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Critical Assessment of Performance of Mergers and Acquisitions

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Abstract:
It is now generally accepted in the M&A domain that most mergers fail. And yet despite the dangers and horror sagas associated with M&A transactions, these types of business combinations are here for good because they are now the principal route to rapid business growth for many firms.The burning question therefore is*: how can firms that aspire to grow through mergers and acquisitions increase their chances of success?*The point of departure for M&A should be development of an M&A strategy that is anchored on the firm's overall business strategy. The firm should adopt a structured approach that covers the whole M&A process; set metrics for evaluating M&A targets; and actively engage in searching for potential targets. The criteria used to spot the right target could include business strategy, potential synergies, market availability, scale of activities, geographical location, technology, market growth potential and, business and culture fit. The type of merger should be another consideration, in which case bottom-trawlers, bolt-ons, line extension equivalents and consolidation mature, all with over 50% success rate, should be prioritized.The firm should then carry out comprehensive due diligence and objectively/accurately evaluate synergies. With respect to synergies, the acquirer should establish beforehand what synergies exist, where those synergies exist and how they will be extracted. Once a deal is closed, it is necessary to establish its success or failure, post-merger.M&A success should be considered from the shareholders of the acquirer's perspective, and an M&A should be judged successful if Net RealisableSynergies exceed Acquisition Purchase Premium. M&A critical success factors include merger segmentation considerations, the type of acquisition, timing, APP, effective integration, economic certainty and accurate target valuation.

Keywords: Acquisition, Merger, M&A, Most Mergers Fail, Synergy

I. INTRODUCTION

The underlying rationale behind mergers and acquisitions (M&A) is that the combined entity is better than the aggregate of the separate entities (Wohlner, 2017). Companies that are in a strong position financially may therefore buy other companies in the hope of creating a more competitive, cost-efficient company, while target companies may perceive M&A as an escape route to survival. Although the terms 'mergers' and 'acquisitions' are used interchangeably, in reality the former refers to a business combination in which a new company with a new identify is formed out of the merging firms through pooling of common stock, cash or both i.e. a business combination of 'equals' (Johnson, 1999, p.19). For example, in 1999 a new firm, Exxon Mobil Corporation (ExxonMobil) was formed from the merger of Exxon and Mobil, with both former firms ceasing to exist in the process (ExxonMobil, 2017).

In the case of an acquisition, the acquiring company takes over another and becomes the new owner (Johnson, 1999, p.45). The acquirer effectively 'swallows' the other company, retaining its identity in the process, while the target company, usually the smaller of the two, ceases to exist as a commercial entity. For example, Google acquired Android Inc. in 2005 and integrated it into the company as Google Mobile Division (Favre, 2015).

Johnson (1999, p.75) observes that M&A is not the only strategy that can be used to realize the benefits of working with another company. Alternatives that should be considered include joint ventures, strategic alliances, minority investments, venture capital investments and licencing agreements. However, all else being equal, acquiring is more likely to ensure success than merging, and merging is safer than entering into an alliance (Bieshaar*et al*., 2001).

In addition, a company may also achieve growth through internal development (Johnson, 1999, pp.75-76). In fact, some successful companies such as Minnesota Mining & Manufacturing, Merck & Co., Texas Instruments and Johnson & Johnson rely predominantly on internal development or green field investments to maintain impeccable track records.

1.1 Importance of M&A to corporate world

Watts (2015) states that in the long-term M&A average 3.8% of global GDP and up to 10% of global market capitalization. In 2015, for example, annual global M&A stood at a record $4.3098 trillion, which accounted for 4.7% of global GDP (J.P. Morgan, 2017, p.3). The huge sums of resources (i.e. funds, time etc.) that firms invest in M&A activities signify their importance to the corporate world. Rosenbaum and Pearl (2013, pp.332-333) assert that the aspiration for rapid growth, significant improvement, and/or expansion of an existing platform drives M&A activity. Growth through M&A is often cheaper, faster and less risky than green-fielding a new investment from scratch. M&A activity is also very attractive because it affords acquirers the opportunity to integrate their targets swiftly and efficiently without much disruption to current operations.

On the 'Sell-Side' of M&A, the sale of an entity, division, business or assets is a major occurrence for all stakeholders, particularly shareholders, employees, and management (Rosenbaum and Pearl, 2013, p.295). The process is usually time consuming, very passionate and with high stakes.

M&A are also important to the business community because of the high rate of failure of these transactions. Clark (2013a) asserts that it is now generally accepted that two thirds (around 67%) of all M&A fail. Empirical studies suggest even worse performance. For example, Deloitte (2016, p.16) and KPMG (1999) found that most deals (over 75%) did not create value for shareholders. An M&A is considered successful if net realizable synergies (NRS) exceed the acquisition purchase premium (APP). While NRS are the discounted net cash flow savings from the business combination, adjusted for time value of money and one off and continuing synergies (Clark, 2013b), APP is the "deliberate overpayment in excess of the target firm's market value which an acquirer must pay in order to secure control" (Clark, 2013a).

