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TABLE OF CONTENT

Editorial	3
Julian Warter	
Culture Differences and Trust	5
Paulo Finuras	
The Pre-M&A Stage: Understanding the Phases and Success Factors	13
Rachel Calipha, David Brock	
Life's a Box of... Conversations: The Company as a Language Network	35
Thomas D. Zweifel	
How Could We Turn a Good Idea Into an Effective Action? From Human Security to Interpersonal Securitization	43
Anton Carpinski	
Laughing Matters: When Humor is Meaningful	55
Hershey H. Friedman, Linda Weiser Friedman	
Inequities in the Romanian Society of Today	73
Melentina Toma	
Dental Healthcare Accessibility in Underprivileged Populations.....	81
Oana Isailă, Hostiuc Sorin	
Book Review	87
George Simons	
Book Review	89
George Simons	

THE PRE-M&A STAGE: UNDERSTANDING THE PHASES AND SUCCESS FACTORS

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Abstract

This paper investigates the correlates of merger and acquisition (M&A) success, focusing on the crucial pre-M&A stage. We first seek to improve understanding the different phases of this process. Then, importantly, we identify the relevant success factors, and link each success factor to a specific phase. Our exploratory methodology includes analyses of seven M&As, in-depth interviews of senior managers, company documents, and financial reports. The findings reveal seven phases to the M&A pre-stage, each matched to discrete success factors. Thus, for example, in the strategic planning phase, relevant factors included specific knowledge, training in cultural differences, financial power of the acquirer, and market analysis. In the screening phase, successful firms followed the selection criteria and remained in their core business. Finally, the paper discusses the managerial implications, the recommendations for future research, and research limitations.

Keywords: Mergers; Acquisitions; Pre-stage; Strategic planning; Knowledge

Introduction

While there has been substantial research into the factors leading to merger and acquisition (M&A) success and failure (eg, Calipha, Tarba, & Brock, 2010; Levinson, 1970), these studies seldom relate to specific M&A stages and phases (Gomes et al., 2013). Given the crucial importance of the phases leading up to the M&A (Angwin, 2001; Appelbaum, et al., 2000a), this paper focuses on the pre-M&A stage. Understanding the phases and the corresponding success factors of the pre-M&A stage enables executives to anticipate the issues that can be detrimental to the M&A's synergy realization, and thus impact the overall success of the deal. To this end we ask: What are the specific phases within the pre-M&A stage, and what are the success factors within each phase? To address these questions, we use a multiple case study analysis.

Literature Review

We begin by reviewing M&A success factors, then look at different stages and phases, and finally mention some work that links success factors to stages/phases. There are various different factors that contribute to M&A success or failure, including the strategic motives, type and/or degree of diversification, selection criteria (such as price and strategic fit), acquisition experience, management involved in the process (such as human resources, operating managers, and key staff), culture, difference in size, organizational structure,

system of control, examination of all the stakeholders, analysis of the future capital need, and ambiguity (Calipha, et al., 2010).

Tripathi and Lamba (2015) identify five main motives: value creation, improvement in efficiency, market leadership, marketing and strategic motives and synergistic gains. Focusing on strategic motive, the acquirer should consider strategic rationale such as growing scale to become more competitive or, to adjust to technological change (Aggarwal-Gupta, Kumar, Upadhyayula, 2012; Gadiesh & Ormiston, 2002). There is no consensus regarding the way in which the type of acquisition influences performance. Firm's value decreases with the degree of diversification (Lang & Stulz, 1994; Comment & Jarrell, 1995). Goyal and Fan (2006) find that vertical mergers generate positive average abnormal return for the acquirer and target combined firms, and are significantly larger than those for diversifying mergers. Morck, Shleifer and Vishny (1990) and Servaes (1996) found that the success of the mergers depends on time period. Campa and Kedia (2002) and Graham, Lemmon and Wolf (2002) suggest that diversification could be a firm's efficient response to poor growth opportunities in its main lines of business.

Referring to strategic fit, the review of thirty years' M&A research by Cartwright and Schoenberg (2006) summarized that the 'strategic fit' literature has been engaged in the relationship between the performance and the strategic attributes of the combining firms, in particular the extent to which a target company's business should be related to that of the acquirer. Recently, this scope has been extended to knowledge similarity (Clodt, Hagdoorn & Kranbeurg, 2006). Larsson and Finkelstein (1999) suggested that synergy is a function of a similarity and complementarity of two merging firms. Strategic fit should be evaluated in the due diligence processes, and possible synergies should also be identified at this phase (Aggarwal-Gupta, et al., 2012).

Past research has found that the relationship between acquisition experience and acquisition performance is unclear. It might have a positive effect (Fowler & Schmidt, 1989), negative effect (Kusewitt, 1985) or non-significant effect (Kroll, Wright, Toombs & Leavell, 1997). Hayward (2002) argues that experience is necessary but not enough. Basuil and Datta (2015) focus on cross-border acquisitions, and find that higher levels of industry-specific and region-specific acquisition experience lead to better performance for acquiring firms in subsequent acquisitions. In addition, they find culture similarity has a moderating effect.

Human resource (HR) practices and culture can also be the difference between M&A success and failure. Weber and Tarba (2010), focusing on the integration phase, suggests that changes in acquirer's HR practices--including training methods, communication and increased autonomy of HR managers--contribute to M&A performance. Angwin (2001) investigated how national cultural differences affect due diligence processes, and found that acquirer's from different countries rank the importance of due diligence differently. For example, the Swiss and Dutch ranked high the importance of due diligence in assisting price negotiation, but Germans were less concerned with this issue. In addition, some countries use external advisors while other prefer internal advisors during the due diligence. They found, for example, that the English and French use external advisors while the Germans and Dutch use internal advisors.

Various approaches are mentioned regarding M&A phases. Most of the studies focus on the two general phases: pre-merger and post-merger (Bauer & Matzler, 2014; Boland, 1970). Some refer to pre-merger, during the merger, and after the merger (such as Appelbaum, et al., 2000a, 2000b). Others refer to more specific phases (Farely & Schwallie, 1982; Kazemek & Grauman, 1989), such as strategic planning, screening the candidates, due diligence and deal execution, and the ultimate integration phase (Parenteau & Weston, 2003).

Gomes et al. (2013) link success factors to the pre-merger and the post-merger stages. In the pre-merger stage, they include choice and evaluation of the strategic partner, payment

of the right price, size mismatches and organization, overall strategy and accumulated experience in M&A, courtship, communication before the merger, and future compensation policy. In the post-merger stage, they include integration strategy, post-acquisition leadership, speed of implementation, post-merger integration team and disregard of day to day business activities, communication during implementation, managing corporate, and national cultural differences.

