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ANALYZING MERGERS AND ACQUISITIONS: UNDERSTANDING FAILURES AND ROOT CAUSES THROUGH EVIDENCE-BASED RESEARCH

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Abstract:

Mergers and acquisitions (M&A) have long stood as a cornerstone method for corporate growth, diversification, and strategic maneuvers. However, despite their widespread adoption, there exists a notable body of literature indicating that M&A endeavors often fall short of their intended objectives, rendering them unsuccessful by conventional measures. This study endeavors to elucidate the true extent of M&A failure rates, drawing upon empirical evidence from scholarly research. Furthermore, it aims to dissect the multitude of reasons attributed to such failures, as documented across various academic investigations. By synthesizing these findings, this study seeks to offer a comprehensive perspective on both the prevalence of M&A failures and the underlying factors contributing to their occurrence. Through this analysis, it aims to inform future research endeavors, shedding light on the magnitude of the issue and pinpointing the fundamental challenges that warrant attention and resolution.

Keywords: Mergers and Acquisitions, Business Operation, Failures in M&A, Reasons for failure of M&A strategies.

I. INTRODUCTION

Mergers and acquisitions (M&A) have emerged as a premier strategy for corporate expansion and market consolidation globally. However, alongside the surge in M&A activity, there has been a corresponding uptick in the incidence of failures and the shortfall in achieving projected objectives. This trend underscores a significant discrepancy between the proliferation of M&A endeavors and their ultimate success rates. Notably, empirical research reveals that a mere 56% of M&A transactions achieve their intended targets, underscoring a substantial disparity between aspiration and realization.

Despite exhaustive scrutiny of financial and strategic variables as potential predictors of M&A performance, definitive correlations have remained elusive. While the impact of human resources (HR) on M&A outcomes has been

widely recognized in academic circles, there exists a conspicuous dearth of both theoretical frameworks and empirical studies exploring the intricate relationship between M&A performance and the HR practices adopted by the acquirer during the critical post-merger integration phase. Moreover, beyond financial and strategic considerations, cultural misalignment, inadequate due diligence, and integration challenges further compound the complexities inherent in M&A transactions. Despite the profound academic interest in these phenomena, empirical data suggest that the rates of acquisition failures have shown scant improvement over time, highlighting the persistent challenges that continue to beset M&A endeavors.



II. UNDERLYING CAUSES OF FAILURE AS PER LITERATURE

Media reports and research findings, exemplified by Benson (2004) and Weston and Weaver (2001) respectively, underscore the prevalence of high failure rates in mergers and acquisitions (M&A). However, these findings, often citing figures ranging from 50 percent to two-thirds, lack consensus due to varying calculation methodologies. Nevertheless, the overarching message remains unequivocal: a substantial number of M&As end in failure. Integration emerges as a common culprit, precipitating employee anxiety, management turnover, and cultural discord (Slowinski et al., 2002). Additionally, Cascio and Young (2003) illuminate the profound impact of psychological responses on organizational performance, particularly accentuated amidst profound transformations such as M&As.

In their comprehensive exploration of mergers and acquisitions (M&A), Wageman and Lafforet (2009) delve into the multifaceted nature of successful deal execution beyond mere financial considerations. They argue that while financial acumen is undeniably crucial for navigating the complexities of M&A transactions, it is equally imperative for chief executives to possess adept interpersonal skills to effectively manage the human aspect of mergers. According to their research, the ability to harmonize both financial strategies and people-oriented leadership is pivotal in steering M&A endeavors towards sustainable value creation. Delving deeper into their analysis of M&A failure rates, Wageman and Lafforet uncover a consistent theme among senior executives: culture and communication emerge as paramount challenges in the post-merger landscape. This finding underscores the critical role that organizational culture plays in the success or failure of M&A transactions. Integration efforts often stumble when cultural differences between merging entities are not adequately addressed, leading to conflicts, misunderstandings, and decreased employee

morale. Moreover, the researchers highlight insights gleaned from a survey of Fortune 500 Chief Finance Officers, which further elucidates the pervasive impact of "unexpected post-deal people problems" on M&A outcomes. This acknowledgment underscores the significance of effectively managing human dynamics in the aftermath of a merger or acquisition. Issues ranging from corporate governance structures to employee satisfaction levels become exponentially more complex when disparate organizational cultures are brought together. In essence, Wageman and Lafforet's research underscores the intricate interplay between financial strategies and people management in the context of M&A activity. It emphasizes the critical role of leadership in navigating the challenges posed by cultural integration and communication breakdowns, ultimately shaping the success or failure of M&A transactions and the realization of lasting value.