Despite the dangers and horror sagas associated with M&A, Galpin and Herndon (2007, p.4) posit that these types of business combinations are here for good because they are now the principal route to rapid business growth for many firms. The temptation to undertake M&A transactions is particularly high during strong economic times because of heightened management confidence and readily available cheap financing (Rosenbaum and Pearl, 2013, p.331). During the past few years, for example, buyers have sought to use surplus funds and exploit favourable capital markets conditions. At the same time, sellers have tried to exit non-strategic business areas and cash in on their positions. The question therefore is: *How can firms that aspire to grow through mergers and acquisitions increase their chances of success?*

1.2 Structure of review

To answer the question posed above, this review is structured as follows. The process of identifying and evaluating M&A targets is considered in Section 2.1, while the factors that impact on M&A success/failure are discussed in Section 2.2. Concluding remarks are provided in Section 3.1, and finallyissues to consider on an M&A journey are recommended in Section 3.2.

II. LITERATURE REVIEW

2.1 Identification and evaluation of M&A targets

2.1.1 Conceptual framework

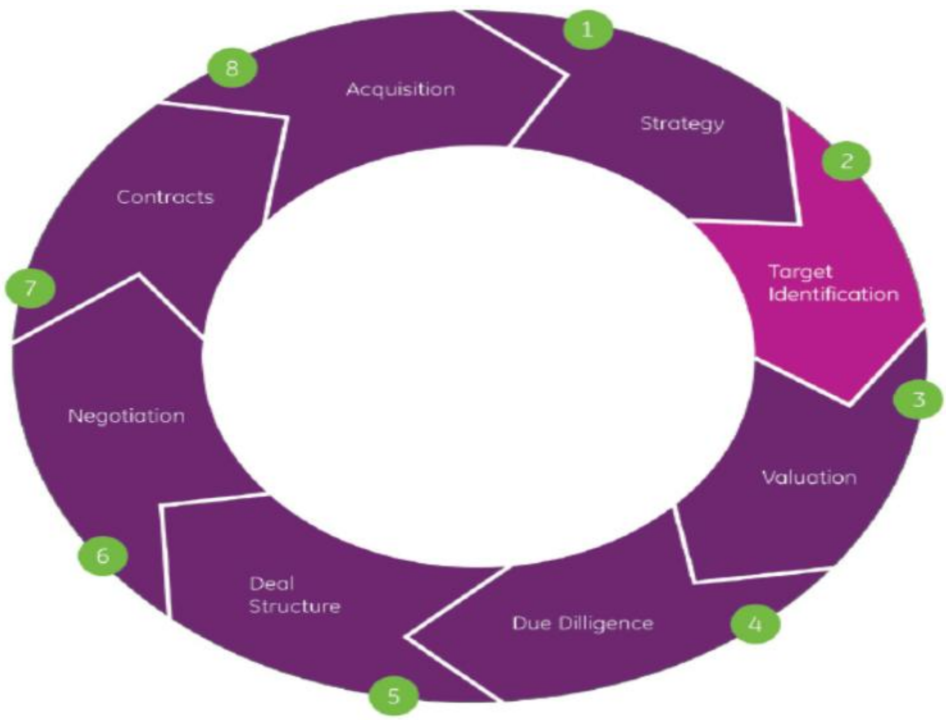
It is generally acknowledged that the starting point in the M&A journey should be to establish conceptual issues such as business objectives and growth strategies (Clarke and Lovette, 2015; Galpin and Herndon, 2007, p.8; Johnson, 1999, pp.19-20). This is because if an M&A is made without regard to the acquirer's overall business goals and strategy, then integrating the acquired entity might be a serious challenge.

Acquirers should actively get involved in the search for potential targets (BCG, 2017a; Clarke and Lovette, 2015; Johnson, 1999, p.48) because deal consummation at a judicious fee and attainment of effective post acquisition amalgamation is more likely for proactive acquisitions (deliberate action to meet strategic goals) than reactive and opportunistic ones. The search should be based on a sound portfolio strategy that unveils the most viable growth market segments, evaluates the best option between green field and brown field growth, and delineates obstacles to realizing the potential deals (BCG, 2017a; GE Capital, 2012). Clarke and Lovette (2015) and Bieshaar*et al.* (2001) posit that the focus should be on highly synergistic targets and strategic acquisitions (i.e. a company with either similar products/services and/or similar customers and end markets).

Clark (2013c) provides a more structured approach based on merger segmentation – the absence of which he asserts is the "more fundamental explanation for merger misery". The relevant merger segmentation issues include degree of relatedness between companies (concentration creates more value than diversification), and relative size (the larger the acquirer the better). Other merger segmentation issues are whether the combination is horizontal or vertical, and timing of deal relative to the merger wave, as deals in the earlier phases are better due to lower APP and more realistic NRS.