As seen above, most of the studies link the success factors to the decision-making process, or to the integration phase of the post-merger stage. However, only few relate to specific phases within the pre-M&A stage. In addition, there are several versions to the specific phases of the pre-M&A. This study thus focusses in detail on the pre-merger stage of the M&A process. To frame the stage we use the definition of Schweiger and Weber (1989), namely that the pre-M&A phase is the stage that occurs prior to the actual closing, at which time there is an actual change of ownership of the merged or acquired firm. Secondly, we look for known and new success factors in each phase, increasing understanding of those linkages between phases and success factors that lead to better performance.

Method

Given the lack of clarity concerning the phases of the M&A pre-phase as well as the relevant success factors, we adopted an exploratory, qualitative approach. To this end we collected data and analyzed seven case studies of M&As that occurred between 2000-2001, along with financial success measures for several years after the merger. The names of the companies have been kept anonymous—we call them cases A-G. The acquiring firms are global enterprises from different industries such as manufacturing, services, communications, and engineering. This allows us to induct a general conclusion about the M&As, without a bias towards a specific industry. All but one of the acquirers have acquisition experience. Acquirer descriptions are summarized in table 1.

Table 1: Acquirer's Description

Case	Acquirer General Description	Acquirer SIC Code	Acquirer SIC Description	Acquirer Industry Description	Experience of Acquisitions
A	Global company, manufactures generic drugs	2834	Pharmaceutical preparations	Manufacturing	7
B*	Engages in development, manufacture and marketing of active pharmaceutical ingredients	2834	Pharmaceutical preparations	Manufacturing	None
C	Engage in Billing and CRM software products and services	7372	Prepackaged Software	Services	5
D*	Provides advanced telecommunication solutions	4813	Telephone communications, except radio telephone	Communications	5
E*	Provides advanced telecommunication solutions	4813	Telephone communications, except radio telephone	Communications	5
F	Global provider of engineering, technology, and construction solutions	8711	Engineering services	Engineering, Accounting, Research, Management	2
G	Global company, Engage in	2874	Phosphatic	Manufacturing	7**

	development, manufacture, and marketing of fertilizers		fertilizers		
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*The acquisition done by the acquirer's subsidiary **small acquisitions in a year

The target firms include one public company, four subsidiaries of global public companies, and two startup companies. Target firm description and parent of target firm (where relevant) description are summarized in Table 2 and Table 3 respectively.

Table 2: Target Firm Description

Case	General Description	Target Status	Target Industry	Target Nation
A	Supplier of generic products	Subsidiary of a global enterprise*		France
B	Manufacture API	Subsidiary of a global enterprise*		Germany
C	Provider of CRM	Subsidiary of a global enterprise*		US
D	Develops and markets broadband wireless products	Start-up company		US
E	Develops and markets ControlSwitch	Privately held by venture capitalists		US
F	Supplying contracting services	Public company	Telephone communications, except radiotelephone	US
G	Produces potash and road salt	Subsidiary of a global enterprise*		United Kingdom

* See Table 3: Target's parent description

Table 3: Target's Parent description

Case	Target's Parent Company SIC	Target's Parent Company Description	General Description	Target's Parent Company Nation	Target's Parent Company
A	2800	Pharmaceutical, Chemicals	Global enterprise	Germany	Public
B	2834	Pharmaceutical	Global enterprise	Germany	Public
C	*3661	Communications Service	Global enterprise	Canada	Public
G	*1000	Metal Mining	Global enterprise	England	Public

* Although the industries of the acquirer and the target's parent in cases C and G are different, the subsidiary firm and the acquirer relate to each other, so we refer to the merger as a horizontal one.

All the cases are cross-border M&As, as the acquiring firms are Israeli and the target firms are from different countries such as France, Germany, the United Kingdom, and the United States. This enables us to examine the effects of cultural differences. All the acquisitions were horizontal except for one, which was a vertical acquisition. The

acquisitions are friendly acquisitions and paid by cash or stock. Acquisition/Merger description and relevant details are summarized in Table 4.

Table 4: Merger Description

Case	Form of the transaction	Year of Transaction	Transaction Value US dollar in millions	Payment method	Kind of Acquisition
A	Acquisition of subsidiary of a global enterprise	2002	134.4	Cash	Horizontal
B	Acquisition of a factory from subsidiary of a global enterprise	2002	4.9	Cash	Horizontal
C	Acquisition of subsidiary of a global enterprise	2001	200	Cash	Horizontal
D	Acquisition of start-up company	2000	40.5	Cash	Horizontal
E	Merger between subsidiary company of a global enterprise and a start-up company	2002	10 by ECI and 14 by target's investors		Vertical
F	Acquisition of company	2002	3.935	Stock	Horizontal
G	Acquisition of subsidiary of a global enterprise	2002	45	Cash	Horizontal

Finally, the relative size of the target firm to the acquirer firm is between 4%-35% (Table 5).

Table 5: Relative Size of acquirer to target firm by sales (at the year of the acquisition)

Case	Acquirer Sales in millions \$	Target Sales in millions \$	Relative size in percentage
A	545	22.7	4.16%
B	421	15	3.5%
C	1,533	195 (data from 1998)	7.86%
D		No sales, start-up company	
E		No sales, start-up company	
F	93	33	35.42%
G	1,569	86.79	5.52%

We used a wide range of data sources: interviews, documents, and archival records. The interviewees are from the acquirer firms and their positions in each case are the following: (A) Vice president of business development, (B) Vice president of operations, (C) Chief financial officer, (D&E) Vice president of business development, (F) Chief financial officer, and (G) Vice president of the firm. The interviews were semi-structured, in-depth interviews that took ninety minutes, as recommended by Shkedi (2003). This kind of interview lets the interviewees tell their story about the M&A process in their own ways and languages. In each interview, the interviewees were asked to answer the following questions:

1. "Tell me about the M&A process, as you see it, from the beginning to the end (please give me as many details as you can about the pre-M&A stage)."
2. "Did you see the process as a success/ failure?"
3. "What are the success/ failure factors in your opinion in the pre-M&A stage?"