The uncertainties inherent in merger and acquisition (M&A) situations trigger a cascade of psychological processes that manifest in various behaviors, as elucidated by Cartwright and Cooper (1992, 1993), Cooper and Finkelstein (2004), and Schuler and Jackson (2001). On one hand, these uncertainties can evoke positive responses such as increased commitment and loyalty among employees. Facing a period of transition, individuals may feel a sense of unity and purpose, leading to heightened dedication to the newly formed organization and its objectives. Conversely, the same uncertainties can also elicit negative behaviors, including absenteeism and even acts of sabotage. Amidst the ambiguity and apprehension surrounding M&A activities, employees may experience heightened stress levels and feelings of insecurity regarding their roles and futures within the organization. This can manifest in absenteeism as individuals seek to disengage from the uncertainty or in extreme cases, sabotage, as a means of expressing frustration or resistance to the changes imposed by the merger or acquisition. Overall, the psychological impact of M&A situations



underscores the importance of effective communication, transparency, and change management strategies to mitigate negative behaviors and foster a supportive organizational environment conducive to successful integration and long-term success.

The organizational behavior and human resources literature offer rich insights into the intricate dynamics of mergers and acquisitions (M&A). This body of knowledge emphasizes the pivotal role played by individuals within organizations in the success or failure of M&A endeavors. Scholars such as Schuler and Jackson (2001) have highlighted how neglecting human resource factors can significantly contribute to the failure of mergers and acquisitions. This includes factors such as employee morale, satisfaction, and engagement, which are crucial for smooth integration and the realization of synergies between merging entities. In recent years, there has been a notable increase in the attention given to M&A management strategies, evidenced by the proliferation of executive literature and guideline proposals aimed at assisting organizations in navigating the complexities of mergers and acquisitions. However, the empirical basis of many of these recommendations remains a subject of debate. While they offer valuable insights, their effectiveness in practice may vary, and there is a need for further empirical validation. Analogizing the merger process to the functioning of an electrical engine provides a thought-provoking framework for understanding the challenges inherent in M&A transactions. Just as energy is lost in the form of friction and heat in an engine, expected synergies in M&A deals may encounter resistance and obstacles, resulting in a gap between anticipated and realized outcomes. Assessing the efficiency of the merger process involves examining the ratio of achieved synergies to expected synergies, shedding light on the effectiveness of integration efforts. Exploring how organizations manage this efficiency ratio raises important questions

about the nature of the merger process itself. Are the challenges inherent to M&A transactions primarily internal to the organizations involved (endogenous), or are they influenced by external factors beyond their control (exogenous)? Furthermore, the role of effective communication and integration strategies in enhancing this efficiency ratio warrants closer examination. Can proactive communication and well-executed integration processes help mitigate resistance and friction, ultimately improving the success rate of M&A transactions? Addressing these questions is not only crucial for practitioners tasked with leading M&A initiatives but also for researchers seeking to advance our understanding of organizational behavior in the context of strategic change. While comprehensive answers to these questions require interdisciplinary studies and empirical research, it is essential to continue exploring the empirical and literary evidence linking merger success with employee issues. This endeavor will contribute to the development of more effective M&A management strategies and ultimately enhance the likelihood of successful outcomes in the ever-evolving landscape of corporate mergers and acquisitions.