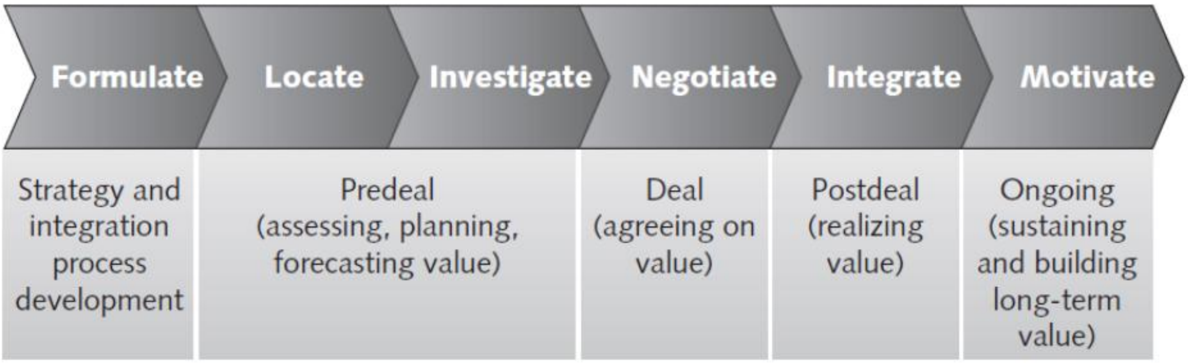
The BCG (2017a) recommends a structured approach to the whole M&A process that addresses conceptual/strategic issues and operational activities in a six-stage process. The holistic and integrated approach proposed by the BCG whereby the M&A transaction is treated as a lifecycle, i.e. as an idiosyncratic, connected and integrated process is echoed by many other M&A experts. GE Capital (2012), Galpin and Herndon (2007, p.8), and Chanmugam*et al*. (2005), for example, champion such an approach. GE Capital (2012) propose an eight stage process as depicted in Fig. 1, while Galpin and Herndon (2007, p.8) recommend a six stage process model depicted in Fig. 2 below. Such an approach facilitates creation of specific activities needed to set strategy, document plans, map processes and manage training.

Figure 1 GE Capital M&A Model (Source: GE Capital, 2012)



As illustrated in Figs. 1 and 2, developing business strategy and other conceptual issues discussed in the preceding paragraphs form an essential foundation for the M&A process. In addition to these conceptual issues, the practical issues involved in identifying and evaluating M&A targets, which are also important considerations in an M&A proposal, are discussed in subsections 1.1.1 – 1.1.3 below.

Figure 2 The Deal Flow Model (Source: Galpin and Herndon, 2007, p.8)



2.1.2 Spotting potential M&A targets

2.1.2.1 Generating a preliminary list of M&A targets

Spotting potential M&A targets requires scanning the relevant industry value chain and ecosystem to identify an initial list of firms that make up the target universe (BCG, 2017a; GE Capital, 2012). Specific sources of information about potential M&A targets include internal intelligence from sales and marketing, senior managers and board members. External sources include annual reports, industry and trade associations, strategic consultants, investment bankers, the stock exchange, and the internet. Other external sources are industry association lists, subscriber databases, recent industry conferences and Google search (Clarke and Lovette, 2015).

2.1.2.2 Generating a priority list of M&A targets

Having generated an initial list of all potential M&A target companies, a priority list needs to be developed. The BCG (2017a) recommends basing this list on the acquirer's business strategy, potential synergies, and market availability of asset. Other variables include the target's contribution, scale of activities, geographical location, technology or capabilities offered, market growth potential, financial prospects for long-term growth and timing (GE Capital, 2012). Another important consideration should be business and culture fit (Bereskin, 2018; GE Capital, 2012).

Bieshaar*et al*. (2001) assert that although investors are skeptical about M&A, they prefer certain types of deal to others. Clark (2013c) provides a structured approach to assessing the types of M&A. When prioritizing potential M&A targets, the type of merger could be used as one of the criteria. Accordingly, bottom-trawlers (troubled companies, no longer going concern, low APP) and bolt-ons (fills gap in acquirer's current product/service range e.g. PepsiCo/Tropicana®) with over 80% success rate should be prioritized (Fich, Nguyen and Officer, 2018). Line extension equivalents (upmarket or down-market product/service line extension e.g. Volkswagen/Skoda) and consolidation mature (same industry contraction in mature industry) with over 50% success rate should also be considered. Lynchpin strategic (diversification strategy e.g. IBM/PwC Consulting) and speculative strategic (high risk, unimaginably inconsistent with acquirer's business e.g. NatWest/Gleacher, Coca Cola/Columbia Pictures, AOL/TimeWarner and eBay/Skype) at more than 75% chance of failure, should be jettisoned from the priority list.

Breitzman and Thomas (2002) posit that patent citation analysis can also be used in targeting, particularly in the technology industry, i.e. in identifying a company that fills a specific technology or R&D gap. The idea behind patent citation analysis is that if a company has many highly cited patents, then it is likely to be very technologically innovative, with a highly developed R&D capability.