To receive more detailed and precise information about the M&A process and to direct the conversation toward the pre-M&A stage, various directing questions were asked. For instance, "what was the goal of the M&A process?", "why did you choose this specific company?" "when did the company decide to merge/acquire and why?", etc. (see Appendix 1

for a specific list of the directing questions). These questions enabled us to receive the necessary information for our research. The case analyses are theme analyses, based on Shkedi (2003). The analysis includes four steps. Step 1: the initial analysis/open coding; in this step, in each case separately, we identify categories and the theme they represent. Step 2: mapping analysis; in this step, we identify associations between the themes. This step included a mapping of the success indicators to specific phases. Step 3: Focused analysis; in this phase, we identify central categories. The central categories are: the pre-merger of M&A process, the phases, the success indicators. Step 4: a cross cases analysis. The success of the acquisition process is evaluated by interviewee information and the change of the return on investment (ROI) measure (Net Income/ Total assets) before and after the acquisitions,

Findings

Analysis of the case studies identified the following phases in the pre-merger stage: strategic planning, screening of candidates, justification to board, negotiation-first agreement, due diligence, finalizing the contract, and the closing stage including approval by the authorities. In the following section, we present the descriptions of the significant phases based on theme analysis.

Identification of phases

1. Strategic planning:

The strategic planning stage is the initial step of the pre-merger phase, beginning the M&A process. This stage may begin with strategic analysis that explores the acquiring companies' strengths, weaknesses, opportunities, threats, motives and objectives, for the M&A (Bauer & Matzler, 2014; Datta, 1991). The companies analyze their external and internal environment (Table 6). They have significant opportunities, such as developing markets and changes in regulations, which enable them to get into the markets. They have strengths such as having the financial power and the knowledge about the purchaser's product. They take care of threats by purchasing competitors and answering customers' demands. They overcome their weaknesses by purchasing missing products.

Table 6: Strategic Analysis: Strengths/Weaknesses/Opportunities/Threats

Cases	Strengths/ Weaknesses/ Opportunities/ Threats
A	Opportunities: change in the regulation in the acquired firm's country, the pharmacist can change the manufacturer on a prescription to a generic drug. Strengths: the acquirer has the manufacturing and development alignment, the logistic support, and the financial power; resources that exist for each one of the subsidiaries; the experience in the wide diversity of countries.
B	Opportunities: connections with a multinational company Strengths: the knowledge of manufacturing APIs (Active Pharmaceutical ingredients).
C	Opportunities: developing CRM (Customer Relationship Management) market Threats: customer with high bargaining power Strengths: knowledge in billing
D	Opportunities: developing US market Weaknesses: the company was missing broadband
E	Threats: customer with high bargaining power; decline in DCME (Digital Circuit Multiplication Equipment) products Weaknesses: the company was missing software
F	Opportunities: the US government encouraged the companies to enter the market following September 11 th events; the cellular market in the US was weak Strengths: knowledge and experience in the communication area

G	Strengths: experts in fertilizers Threats: competition Opportunity: to eliminate competitors
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Referring to the M&A motives, in most of the cases the acquiring company's motive (Table 7) is to increase market share, by looking for products on their own core business or for complementing products. On the other hand, the target's motive (Table 7) is to sell the non-core business, to sell if there is financial difficulty, or to sell because of their interest to be a part of a large company. When asked about the company's objectives, only three of the companies mention specific numeric objective (Table 7). Several of the companies mention the objective to increase sale, other mention to satisfy customers for a long term or to give the customers a full solution.

Table 7: Motives and Objectives

Case	Acquiring Firm's Motives	Target Firm's Motives	Acquirer's objectives
A	To expand presence in the fast-growing emerging market in the acquired firm's country (France) and enhance its leading position in Europe. Synergy by scale economies.	The target firm wanted to concentrate on their core business, which does not include the generic business.	Duplicate the sales cycle every four years; duplicate profits in less than four years; growth at more than 20% a year
B	To become one of the largest producers in its field. A connection with a multinational company.	Loss of money; this factory was far from the company's other businesses.	Growth, to increase sales. They hope to post a 20% net profit on sales.
C	The acquiring firm wanted to enter the CRM market, a growing market opportunity. To enlarge products line and increase market share.	The target firm decided to sell the non-core assets.	To satisfy the customer for the long term
D	The crisis of the parent company, which was caused by the crisis in the market, led to a renewed focus on its core business. The company looked for missing products.	Start-up company. By combining with the acquirer's leading wireless technologies, they can offer the customers true end-to-end wireless network solutions.	To distribute the broadband to all potential customers
E	The market was looking for comprehensive solutions, the company looked for a target firm that complement their products.	The change in the market lead to understanding that the customer need now the combination of software and hardware.	To give the customer the full solution (both hardware and software)
F	To become a global player in the telecommunications and engineering infrastructure services market.	They will be able to add technology, human resources and capital, and thus expand to US and become leading provider of telecommunications infrastructure services.	Increase market share through M&As
G	To develop its core business, which fertilizers form a major sector.	The core business of the target firm moved to aggregates and heavy building materials so they sold the fertilizers business	To increase the firm's potash production capacity, and become one of the five largest producers in the world and the second largest producer in Europe

In most of the cases, the acquirer considers three alternatives: to establish a new company, to cooperate with another company, or to buy a new company. The most common arguments heard from managers were that a purchase is less difficult, there are fewer

surprises, it is easier to get into the market, and it is less time-consuming. The strategic planning stage concludes with a decision to merge or acquire.

2. Screening Candidates

The screening candidates phase is the search for the perfect company to acquire or merge with. During this stage, the members of the M&A team create selection criteria to guide them throughout the process. The process usually begins with a large number of candidates and concludes with a final candidate that is to be closely investigated during the due diligence stage. In the following section, we summarize the information we received from the interviewees about their screening candidates phase.

In case A, the acquiring firm claims that, generally, in a case of M&A, the business development unit for sales and acquisitions of the firm creates a team of 10-50 people, its size depending on the scope of the deal. Furthermore, the company claims that on the day the deal is completed, that team is dissolved. During the screening candidates phase, analysis reduces the choices to four companies with the right infrastructure whose profits were declining. Three of the companies were controlled by multinational companies that had penetrated France because the French government gave them tax credit. During this period, the tax credit declined, so the acquiring firm presented an opportunity for them. At the end of the process, the acquiring firm focused on two fitting candidates (The selection criteria are summarized in table 8). The firm attempted to convince the top managements of both companies that it is the right time for the M&A and that allowing the companies to be acquired is logical. The acquiring firm began an eight-month-long process with one of the two companies, which resulted in the purchase of the target firm by a completely different company. The original firm then returned to the second candidate, using different tactics and attitudes that finally lead to the transaction.

