

# **CRITICAL SUCCESS FACTORS OF THE MERGERS AND ACQUISITIONS PERFORMANCE: INTERRELATIONSHIP OF PLANNING STAGE (PRE- MERGER) AND INTEGRATION PROCESS (POST-MERGER)**

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## **ABSTRACT**

This study addresses the neglected variables, such as due diligence analysis and cultural differences analysis at the pre-merger stage, and HR practices at the post-merger stage, and highlights gaps in the literature, by indicating the understanding of the important relationships between pre- and post-merger stages as a major area for improvement in mergers and acquisitions (M&A) research and organizational performance. The complicated nature of M&A situations has prevented M&A practitioners from achieving the maximum results after the M&A.

Different streams of research have studied different areas of the M&A stages. Historically, two main streams of management research have studied either pre- or post-merger integration stages. One stream, focusing on the pre-merger stage, examined the relationship between firm-level measures of financial performance and the strategic fit between buying and selling firms (Singh and Montgomery, 1988; Palich et al., 2000), with an emphasis on the potential synergy and added value of the acquisition to the buying company, in other words, on choosing the right merger. The other stream focuses on the post-merger stage, and examines the cultural fit of the buying and selling firms, and its impact on the success of the merged company (Chatterjee et al., 1992; Sarala and Vaara, 2010; Stahl and Voigt, 2008; Weber et al., 1996; Weber, 1996; Weber et al., 2011b). However, these studies pay little attention to cross-cultural management, despite the fact that cultural differences play an important role in the success or failure of M&A.

Different streams of research focus on different research levels. The strategic management literature has primarily focused on strategic analysis, which identifies characteristics of the two firms and looks into the best strategic fit to realize the maximum synergy potential and value creation in M&A. On the other hand, the organizational behavior literature has primarily focused on factors pertaining to the human side during post-merger integration. These include a focus on individual behavior and the processes during integration, such as top executives' commitment and turnover as a result of culture clashes (Lubatkin et al., 1999; Weber, 1996; Weber et al., 1996; Weber and Drori, 2011), structural changes (Ellis et al., 2012; Weber, Tarba, and Bachar, 2011), and HR practices, such as the different effects of training and communication on M&A success in various countries (Weber et al., 2012). Each stream of research focusing on different variables has led to inconsistent findings.

There are also two other streams of research focusing on different types of variables (context versus process). More researchers pay attention to the research of context variables at the pre-merger stage, while others focus more the process variables at the post-merger stage. Table 1 shows that context variables that have received high attention at the pre-merger stages include relatedness, cultural differences, buyer experience, and relative size in previous M&A. On the other hand, process variables that have been investigated, usually at the post-merger stages, include HR practices, level of integration, communication, and structural changes.

	Pre- merger	Negotiation	Post- merger
Context	Relatedness, Cultural Differences, Experience, Relative size		
Process			HR practices, level of Integration, Communication, Structural changes

*Table 1. Variables that received high research attention (Source: Handbook of research on mergers and acquisitions by Weber, 2013)*

Table 2 shows examples of variables that receive more research attention. However, among the differences between the two streams is that process variables, such as planning at the pre-merger stage, receive much less attention. Process variables, such as planning (including due diligence analysis and cultural differences analysis) at pre-merger stage and HR practices at post-merger stage, are the variables requiring further research (Weber, 2013). A recent article showed the role of cultural differences analysis in all M&A stages but most of the potential relationships are yet to be explored (Weber and Tarba, 2012).

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

*Table 2. Example of stages that may receive more research attention (Source: Handbook of research on mergers and acquisitions by Weber, 2013)*

Examples of hypotheses for this study are as follows:

H1: The higher the planning level the higher M&A performance

H2: The higher the planning level the higher the use of HR practices at post merger stage

H3: The higher the use of HR practices at post merger stage the higher M&A performance

*Keywords: mergers and acquisitions (M&A), cultural differences analysis, due diligence analysis, pre-merger, HR practices, post-merger, M&A performance*

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