Once a potential acquisition is identified, more information needs to be collected to facilitate further decisions. Such an exercise is referred to as 'due diligence' as discussed below.

2.1.3 Due diligence

Due diligence is the "assessment process that defines the potential synergies and the value at stake in the deal" (BCG, 2017b). This essential exercise is an important feature of all M&A deal process models as shown in Figs. 1 – 2 above, as it assists acquirers reduce risk and boost their confidence in the acquisition's ability to deliver sustainable value. The acquiring firm could then use the due diligence findings to determine negotiation considerations, acquisition price, and preliminary integration issues (Galpin and Herndon, 2007, p.14).

2.1.3.1 Scope of due diligence

The due diligence exercise involves obtaining detailed information about all areas of the M&A target. Such information includes markets and competition, target business plans, synergy evaluation, process support, regulatory support and integration blueprint (BCG, 2017b). Other areas of interest include firm background, nature of operations, products and services, customers, growth opportunities, management capabilities, financial performance and shareholder objectives (GE Capital, 2012). In addition to these traditional areas, Galpin and Herndon (2007, pp.24-25) emphasize the need to extend the investigation to softer issues such as strategic integration risks, cultural analysis and human resource risks. Cultural differences and human resource issues are important because they are at the heart of successful transitions in M&A, particularly in international business combinations (Badrtalei and Bates, 2007; Bereskin, 2018; Galpin and Herndon, 2007, p.22; Horwitz*et al*., 2002; Lee, Mauer and Xu, 2018). Clark (2013a), for example, attributes the post-merger disasters at DaimlerChrysler, AOL TimeWarner and PennCentral in part to inability to foresee and address cultural differences during the due diligence exercise. On the other hand, KPMG (1999) suggests that acquirers that prioritized management team selection and resolution of cultural issues at the pre-deal stage improved the chances of deal success by 26% in either case.

2.1.3.2 Importance of due diligence

The due diligence process should be taken seriously and not rushed or grossed over in an attempt to close the deal (Galpin and Herndon, 2007, p.14). KMPG (1999), for example, established that of all mandatory pre-deal activities, due diligence was the most critical to deal success. The study suggests that companies that carry out comprehensive due diligence increase the chance of a successful M&A by 6% above average. In addition, the failed $14 billion merger between HFS Inc. and CUC International Inc. to form Cendant Corporation in 1997 clearly illustrates the horror that can unfold if the due diligence process is not comprehensive. The huge accounting irregularities uncovered by Cendant at the former CUC hardly four months into the merger, and the consequent collapse of Cendant's stock price, demonstrated lack of adequate information gathering/evaluation during the fact finding mission prior to signing the deal.

As stated above, a crucial activity during the due diligence exercise is the prudent and objective identification of realistic synergies. The nuances involved are discussed further below.

2.1.4 M&A synergies

Investopedia (2017) and Kinnunen (2010) define synergy in terms of the value of the combined firm being greater than that of the acquirer and target as separate entities; that is synergy exists when two plus two equals five instead of four. Clark (2013b) adds that such savings and efficiencies that result from the business combination should be measured conservatively and independently.