Table 8: Selection criteria

Case	Selection criteria
A	<ol style="list-style-type: none"> 1. Strategic fit - the target firm should be in the same drug area. 2. Synergetic activity between the acquirer and the target firm, minimize duality and manufacturing cost 3. The acquisition should lead to acquirer growth of at least of 20% 4. The price that would be paid will be no more than the valued price determined 5. The acquisition should have a positive influence on the Earning Per Share (EPS)
B	None (the target firm turned to the acquirer)
C	<p>Market is suitable for the long term (will be able to accommodate the company's customers in the long-run).</p> <p>The product will apply to one or two fields of CRM</p> <p>High quality of product, large scope of sales, wide range of product packages</p> <p>Strategic fit: The acquired firm offers a product set with functionality that complements the existing acquirer's firm products.</p>
D	<p>Access to US</p> <p>Strategic fit: the acquisition confirms the acquirer's commitment and dedication to provide a comprehensive set of advanced wireless solutions</p>
E	Complement product
F	Price, location, business area and size
G	<p>The core business</p> <p>Full ownership</p>

In case B, the target firm approached the acquiring firm through its Germany agent in hope of making a deal with a company that manufactured the same product as them. The acquiring company wanted to enlarge sales in the same area so the offer suited their strategy. In addition, the target firm's multinationalism seemed fit to the acquiring firm's future. Since

the target company was the one to approach the acquiring firm, the screening candidates phase was very short because it did not involve various candidates.

In case C, the acquiring firm had decided to join the CRM market and therefore had looked at a thousand candidates that deal in that market. The people who were involved were the Vice President of Business Development, analysis person, two secretaries, and four business makers, each one focused on a specific market country. They examined the size of the market, what would happen if they buy the company and what will the risks be. They narrowed down their options to 650 candidates. The company sent representatives to visit fifteen candidates that met the criteria, and they recommended five of the companies to the management. The chosen candidate offered CRM experts, a powerful CRM market position and reputation, and complementing products (to the acquiring firm's existing products). Additional criteria are summarized in table 8.

In case D, most of the screening phase was done by the vice president of the business development unit of the acquiring firm. He had searched for a company in the U.S. market, which was a developing market in his company's area. His selection of the target firm was based on the fact that it had a system which was missing from the acquiring firm.

In case E, the CEO of the acquirer (in this case a subsidiary company) and an external person with experience of entrepreneurship searched for a company with complementing products following the demand for full solution by the customers. They presented a business model to the owners of the acquired firm, which emphasizes the complementarity of the acquirer and the target firm.

In case F, at the beginning, there was only one person involved, the CEO, who looked for companies outside of Israel. Later, the acquirer company's chairman and assistance team accompanied him. Ten companies were checked, only one was a public company. The private companies were disqualified for several reasons, such as price, location, business area, and size.

In case G, at the beginning, the people who were involved were the CEO and the vice president of the acquiring company, the chairman of the parent of the acquired company, the chairman of acquired company, and the person who oversaw M&As in the acquired company. The acquirer was interested in another company of the target firm's parent. The parent company recommended its other subsidiary, which manufactures the same product as the acquirer. The acquirer considered the advantage of reducing competitors with the same core area, so it agreed to the deal, but demanded full ownership.

In summary, the people who were involved in most of the cases are employees from the internal business development department. In some cases, the top management, such as CEO or Vice President, searched for the candidates. There is only one case that used an external person for screening candidates. In most of the cases, the final candidate was chosen according to the selection criteria. The selection criteria are summarized in table 8. There were cases where the target contacted the acquirer or the parent of the target firm and suggested an alternative.

3. Justification to the Board of Directors

There is only general information about this stage. After choosing the most suitable candidate, the team has to justify the decision to the board of directors. After getting the approval to continue, they start the negotiation with the target firm. After offering the initial price, the acquirer signs on a confidential agreement and the due diligence stage begins.

4. Negotiation-first agreement

In this phase, there is negotiation about the initial price offer. Only few of the companies gave details about this phase.

In case B, the first negotiation was between the CEO and the marketing manager of the acquirer firm, and the representative of the parent company of the target firm.

In case E, the negotiation was between two senior managers of the two companies.

In case G, it is mentioned that although the acquirer usually supports the involvement of an investment bank involved which operates the auction, in this acquisition, both of the companies did not want to work with an investment bank. The main approach of the acquirer company is not to use an investment bank, because although there are advantages, there is a lot of involvement, which is justified only in specific cases. They suggested a no obligation offer. They used a 'teaser paper' (where little is written about the target firm) and then they signed a confidentiality agreement. After the initial price offer, they began the due diligence phase.

5. Due Diligence:

In this phase, the acquiring firm further examines the target firm in order to confirm it is a suitable candidate. The acquiring company checks the assets, obligations, and abilities of the target firm. Furthermore, it compares the target firm to its future buyer (the current acquirer), specifically examining the size, number of employees, salaries, and culture differences. In addition, after examining the target firm and confirming its suitability, the acquiring firm usually creates a business plan for the future following the M&A. Such business plan includes an organization structure, a control system, etc. In the following section, we summarize the information we received from the interviewees about their due diligence.

In case A, as mentioned, the acquirer used an inside team, which also included a lawyer and an accountant that check the assets, obligations, and abilities of the acquired firm. The human resource team examines the difference in cultures even the difference in work hours. The goal of the examination is to learn more about the acquired company and its management; sometimes find out details that the company itself didn't know. At the end, they create a business plan for what is going to happen after the acquisition. The deal will not be signed if there are any disagreements. They share the plans with the local management of the acquired company. The acquiring firm states that it desires a cooperation with existing French companies. However, the management of the acquired company would remain French to avoid a cultural gap. Generally, the company's strategic approach is that the acquired firm should be managed by its own workers, rather than by foreign workers sent by the acquiring firm. However, the acquired company must report their work plan to the acquirer.

In case B, the acquirer examined the factory in depth. The operations manager made a comparison between the operation system in Israel and the German system and found that there is inefficiency and that the acquirer can dramatically reduce the manufacturing costs of the target firm's factory; the target company was at a loss at the time. They found the employees very diligent. They found that the salaries were not as high as they expected from the German company. They were surprised to see the culture differences such as no coffee or tea break or any small talk in the Germany factory, compared to the Israeli culture. However, the acquirer was able to predict the future needs of the company and therefore created a business plan. The acquirer allowed the target firm to have an autonomy and be managed by local German managers, while the acquirer supervises the overall achievements.

In addition, the parent's target firm has the following conditions for the acquisition: they can't fire the employees, they must continue to manufacture the product under all of the same conditions-high quality, meeting delivery schedules, and price, for a period of 10 years. They also should buy the target's share in a partnership which owns land and building in the industrial area. This purchase can give them a discount in energy and rent. The acquirer agreed to the conditions.

