dean Witter/Discover in convergence mergers. Some of the failures identified by Bower include the Daimler-Chrysler automobile merger where authorization/control systems varied and cultural differences between the firms' upper managements produced tension. Other failures included AT&T's purchase of NCR in an attempt to achieve industry convergence and Quaker Oats/Snapple's inability to extend an existing distribution system to a new product line. Bower stresses the need for firms to have clear strategies and to view mergers as one element in achieving this broader strategy. Equally important, acquiring companies must know which of the six types of mergers they are embarking on, and treat different types of M&A according to their different challenges and needs.

Daniel Mechstroth, *Manufacturers Alliance/ MAPI (1999)*

Mechstroth provides a 16 page description of the history of U.S. merger activity over several "waves" and tries to explain how those waves differed. He also provides a list of various reasons that mergers are undertaken by firms (thirst for revenue growth, changes in technology, deregulation, globalization, "strategic" rationales, and an overvalued stock market are among the main factors in his lists), and reviews some of the recent economic and financial evidence regarding the success of mergers.

As part of that paper, Mechstroth reports on a survey of executives done by the Manufacturers Alliance. In their September 1999 Business Outlook survey, MAPI surveyed 80 senior financial executives regarding the success of acquisitions. One result of the survey was that the executives thought that 54% were successful or very successful, 24% were mediocre performers, while 11% were clear failures (Mechstroth, p. 12).

As part of this same survey, the 80 financial executives were asked about the main business strategy that drove acquisitions on the part of acquiring firms. Of the seven listed options, 42% of executives chose improved earnings growth as the dominant purpose, while 23% chose strengthening the ability to compete in global markets as the main driver. Only small percentages said that gaining size advantages or operational efficiencies were key strategies (pp.

⁵⁷ Interestingly, observers such as McCauley (1997, p. 4) concluded that the Banc-One roll-ups failed to produce value.

7-8).⁵⁸ According to Mechstroth, the earnings growth rationale is key because both stock market price performance and executive compensation are correlated closely to earnings growth.

Mechstroth questions the validity of academic research indicating below average financial performance among mergers. Such models, he states, generally do not reflect the dynamic market forces faced by merging companies. He goes on to imply that in many cases, apparently negative merger outcomes might reflect the best choice among several less-than-appealing possibilities confronting a company (p. 11). Mechstroth also concludes that most mergers enhance economic efficiency by more efficiently distributing resources, even if they fail to achieve financial returns to shareholders when measured against stock market or industry average returns. As he puts it: “This ‘finance’ test is very difficult to achieve simply due to the ‘law of averages.’ About 50 percent always are going to be below average and very few individual firms can beat the average consistently over the long term” (p. 16).

Robert McGuckin, The Conference Board (2001)

The Conference Board’s head of research, Bob McGuckin, worked with Sang Nguyen using the Census’ Longitudinal Research Database data at the plant level. Their research indicated that mergers improve productivity and enhance economic efficiency (McGuckin and Nguyen 1992). This improved efficiency may come from the creation of “synergistic” effects, as in the case of acquisition and improvement of well-performing plants, or “managerial discipline” where a merger involves improvements to a poor performer (pp. 6, 18). His work is consistent with the results of Lichtenberg and Siegel (1990).

In “Why all the Uncertainty, Fear, and Doubt? Are Mergers and Acquisitions Bad for Workers?” McGuckin focuses not only on the aggregate economic benefits of mergers, but also how they are likely to affect workers. He notes that in a majority of acquired plants and plants owned by acquiring firms in the period from 1977-1987, employment and wages both rose (even in relation to plants owned by non-acquirers). Among acquired plants in the top 10th percentile by size, which accounted for 80% of employment at acquired plants, wages and jobs grew at a slower rate after a change of ownership, however. This group of adversely affected workers comprises a significant portion of the overall workforce (p. 20). In spite of this, McGuckin concludes: “Even though acquisition reduced wage growth at larger plants, it is the larger

⁵⁸This survey result might be expected, even if scale economies are one goal of most mergers. They are unlikely to be listed as the main “strategic” goal, because obtaining scale gains is not often thought of as an overarching strategy of firms. In addition, as Mechstroth notes, many firms cannot undertake mergers to gain such advantages if their industries are already concentrated and thus many mergers cannot have market-specific scale gains as a major component.

(poorly performing) plants where the managerial discipline hypothesis is most valid and where reductions in the growth rates of employment and wages are likely to be most beneficial. Thus, the overall benefits of ownership changes – better productivity and movements of resources from lower- to higher-valued uses – are likely to be large” (p. 21). He also notes that a true examination of the costs to workers in terms of loss of jobs would also need to account for the ease or difficulty of finding alternative employment.

Conclusion

What can we learn from the business consulting literature? Mergers and acquisitions are risky undertakings that achieve the primary goals of the surveyed managers substantially more than half the time, but are only successful in a more quantitative financial sense (i.e., raising shareholder value relative to pre-deal levels) about 30 to 55 percent of the time.⁵⁹ Can they be made to work better? It seems so. Mergers in the 1990s are believed to have been more successful than those in the late 1980s, and there is some evidence that the results of mid-1990s deals have been surpassed by those in the latter 1990s. There are some factors that business consultants identify as being keys to enhancing the chances that a deal will succeed. The first factor is choosing a deal that makes strategic sense - one that fits with the firm’s larger goals and objectives. Once it becomes clear that the deal suits the firms’ purposes, then implementing the deal and integrating the assets becomes important. Certain types of deals, such as mergers of equal-sized firms with strong differing cultures, seem particularly difficult to implement, even if they meet the strategic goals of the acquiring firm. On the other hand, those deals that occur in the same or related business and that make use of existing firm strengths appear to work somewhat better. The consulting literature stresses several factors that are thought to improve the chances that the deal implementation will prove effective. These factors include: early planning for the integration process, setting and communicating clear goals, identifying the responsible managers and providing them with appropriate incentives, moving quickly to define those areas where gains can be achieved, keeping everyone informed with tailored messages including employees and customers, integrating systems quickly, being sensitive to cultural issues, retaining key employees, and retaining sales force activism to avoid the loss of customers to rivals. The importance of these factors may vary from deal to deal as characteristics of the deals change, but the one over-riding factor is the need to plan early for the integration of the new

⁵⁹One reason for the differing success rates between executive assessments and financial assessments may be that mergers and acquisitions can successfully reduce costs and achieve other management goals, but if the premium paid for the target firm was too large, then the merger could still be unsuccessful in a financial sense. The consulting literature does not often address the premium issue, but those that do argue that premiums are not a systematic force behind financial failure of M&A deals. In addition, comparison to a broad market value average is a tough test (relative to, say, a pre-deal and post deal profits or a cash flow improvement test). Other firms are constantly striving to succeed, and half of them have to fail the market average test.

assets. This early planning is intended to allow the combined firms to obtain the merger-related gains quickly and to build an early period of enthusiasm surrounding the transition.

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