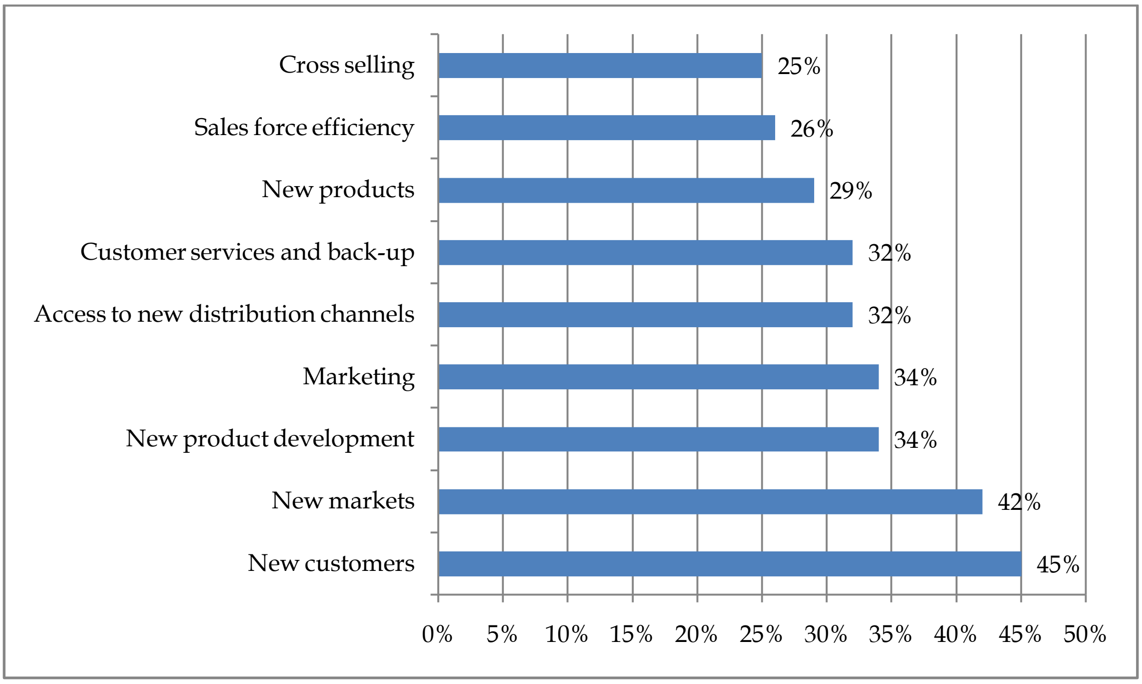
2.1.4.1 Importance of synergies in M&A

The pursuit for synergies is a major driving force for M&A (DePhamphilis, 2009; Andrade, 2001). KPMG (1999) asserts that if synergies are correctly and objectively determined, and used as a basis for M&A, the chances of success of the deal increases by 28% above average. However, as Carroll and Mui (2008) observe, most synergies are illusionary and more often than not, two plus two does not exceed four. Many failed M&A projects have been attributed to non-realization of the perceived synergies, which are often overestimated. Examples include business combinations of Imperial/Howard Johnson (Coley and Reinton, 1988), AOL/Time Warner, Unum/Provident, Union Pacific/Overnite Transportation and Quaker Oats/Snapple (Carroll and Mui, 2008).

2.1.4.2 Types of synergies

Clark (2013b) classifies synergies into three categories i.e. operational, non-operational and other. Specific synergies identified include cost savings, revenue increase, financial rationalization, tax savings and better management/integration. Investopedia (2017) considers staff reductions, economies of scale, combined talent and technology, and improved market reach and visibility as other potential source of synergies. KMPG's (1999) empirical study illustrates where revenue synergies arise (see Fig. 3 below). According to this study, new customers, new markets, marketing, and R&D deliver top revenue synergies.

Figure 3 Revenue Synergies (Source: KPMG, 1999)



On the cost side, top synergies arise from staff lay-offs, buying and merchandising, and rationalization in supply chain and procurement (see Fig. 4 below).

2.1.4.3 Realization of synergies

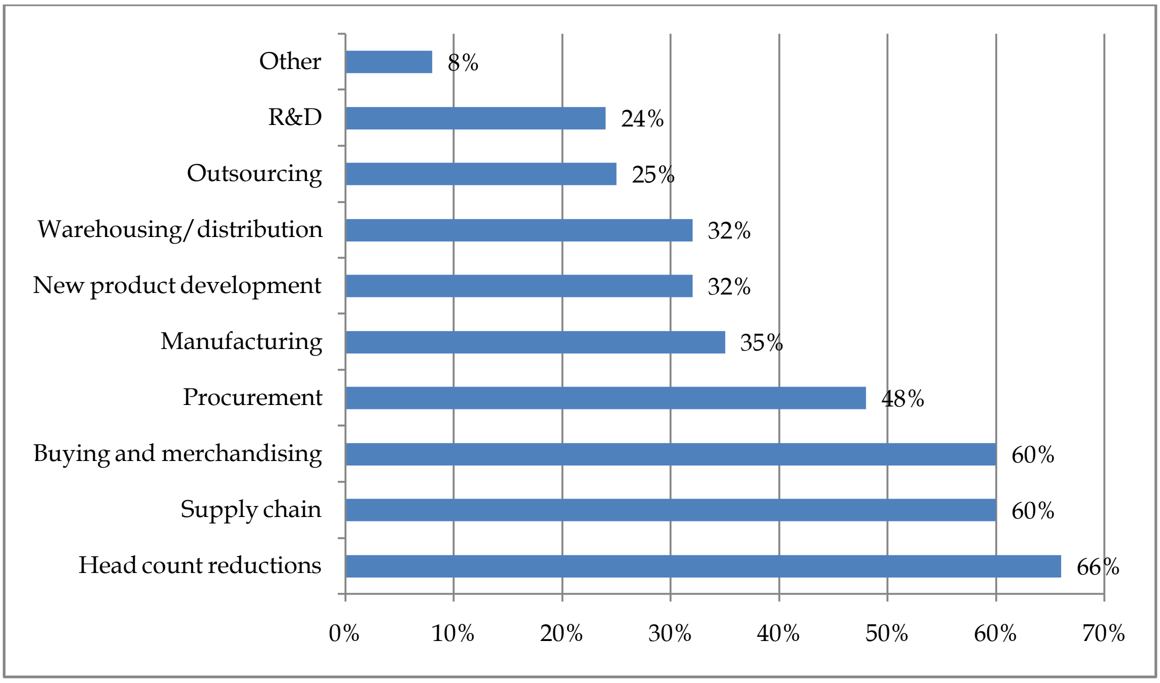
Realization of M&A synergies (and by implication success of M&A) is not a straightforward exercise. As stated above, Carroll and Mui (2008) observe that most perceived pre-deal synergies are illusory. Even when the synergies are real, KPMG (1999) alleges that many acquirers do not establish beforehand what synergies exist, where those synergies exist and how they will be extracted. It is therefore important that synergy evaluation is prioritized at the pre-deal stage to determine how the synergies are to be to be achieved and whether they are actually achievable.