In case C, the acquirer creates team members from HR, accounting, legal, and professional services. Each team receives a list of assignments, for example HR examines salaries, culture differences, and retirement conditions, and legal team examines contracts. In

addition, they examine the customers, suppliers and partners of the firm. Unlike the other acquirers in this study, in this case, the acquirer's plan is to send Israeli employees and to replace the CEO with an Israeli one. Furthermore, the target firm must change its computer systems to match the acquirer's one.

In case D, in addition to the insider team, the four employees in the business development unit, the acquirer used an external team that included an investment bank, accountants, lawyers, and professional consultants, such as a consultant in the technology area. They examined the current condition of the target in-depth, but they didn't consider future investments. In addition, they feel confident about the acquisition, since they have an experience with the American culture; they've had an American subsidiary for over 25 years (at the time of the interviews), which will avoid cultural clashes. They didn't plan to change the local employees and they expect the communication of the two companies to be done mainly by the CEOs of both companies.

In case E, they used the same team as mentioned in case D and they have the same approach regarding culture. In this case, they focus on the combination of the acquirer's subsidiary and the target firm. They plan that the merged companies will behave like an independent firm. They describe the use of the acquirer's subsidiary as a financial source (the producing of the DCME products) for the merger. The supervision will be done by the parents of the acquirer and the target firm (specifically by the investors). They had some disagreements about the ownership percentage, but they managed to solve it.

In case F, they used, in addition to the chairman, a support team that included an accountant and a lawyer. They investigated the target company in depth, including customers and suppliers but they didn't consider future investments. Referring to culture issues, they planned to leave the American CEO in his position, and to transfer only a few Israeli employees to be in the management positions. One of them will update the acquirer about the target's condition.

In case G, the acquirer chose three representatives to visit the factory, to speak with the management, and to see the facility. Later, they used the "data room", where they carefully read documents and drafts in a limited time. Then, they used their internal departments to examine the transaction. For example, the synergy calculations and the data verification are done by the fertilizer department; the operation cost is the responsibility of the operative division. In addition, different representatives from external companies such as accountants, lawyers, experts in ecology, technology, financial, and personal advisors help to value the price. Furthermore, since this is a cross country acquisition, they also used local and foreign lawyers.

6. Finalizing the Contract

There is only general information about this stage. The seller does not commit to anything that is not stated in the contract, which is why the contract is extremely detailed and long. In case A, on the day of signing, the French CEO left because he resisted change. The acquirer mentions a critical point: that they will not sign the deal if there are any disagreements.

7. Closing and approval by authorities

In the final "pre-M&A phase" the transaction is brought to the anti-trust authority for approval. Thereafter, both sides close the deal.

Success measures and factors

The second part of our data analysis concerned understanding and measuring "success" in acquisitions, identification of the relevant success factors, and linking these success factor to a specific pre-M&A phases. We collected both qualitative (self-report) and quantitative (secondary) data. The qualitative data were obtained by asking interviewees to reflect on the success of their acquisition/merger. See Table 9 for a summary of the

responses. Cases A, B, C and G considered as a success, case E and F, it wasn't clear and Case D considered as a failure. The basic quantitative data were obtained from 10-k reports filed with the SEC (through Edgar system) or TASE (Maya system), and we calculated the return on Investment (ROI) of each case (see Table 10).

Table 9: M&As Success according to the interviewees

<u>Case</u>	<u>Successful / Not Successful</u>	<u>Reason it is considered successful/not successful</u>
A	Successful	Became number 3 in the French Market
B	Successful	They operate the factory at the same cost of the acquirer's API factory and saved a lot of money which lead to profit
C	Successful	Sell CRM and billing to a large customer base
D	Not successful	Unexpected investment in the acquired firm and industry crisis
E	Not clear	It's too early to conclude (two years after the acquisition)
F	Not clear	The process needs more time
G	Successful	They returned the investment in a year and a half

Table 10: Success measured by accounting measures

Case A (in \$ millions)			
	<u>Net Income</u>	<u>Total Assets</u>	<u>ROI</u>
2000	148.4	2,855.6	5.19%
2001	278.2	3,406.2	8.03%
2002*	410.3	4,626.8	8.86%
2003	691.0	5,915.9	11.68%
2004	331.8	9,632.0	3.44%
Case B (in NIS thousands)			
2000			
2001	1,403,030	22,207	1.58%
2002*	1,474,284	61,837	4.19%
2003	1,906,665	136,916	7.18%
2004	1,953,357	90,436	4.62%
Case C (in \$ thousands)			
2001*	66,386	2,624,436	2.52%
2002	(5061)	2,540,094	-0.19%
2003	168,883	2,877,517	5.86%
2004	234,860	2,863,884	8.2%
Case D+E (in \$ thousands)			
2000 *	(91,410)	1,848,160	-4.94%
2001	(412,376)	1,416,927	-29.10%
2002*	(162,468)	1,148,316	-14.14%
2003	(71,040)	901,996	-7.87%
2004	10,153	854,809	1.18%
Case F (in NIS thousands)			
2000	75,480	521,174	14.48%
2001	67,357	749,613	8.98%
2002*	24,756	784,143	3.15%
2003	(77,270)	647,317	-11.93%
2004	(13,540)	611,362	-2.21%

Case G (in US \$ thousands)			
2000	100,426	3,361,545	2.98%
2001	(42,375)	2,940,396	-1.44%
2002*	92,311	2,990,704	3.07%
2003	103,077	3,000,988	3.43%
2004	250,503	3,062,272	8.18%

* The star indicates the year of the acquisition.

In cases A, B, and G, there was a growth in performance, a year after the acquisition. In cases C and F, there was a decline in performance a year after the acquisition; however, in case C, there was a positive change in the second and the third year after the acquisition, and in case F there was an improvement in the second year after the acquisition. In case D, there was a huge decline a year after the merger. In case E, there was a decline a year after the acquisition, but still lower compared to the previous years and there is also improvement the second year after the acquisition. Combining the two measures and considering the financial crisis in this period, we can define all the cases as success acquisitions except for case D.

Success Factors during the process

Continuing with the theme analyses methodology (Shkedi, 2003), we extracted the data concerning success factors and matched these factors to relevant phases of the M&A process (see Table 11). These analyses also revealed that three of the seven phases were significant when matching to success factors—the strategic planning, screening, and due diligence phases. The relevant success factors that matched to these phases are as follow: **Strategic planning:** acquisition experience, management involvement, strengths of the acquirer company, market analysis, motive, the type and/or degree of diversification, objective, selection criteria, price, and strategic fit. **Screening candidates:** following the selection criteria. **Due diligence:** culture, difference in size, organizational structure, system of control, examination of all the stakeholders, examination of related professional fields, analysis of the future need, ambiguity, and price. Finally, the above literature and data collection lead us to induce the model of M&A process (see Figure 1), which includes the phases and the corresponding success factors in each phase.