COMPREHENSIVE ACCOUNT OF MERGERS AND ACQUISITION'S CAUSES OF FAILURES GROUNDED ON EVIDENCE IN LITERATURE:

A. Examining Mergers and Acquisitions: Insights from Scholarly Perspectives

Amidst the bustling landscape of corporate restructuring, mergers, and acquisitions (M&A) stand out as strategic endeavors with the potential to reshape industries and drive growth. However, behind the allure of M&A activity lies a complex tapestry of challenges and opportunities, as evidenced by an extensive body of academic research. In this introduction, we embark on a journey through critical perspectives on mergers and acquisitions, drawing insights from scholarly works that dissect the intricacies of integration dynamics, strategic imperatives, and the human element



within M&A transactions. From seminal studies exploring the role of post-merger integration in shaping outcomes to analyses of the factors driving M&A success or failure, this exploration aims to illuminate key themes and considerations that underpin the M&A landscape. Through a synthesis of diverse research perspectives, we endeavor to provide a comprehensive understanding of the multifaceted nature of mergers and acquisitions, guiding practitioners and scholars alike in navigating this complex terrain.

1. In their seminal work, ***"Corporations as Stepfamilies: A New Metaphor for Explaining the Fate of Merged and Acquired Companies,"*** Allred, Boal, and Holstein (2005)¹⁴ introduce a compelling analogy to elucidate the intricacies of mergers and acquisitions (M&A). Drawing parallels between corporate mergers and stepfamilies, the authors illuminate the challenges inherent in integrating disparate entities. The metaphor underscores the complexities of blending organizational cultures, navigating power dynamics, and fostering cohesion among employees from different backgrounds. Through this lens, M&A transactions are portrayed as dynamic processes akin to the formation of stepfamilies, where individuals grapple with issues of identity, loyalty, and belonging. By examining the parallels between these two contexts, organizations can gain valuable insights into the factors that influence the success or failure of M&A endeavors. This perspective highlights the importance of effective leadership, communication, and cultural integration in mitigating the risks associated with corporate mergers and acquisitions.

2. In ***"Corporate Acquisitions: A Process Perspective"*** by Jemison and Sitkin (1986), the authors delve into the intricate process of corporate acquisitions, with a particular focus on the concept of improper organizational fit. Through their process-oriented lens, they explore how the mismatch between acquiring and target organizations can significantly impact the success or failure of acquisitions.

Improper organizational fit encompasses various dimensions, including cultural differences, strategic misalignment, and operational disparities. These mismatches can lead to integration challenges, communication breakdowns, and employee resistance, ultimately undermining the achievement of synergies and desired outcomes. By highlighting the importance of assessing and addressing organizational fit throughout the acquisition process, Jemison and Sitkin offer valuable insights for practitioners and researchers seeking to enhance the effectiveness of corporate acquisitions.

3. In ***"Managing Acquisitions: Creating Value Through Corporate Renewal"*** by Haspeslagh and Jemison (1987),¹⁵ the authors illuminate the critical issue of lack of organizational fit in the context of acquisitions. Through their examination of corporate renewal strategies, they emphasize how mismatches between acquiring and target organizations can hinder the creation of value. This lack of fit may manifest in cultural clashes, strategic incongruities, and operational inefficiencies, impeding the integration process and eroding potential synergies. Haspeslagh and Jemison underscore the importance of proactive management strategies aimed at identifying and addressing organizational fit gaps early in the acquisition process. By doing so, organizations can mitigate risks and enhance the likelihood of successful outcomes in their acquisition endeavors.

4. In Hunt's (1990)¹⁶ study, ***"Changing Pattern of Acquisition Behaviour in Takeovers and the Consequences for Acquisition Processes,"*** the focus is on the evolving landscape of acquisition behavior and its implications for the acquisition process, particularly concerning employee dynamics. The research delves into how shifts in acquisition strategies and tactics impact employee behavior and organizational outcomes. By examining the interplay between changing acquisition patterns and employee dynamics, Hunt sheds light on the complexities



and challenges inherent in merger and acquisition processes. This exploration offers valuable insights into how organizations can navigate employee-related issues effectively during takeovers, ultimately influencing the success or failure of acquisition endeavors.

5. In Datta's (1991) research, **"Organizational Fit and Acquisition Performance: Effects of Post-Acquisition Integration,"** the focus is on the relationship between organizational fit and acquisition performance, specifically examining the impact of post-acquisition integration processes. The study delves into how differences in management styles between acquiring and target organizations can influence the effectiveness of integration efforts and ultimately affect acquisition outcomes. By exploring the interplay between organizational fit, integration strategies, and management styles, Datta provides valuable insights into the complexities of the acquisition process and offers guidance for practitioners seeking to enhance acquisition performance through effective integration practices.