The degree of relatedness between the two combining companies facilitates realization of synergies (Clarke and Lovette, 2015; Clark, 2013c; Bieshaar*et al*., 2001). Unrelated companies imply 'reverse synergy', whereas for a related business combination, operational synergies can be realized immediately.

Clark (2013c) posits that the stage in the M&A cycle at which the transaction is made is also crucial for synergy realisation. During the latter stages of the merger wave, desperate acquirers and/or M&A consulting firms may overstate synergies to justify the high stock market prices and APP that characterise this phase.

Once a deal is closed, it is necessary to establish its success or failure, post-merger. The factors considered in measuring M&A success, and what determines success or failure of M&A are discussed in the following section.

Figure 4 Cost Synergies (Source: KPMG, 1999)



2.2 Performance of Mergers and Acquisitions

2.2.1 The 'Who?' question of M&A success

To determine the success or otherwise of M&A, it is necessary first, to identify from whose perspective success is considered. Potential candidates include shareholders, management, customers, competitors, employees, suppliers and investment advisors. According to Clark (2013b) and Galpin and Herndon (2007, p.2), an M&A should be considered successful or otherwise from the continuing shareholders of the acquiring company's perspective. This is because they are the owners of the funds being invested and therefore stand to lose or gain the most from the M&A project. Granted that the other stakeholder groups may suffer or benefit from the business combination; and creating shareholder value may not even be on the minds of management as they champion the M&A. Nevertheless, shareholders of the acquiring firm are the most important stakeholder because if the M&A does not succeed then they would be better off investing their funds elsewhere.

2.2.2 The 'What?' question of M&A success

Secondly, it is essential to agree on what a successful M&A transaction really means. Finalizing or closing a deal is not a measure of success per se; instead, an M&A should be considered a success if the combined company creates more shareholder value than the separate entities (Galpin and Herndon, 2007, p.2); or, according to Clark (2013b), if NRS exceed APP. This quantitative approach to evaluating M&A success necessitates quantifying the net gains from the business combination. Clark (2013b) suggests that of the four main extant MergVal methodologies namely, Value Gap, Incremental Value Effect, Event Studies and Acquirer Total Shareholder Return, the first two are the most commonly used as they both involve the application of synergy-versus-premia criteria and Discounted Cash Flow (DCF)-based methods.

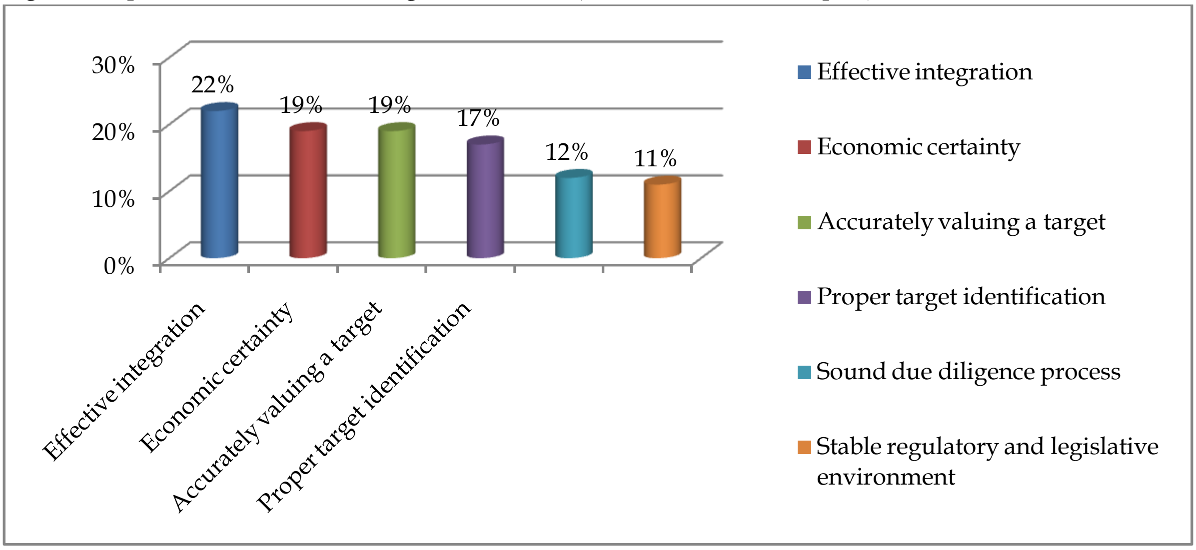
The factors that impact on M&A success/failure are discussed in the sub-sections below, together with examples that illustrate those factors. Companies and their management are strongly advised to consider these factors early on as they conceive the M&A proposal.