Table 11: Success factors mentioned by the Interviewees

Case	Phase	Success factors
A	Strategic Planning	Strength-Knowledge of globalization Strength- Training management in the cultural differences For example, their opinion about France: “France still sees herself as a power. There are a lot of French characters. We let the French management to decide about the market”
	Screening Candidates	Following the selection criteria, They didn't fall in love with the deal.
	Due Diligence	In depth due diligence
B	Due Diligence	In depth due diligence, analysis of the acquired company National culture- the difference between the acquirer firm and the target firm
C	Screening Candidates	Strategic fit- the technological and functional fit of the acquirer and acquired company
	Due Diligence	Culture- the similarity of the corporate cultures
D	Strategic Planning	Market analysis- the industry crisis was something that the target firm didn't predict
	Due Diligence	Analysis of future needs; the acquirer company did not take in account the investments it has to make in the target's firm

E	Strategic Planning	Strength- financial power
	Screening Candidates	Strategic fit: complementary solution for the customer
F	Strategic Planning	Market Analysis Motive- The synergies will be achieved by combining a significant engineering, project management, and technology capabilities of the acquirer company with the talents of the acquired professional team
	Due Diligence	Future analysis, how much the acquirer company needs to invest in the acquired company
G	Screening Candidates	Selection criteria- to remain in the core business
	Due Diligence	Future plan needs to be very diligent. You have to predict return on investment Examination of the related professional field, as a chemical company you have to check the ecology in depth Pay attention to the laws of the target firm's country The pension subject is very important The paid price for the target company should be worth it according to the analysis

Discussion

In general our findings support those of prior work in this area (Aggarwal-Gupta, et al., 2012; Calipha, et al., 2010; Gomes, et al., 2013; Parenteau & Weston, 2003) but go a lot further, as we explain below. In addition to the known factors, our analyses reveal the following new success factors. In the strategic planning phase: strengths such as knowledge in globalization, training management to deal with cultural differences, financial power of the acquirer, and market analysis. In the screening of candidates: following the selection criteria and the criterion of remaining in the core business. In the due diligence phase: examination of the related professional fields. In this section we return to the variety of success factors that we found to be significant, placing them in context of relevant literature and this study's findings. A summary of the phases and the success factors at the pre-stage according to all of the cases is presented in Table 12.

Like many preceding studies (Bauer & Matzler, 2014; Calipha, et al., 2010; Tripathi & Lamba, 2015), having a *strategic motive* is a primary consideration in the pre-M&A process. Six of the companies determined a strategic motive and succeeded, which supports previous findings (Kitching, 1967; Levinson, 1970; Tripathi & Lamba, 2015). This study adds the finding that the motive is determined during the strategic planning phase.

According to Brockhaus (1975), the *objectives* of M&As need to be identified and evaluated at the beginning and if not done by the company, it can cause failure. In this study, it was found that all of the companies had objectives and only one failed, supporting Brockhaus (1975). This finding adds that objectives were determined immediately after the motive, which means at the strategic planning phase. When a company decides its objectives, it needs to consider its own competitive status, strengths, weaknesses, and top management's aspirations and competencies (Mirvis & Marks, 1992). Each company in this study made external and internal analyses before they made the decision to acquire, so it was prior to the determination of the objectives and it was a part of the strategic planning phase, which supports Mirvis and Marks (1992).

Another strategic factor that relates to the success or failure of the M&A process is the *type and/or degree of diversification*. In this study, it was found that six of the seven companies used horizontal growth, and all succeeded except for one. This supports the findings of Lang and Stulz (1994), Bergr and Ofek (1995) and Comment and Jarrell (1995). This study adds the finding that the type of merger is determined according to the motive, so it can be known in the strategic planning phase (in which the motive is determined).