6. In Hoetzel's (2005)¹⁷ study, **"Cultural Impact in Cross-Border Acquisitions: A Critical Review of the Literature,"** the focus lies on the examination of cultural differences and their implications in the context of cross-border acquisitions. The research critically reviews existing literature to analyze the profound influence of cultural factors on the success or failure of such acquisitions. By synthesizing key findings and insights from various studies, Hoetzel sheds light on how cultural disparities can affect communication, integration, and overall organizational performance in cross-border mergers and acquisitions. This critical review offers valuable perspectives for practitioners and researchers alike, highlighting the importance of cultural sensitivity and adaptation in navigating the complexities of global business transactions.

The culmination of research into mergers and acquisitions (M&A) reveals a multifaceted

landscape where various factors intertwine to shape the outcomes of corporate transactions. Studies spanning several decades have illuminated key challenges and opportunities inherent in M&A activities, offering insights into the reasons behind both success and failure. One prominent theme that emerges from this body of research is the critical importance of strategic planning and execution throughout the M&A process. Scholars have highlighted the significance of factors such as proper target selection, realistic expectations, and thorough due diligence in enhancing the chances of M&A success. Additionally, attention to financial, legal, and administrative issues is paramount to navigating the complexities of corporate transactions effectively. Moreover, the human element emerges as a central consideration in M&A endeavors. Neglected human resource (HR) issues, cultural incompatibility, and slow integration processes have been identified as common pitfalls that can derail M&A success. Scholars emphasize the need for proactive management of HR considerations, including communication, cultural integration, and talent retention, to foster cohesion and drive post-merger performance. Furthermore, the cyclicity of M&A waves underscores the influence of market pressures and unrealistic expectations on deal-making activities. Exaggerated forecasts and overestimations of synergies often fuel M&A waves, leading to a cycle of pressure and failure. Addressing this cycle requires organizations to adopt a more strategic and disciplined approach to M&A decision-making, grounded in realistic assessments of potential benefits and integration challenges. In conclusion, while mergers and acquisitions offer significant opportunities for growth and value creation, they also pose inherent risks and challenges. By drawing on insights from research spanning various disciplines, practitioners can enhance their understanding of the complexities involved in M&A transactions and develop strategies to mitigate risks and maximize the likelihood of success. Through strategic planning, proactive



management of HR considerations, and realistic expectations, organizations can navigate the M&A landscape more effectively and achieve sustainable growth and value creation in the dynamic business environment.

CONCLUSIONS AND IMPLICATIONS

The discussions on the failures within mergers and acquisitions (M&A) shed light on the intricate dynamics at play during the integration phase, which emerges as a critical stage influencing the overall success or failure of the entire process. This observation resonates with the findings of scholars such as Haspeslagh and Jemison (1991) and Saxton and Dollinger (2004), who underscore the pivotal role of post-merger integration in determining the fate of the deal. The challenges encountered during integration, particularly those related to human factors such as cultural differences, communication breakdowns, and internal politics, are identified as significant contributors to M&A outcomes. Unlike the tangible aspects of the business that can be modified relatively easily, the complexities of human behavior present formidable obstacles to achieving seamless integration. Thus, it becomes imperative for organizations to prioritize the involvement and well-being of employees in the post-M&A phase, recognizing their crucial role in driving success and mitigating risks. Moreover, the post-integration phase also reveals the importance of strategic planning and execution. The implementation of subpar strategies post-deal closure often leads to adverse outcomes, highlighting the need for meticulous planning and tailored approaches that account for the unique circumstances of each merger or acquisition. Rushing into strategy implementation without thorough pre-deal analysis only amplifies the risk of failure, as organizations grapple with the complexities of navigating the newly formed entity.

However, the paradoxical nature of M&A popularity underscores the need for organizations to approach such endeavors with caution and strategic foresight. While the allure

of M&A activity may be enticing, it is essential for organizations to recognize the inherent complexities and pitfalls involved, and to invest in thorough planning, effective communication, and strategic execution to maximize the chances of success and value creation in the long run.

END NOTES

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