2.2.3 Successful Mergers and Acquisitions

Deloitte's (2016, p.17) study of 1,000 executives shades light on factors that reflect current thinking on what determines successful M&A transactions. Fig. 5 below illustrates the findings and suggests that the three most important determinants of M&A success are effective integration, economic certainty and accurate target valuation. Other important factors include proper target identification, sound due diligence process and stable regulatory and legislative environment. An earlier study by KPMG (1999) unveiled some of these factors, although the exact terms used may be different. Other factors identified by KPMG are carefully selecting the management team (26% success), resolving cultural issues (26% success) and effective communication of M&A (13% success).

The impact of correctly evaluating synergies and carrying out sound due diligence on deal success cannot be over-emphasised. Clark (2013b) for example, insists that acquirers should only pursue deals with positive value gap i.e. NRS greater than APP, while KPMG (1999) suggests that a favourable value gap increases the chances of M&A deal success by 28%. With respect to due diligence, a comprehensive investigation increases the chance of success by 6%.

Figure 5 Important factors in achieving M&A success (Source: Deloitte, 2016, p.17)



Successful deals also tend to happen in the initial phases of the merger wave, particularly in Phase I and II of Clark's (2013a) four-merger wave classification. Bishop (2013) attributes this to lower premiums paid at this stage. Timing is so critical to M&A success that Clark (2013b) 'guarantees' 60% success rate for Phase I transactions when APP averages 10 – 18% compared to a miserable success rate of only 5% for deals in Phase IV when APP is likely to exceed 100%. The following list of successful Phase I deals bears witness to the importance of timing: Apple/Next, Berkshire Hathaway/Geico, Dow/DuPont74, eBay/PayPal, Facebook/Instagram and Hudson Bay/Saks73.

The type of M&A, particularly the degree of relatedness between the two companies is more likely to create value than diversification (Clark, 2013c). As discussed above, Clarke and Lovette (2015) and Bieshaar*et al*. (2001) insist that the focus should be on highly synergistic and strategic acquisitions. The $81 billion successful merger between Exxon and Mobil in 1999 illustrates the importance of relatedness, particularly similarities in business model.

Although, as illustrated above, some business combinations result in increased shareholder value, and therefore considered successful, there is universal agreement among M&A academics and practitioners that most mergers fail (e.g. see Deloitte, 2016, p.16; Clark, 2013a; KPMG, 1999). Some of the factors discussed above that contribute to M&A success can also cause deals to fail, if not addressed adequately. A few other factors that cause deals to fail are discussed below, with illustrations of transactions that actually failed.

2.2.4 Failed Mergers and Acquisitions

High APP is firmly the leading cause of M&A failure (Clark, 2013b). Two independent studies, one by Azofra*et al.* (2007) and another by Andrade *et al.* (2001) found that deals where the APP exceeds 37 – 38% are more likely to fail than succeed because NRS are unlikely to cover the excessive premium paid. Examples of deals whose failure is attributed to excess APP relative to NRS include Quaker's $1 billion overpayment for Snapple in 1994 (CNBC, 2017), Hewlett-Packard's acquisition of Autonomy and Microsoft's 85% APP purchase of aQuantive (Investopedia, 2017b), and Imperial Group's then record payment of $630 million for Howard Johnson in 1980 (Coley and Reinton, 1988).

Failure to plan for and resolve cultural differences is an often-cited cause of deal failure. Some of the examples that stand out include the $35 billion merger between Sprint and Nextel Communications (CNBC, 2017), and Daimler Benz and Chrysler' 1998 $37 billion merger (CNBC, 2017; Zhu, 2014).

As discussed above, deals done in the latter phases of the merger wave, particularly Phase IV have a very low chance of success (Clark, 2013b). This failure is associated with very high APP compared to NRS and sometimes arrogance/ignorance of CEOs. The following examples of failed deals illustrate this point: AOL and Time Warner, Bank of America and Countrywide Financial, Dell and EMC71, HP and Palm OS, Microsoft and Nokia Phone70, Terra Firma and EMI and, Yahoo and Tumblr.

Other examples of failed M&A transactions and their associated causes include AOL's $111 billion merger with Time Warner due to non-realisation of synergies and Quaker's 1994 purchase of Snapple due to different business models (CNBC, 2017). The Merrill Lynch - Bank of America merger is attributed to breakdown in communication (Zhu, 2014), while Rothacker (2014) and Fitzpatrick (2012) think that Bank of America's more than $50 billion losses following the acquisition of Countrywide Financial for $2.5 billion could also be attributed to poor economic uncertainty and/or due diligence.