Figure 1: Pre-merger Phases and Corresponding Success Factors

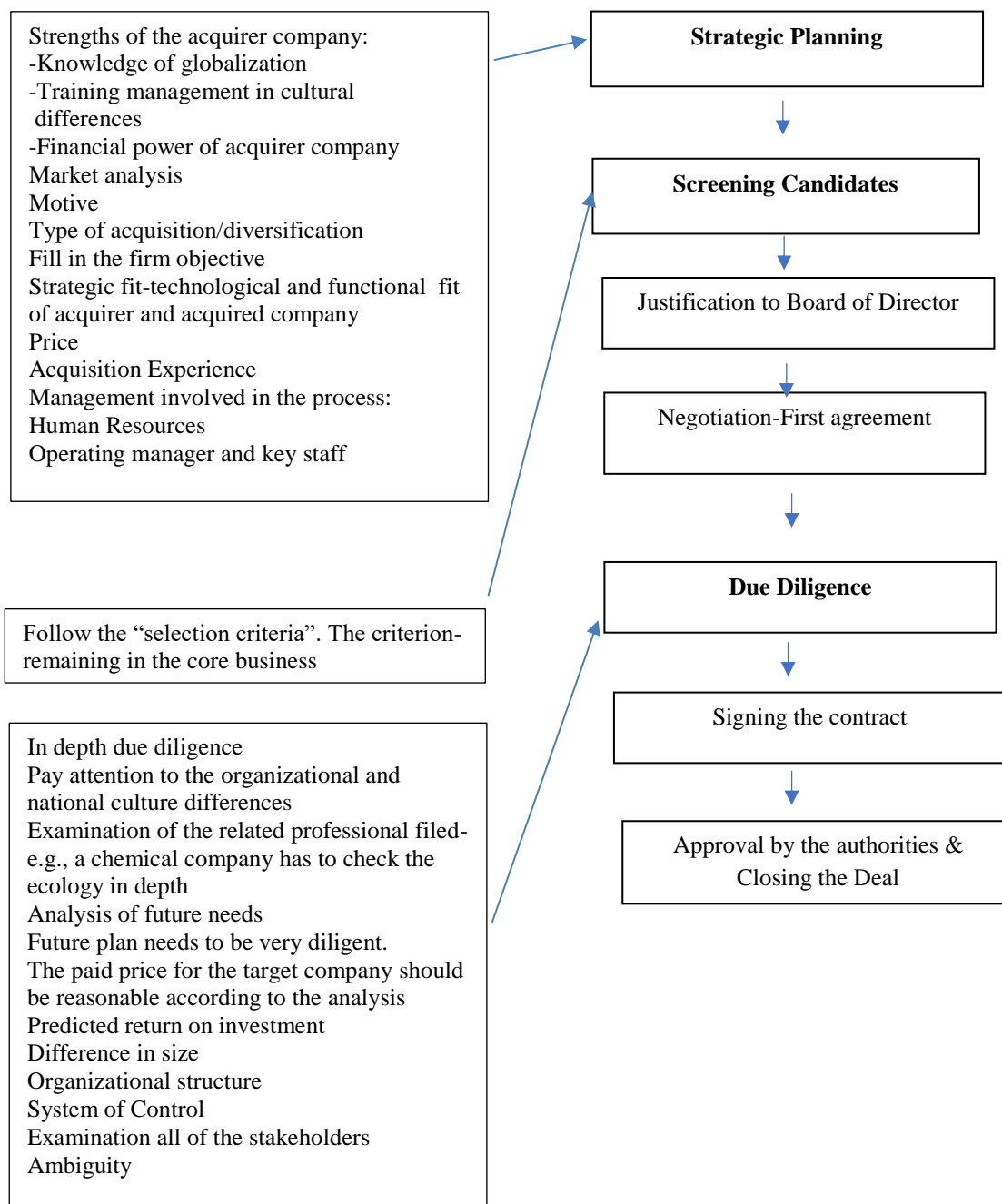


Table 12: A summary of the phases and success factors at the pre-stage for all cases.

Phase and factors	Case A	Case B	Case C	Case D	Case E	Case F	Case G
Strategic planning	√	√	√	√	√	√	√
Success factors							
Acquisition experience	√	—	√	√	√	√	√
Experience in globalization*	√	NM	NM	NM	NM	NM	NM
Training in cultural differences*	√	NM	NM	NM	NM	NM	NM
Strength-financial power*	NM	NM	NM	NM	√	NM	NM
Market analysis*	NM	NM	NM	√	NM	√	NM
The motive	S	S	S	S	S	S*	S

Type/degree of diversification	H	H	H	H	V	H	H
Objective	√	√	√	√	√	√	√
Selection criteria:	M	NM	M	NM	NM	M	M*
Price	√	NM	NM	NM	NM	√	√*
Strategic fit	√	√*	√	√*	√	√	√
Management involved in the process:	BD DT	TM	BD DT	TM DT	TM BDTD	TM DT	TM BDDT
Human Resources	√	√	√	NM	NM	NM	√
Operating manager, key staff	√	√	√	NM	NM	NM	√
Screening candidate	√	√	√	√	√	√	√
Success factors							
Following the selection criteria*	√	NM	NM	NM	NM	NM	NM
Remaining in core business*	NM	NM	NM	NM	NM	NM	√
Negotiation	√	√	√	—	—	—	√
Due Diligence	√	√	√	√	√	√	√
Success factors							
Culture	√	√*	√*	√	√	NM	√*
Difference in size	—	—	—	√	√	—	—
Organizational structure	D	D	C	D	D	D	D
System of control	√	√	√	√	√	√*	√
Examination of all stakeholders	√	NR	√	NR	√	√	√
Examination of related fields*	NM	NM	NM	NM	NM	NM	√
Analysis of future need	√	√	√	—	√*	—*	√*
Ambiguity	—	—	—	—	—	—	—
Price	√	√	√	√	√	—	√

Our findings extend those of prior work (eg., Basuil & Datta, 2015; Fowler & Schmidt, 1989) finding *acquisition experience* to be a crucial resource in M&A success. In this study, all the companies had acquisition experience except for case B. Case D, which has a lot of experience, failed and case B, which had no experience succeeded. These findings support past findings that the relationship between acquisition experience and acquisition performance is unclear. Case D's failure supports Kueswitt (1985), who found that acquisition experience is negatively related to performance. On the other hand, the other four companies had experience and they succeeded. Since we focused on cross-border acquisitions, there might be effect of culture (Basuil & Datta, 2015)—and we discuss this topic below.

Another set of factors concern the establishing and following *selection criteria* (Brockhaus, 1975; Kitching, 1967; Mirvis and Marks, 1992). Examples of criteria include price paid and strategic fit. Only cases A, F, and G mentioned *price* as a part of their criteria. All of the companies checked the acquired company at the due diligence phase to determine the best price, and all of them said that the company was worth the price except for F, where this factor caused the company to spend more money than was initially intended, after the acquisition. Past research finds negative performance of acquiring firm, indicating investors' belief that the acquiring managers have overpaid (Shleifer & Vishny, 1991), which are opposite to our cases. Most of the acquisitions (except to F) have been paid by cash and succeeded. This finding supports past findings which show that cash acquisitions have better performance than stock acquisitions (Mitchel & Stafford, 2000; Cai, Song & Walking, 2011).

In this study, all of the acquirer companies, except for case D, looked for a *strategic fit* between them and the acquired company, and succeeded. It might be that the similarity and complementarity of two merging firms create the synergy (Larsson and Finkelstein, 1999) or specifically, in some cases, the technology complementarity (Makri, Lane and Hitt, 2010).

Cases A, C, F, and G mentioned that they had criteria other than price and strategic fit; for example, long-term suitability, seriousness (the acquired company wanted to sell), and full ownership. The selection criteria were determined during the strategic planning and examined when screening candidates, which supports Parenteau and Weston (2003).

Another factor supported both by prior literature and by our study concerns the various *managers involved in the process*. In this, study it was found that, for successful M&As, a business development unit oversees the process. Consistent with Mirvis and Marks (1992), we found that a vice-president leads this unit, and a team comprised of specialists in different areas. In some of the cases, there is involvement of top management in screening the candidates and negotiation of the first agreement. Only a few executives were involved, which supports Boland (1970).

An important consideration is the involvement of *human resources* professionals. Mirvis and Marks (1992) assert that it is essential to involve the HR executives right from the beginning. Schweiger and Weber (1989) found that often management did not give a lot of attention to HR criteria, although they are very important to M&A success. According to the study by the HR consulting firm Towers Perrin, in 2000, only 39% of the HR people were involved in due diligence; in 2005, the number had grown to 62% (Brown, 2005). In this study, the four companies that succeeded mentioned HR, and confirmed that HR were involved in the due diligence phase; they took into account HR criteria, such as salaries and retirement conditions, and emphasized the importance of these criteria. Case D, which failed, did not mention HR. These results support Brown (2005) and Mirvis and Marks (1992); and also support Weber and Tarba (2010) who emphasized on the contribution of HR to performance.

Participation of *operation managers and key staff* through the pre-acquisition is essential (Drucker, 1981, and Searby, 1969, cited in Jemison & Sitkin, 1986). In some of the cases, those people were involved, and it was mentioned that their involvement was very important because they knew the value of the relevant departments; this supports Jemison and Sitkin (1986). Our data indicate that these people are mainly involved in the due diligence phase.

Culture is a factor that gets more attention at the (post-merger) integration phase (Datta, 1991; Weber, Shenkar & Raveh (1996). Management should pay as much attention to cultural fit (corporate and national) during the pre-merger search process as it does to financial and strategic factors (Weber et al., 1996). Appelbaum et al. (2000a, p. 652) says that, "According [to] the Advisory Board Company the most important step at the pre-merger phase is the decision of which model of organizational culture will be executed." Schraeder and Self (2003) suggest that cultural compatibility will take place into account at the pre-stage, the identification, evaluation, assessment, and selection of potential partner. Lordorfs and Botaeng (2006) suggest that management should identify the cultural gaps at the pre-merger. In this study, in all of the cases, the management paid attention to cultural differences except for case F, which did not mention this factor. Referring to the model, most of the companies did not send Israeli employees to the acquired company in order to avoid any national cultural clashes. Referring to the corporate culture, the acquirer changes some of the target's procedures. This finding shows that they pay attention to this factor at the due diligence phase.

As a potential factor in corporate culture, management needs to pay attention to the

different sizes of the companies. In all of the cases, except for case D. there was a match in size according to Brockhaus's definition (1975, p. 44) "Size, mismatch is a situation in which the sales of one firm are less than two percent of the sales of the other,". The companies succeeded in the mergers, thus these results support the findings of Brockhaus (1975) and Kitching (1967). Other measure of relative size in later papers, is the transaction cost of the target firm to the value of the acquirer. Asquith, Bruner and Mullins (1983) find that mergers benefits are more observable when targets are large relative to bidders. Regression analysis shows that the bidding firm's abnormal return is positively and significantly related to the relative size of the target relative to the bidders. In contrast, Pettway and Yamada (1986) who examine Japanese mergers, found a negative relationship between abnormal returns and relative size of the target. Scanlon, Thrifts and Pettway (1989) supported this latter finding, and also added the variable of industrial relatedness and found that acquisitions of relatively large firms from unrelated industries led to significant decline in the wealth of shareholders of acquiring firms. In this study we didn't examine abnormal return, we wanted to emphasize that the size of the target company is revealed during the due diligence phase.

Boland (1970) found in his study that 42% of the executives consider the *compatibility of the organization structure*. Brockhaus (1975) recommended determining the structure at the pre-M&A stage because it is a part of management and corporate policies. All the acquiring companies decided on decentralization as an organizational structure except for case C, which supports Brockhaus (1975). In addition, they paid attention to future structural compatibility, which supports Boland (1970). This finding shows the organizational structure is examined at the due diligence paper. This is also mentioned as part of the pre-merger and due diligence in Almor, Tarba and Benjamini (2009) paper.

Differences between the companies' control systems can cause failure (Kitching, 1967; Mirvis and Marks, 1992). In this study, it was found that all of the companies used a control system which supports Kitching (1967) and Mirvis and Marks (1992). The acquired company was physically distant from the Israeli company, so there was no direct connection between the two companies; the reporting system was by work plan and regular reports (such as work hours report, financial reports). Also, there were meetings between top management of both companies. This finding shows that the control system is determined at due diligence, before signing the contract.

The company needs to consider any *resistance of any of the stakeholders* when making the decision about the acquisition (Mirvis & Marks, 1992). In this study, most of the companies checked the stakeholders, except those where it was not relevant for them to do so, which supports Mirvis and Marks (1992). This finding reveals that the stakeholders are examined at due diligence phase.

Kitching (1967) found that successful companies make a careful *analysis of the subsidiaries' future funding requirements* for the parent company, which he called 'analysis of future need.' In this study, all of the companies analyzed the future need through a business plan, except for case D, which emphasized that this factor caused failure, and case F mentioned that misusing this factor is what caused the company to spend more money than was initially intended; these findings support Kitching (1967). Also Almor et al. (2009) mentioned that the business plan is part of the pre-acquisition process. Our finding shows that this factor is examined at the due diligence phase.

It is legitimate and even helpful that there is some *ambiguity* during the negotiating phase, but if it continues to the integration phase, it reduces the chances for success (Jemison & Sitkin, 1986). Our data support this position -- all the companies resolved all the ambiguity in the end, and all of them succeeded except for case D. This factor is examined at the due diligence phase.

Conclusions and implications for future research

This paper explores the pre-M&A phase and derives success factors rooted in the various stages of the process. As such, our analysis can inform managers in the M&A process and hopefully improve M&A success by raising awareness about the success factors within the pre-M&A stage. For example, in case D, the company did not take into account the market analysis and the analyses of future need factors; it is possible that paying attention to these factors could have prevented the failure of the acquisition. In addition, in case F, the company did not take into account the analysis of the future need factor. The company explained that the lack of consideration of this factor caused many difficulties in the first years after the acquisition.

The limitations of our research include the small sample and exploratory nature of the analyses, limiting the generalizability of our conclusions concerning the relationships between the factors and M&A success. Future research should include statistical examination of these factors in a large sample. While this paper focused mainly on the acquirer perspective, future work should be from the target firm's point of view. For example, it could be interesting to study the influence of the target's motive on subsequent performance. In addition, future research can focus on relating success factor to a specific phase and then examining their relationship with the performance. It should be noticed that a factor in a specific phase can influence a factor in the second phase, and later, the performance. Finally, the new success factors mentioned in this paper could be related to M&A performance.

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Notes	√	The company mentioned this as a phase/made or included the factor	S	Strategic motive	DT	Due diligence team
	—	The company did not mention this as a phase/made or include the factor	H	Horizontal	TM	Top management
N M		Not Mentioned	V	Vertical	NR	Not relevant
M		Mentioned	BD	Business development unit	*	Success factor recommended by management

Appendix 1: Additional Interview's questions

- What was the goal of the M&A process?
- Why did you choose this specific company?
- When did the company decide to merge/acquire and why?
- What are the weaknesses/strengths of your company?
- Did your company have previous acquisition experience?
- Did the acquiring company evaluate its purpose, objectives, and goals before the process?
- Did the acquiring company make a list of acquisition criteria?
- Who are the people, from the two companies, who were involved in the process?
- What was the relationship between the key people in the two companies?
- Did the acquiring company study the culture of the acquired company?
- Did the acquiring company demand any reporting from the acquired company and how?