The evidence presented above confirms that indeed most mergers fail (MMF). There is also no doubt that at an average of 3.8% of global GDP (Watts, 2015), M&A activity is considered the fastest route to growth for many companies. Given that MMF, and M&A activity is unavoidable, companies that intend to pursue growth through M&A should be aware of the pitfalls of M&A strategy. The next section therefore highlights the main issues discussed and provides recommendations for what to look out for on an M&A journey.

III. CONCLUSION AND RECOMMENDATIONS

3.1 Conclusion

The question posed at the beginning of this review was that in view of the immeasurable attraction of M&A and given that MMF: *how can firms that aspire to grow through mergers and acquisitions increase their chances of success?* To reconcile these two positions, acquirers need to be strategic and thorough in how they go about the whole M&A process. The point of departure for M&A should be development of an M&A strategy that is anchored on the firm's overall business strategy. The firm should adopt a structured approach that covers the whole M&A process; set metrics for evaluating M&A targets; and actively engage in searching for potential targets.

In addition to addressing conceptual/strategic motives for M&A, acquirers need to spot the right targets. The criteria used could include business strategy, potential synergies, market availability, scale of activities, geographical location, technology, market growth potential and business and culture fit. The type of merger should be another consideration, in which case bottom-trawlers, bolt-ons, line extension equivalents and consolidation mature, all with over 50% success rate, should be prioritized.

The firm should then carryout comprehensive due diligence and objectively/accurately evaluate synergies. In addition to collecting 'hard' information about the company's macro - and micro-environments, the acquirer should also focus on softer issues such as cultural analysis and human resources.

With respect to synergies, the acquirer should establish beforehand what synergies exist, where those synergies exist and how they will be extracted. Important revenue synergies arise from new customers, new markets, marketing, and R&D; while cost savings are easily realized from staff lay-offs, buying and merchandising, and rationalization in supply chain and procurement.

The review then identified critical success factors for M&A. M&A success should be considered from the shareholders of the acquirer's perspective, and an M&A should be judged successful if NRS exceed APP. Critical success factors include merger segmentation considerations, the type of acquisition, timing, APP, effective integration, economic certainty and accurate target valuation. Examples that illustrate the significance of these factors for M&A success were provided. Based on the foregoing, recommendations on what acquirers should look out for on an M&A journey are discussed below.

3.2 Recommendations

Based on the foregoing discussion, the following recommendations are made for firms that wish to grow their businesses through M&A. The recommendations are twofold – what needs be done and what should be avoided to enhance M&A success.

1. Develop a structured approach to the M&A process. This should include establishing personnel responsibilities (e.g. for board committee and/or M&A unit) and a deal flow model such as the one proposed by GE Capital (2012) shown at Fig. 1 above. Critical stages should include business/M&A strategy setting, target searching and screening, due diligence, synergy evaluation, negotiation, communication, post-merger integration planning and post-merger review.
2. The company should formulate an M&A strategy that mirrors its business strategy. In so doing, it is vital to design a merger segmentation framework. This framework should then be used to evaluate, qualify, and classify potential M&A targets later in the process (Clark, 2013c). The framework should specify the company's preferences or criteria in the following areas: relatedness, relative size, horizontal or vertical integration, location of target, maximum APP, and merger wave timing. Clearly defined types of deals that the company aspires for should accompany the merger segmentation exercise. Desirable deal types may include bottom trawlers, bolt-ons, line extension equivalents and consolidation mature.
3. The company should set up an M&A team (internal or outsourced or both) comprising legal experts, tax experts, finance professionals and investment bankers (Johnson, 1999, pp.45-46). The team should actively engage in the search for potential targets – proactive acquisitions are more likely to materialize and deliver success than reactive and opportunistic ones (BCG, 2017a; Clarke and Lovette, 2015).
4. Focus on highly synergistic, smaller targets that have similar business models (Clarke and Lovette, 2015; Clark, 2013c, Bieshaar*et al*., 2001). Such targets are likely to deliver synergies that are realizable immediately. Smaller targets are easier to integrate because the 'egos' between the two companies' management teams that characterise 'mergers of equals' is minimal.
5. The M&A team should try to spot the early phases of a merger wave (a difficult task even for M&A experts) and make deals early on in the wave, at most up to beginning of Phase III. M&A activity is cyclical to economic cycles, so tends to pick up after a recession. According to Clark (2013b) deals in Phase I have a 60% success rate due to lower APP of between 10 – 18% only.
6. Avoid deals that take the firm into alien territories or entirely new activities because integration and realisation of synergies is likely to be problematic (Clarke and Lovette, 2015; Bieshaar*et al*., 2001). Additionally, all else being equal, acquiring is more likely to ensure success than merging, and merging is safer than entering into an alliance (Bieshaar*et al.*, 2001).
7. Avoid deals where the APP is greater than 38%. Research (e.g. Azofra*et al*., 2007; Andrade *et al*., 2001) and history (e.g. CNBC, 2017; Investopedia, 2017b; Coley and Reinton, 1988) have proved beyond reasonable doubt that MMF and paying higher premiums in excess of this magic number is a recipe for disaster.

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