ARE LARGE SCALE MERGERS ALWAYS VALUE ACCRETIVE? AN ANLYSIS OF THE IMPACT OF MERGERS ON FIRMS’ GROWTH

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# **Abstract**

Mergers and acquisitions are some of the main inorganic growth strategies employed by large firms across the world. Mergers enable the merged firm to achieve various synergies, including cost and revenue synergies. However, the presence or the absence of such synergies is usually the causes of a firm’s success or failure. Despite these mixed views, mergers remain one of the most widely used firm growth strategies, proof that organisations can have the capacity to manage synergies associated with mergers to achieve corporate success effectively (Brueller et al., 2018). In this, paper, the researcher aimed investigated whether large-scale mergers had any impact on a firm’s value accretion. To achieve this aim, two research questions are formulated as follows: 1) How do organisations achieve value accretion goals and potential synergies through mergers? 2) Which criteria is the most appropriate to use in analysing potential merger objectives? A qualitative research approach was used to collect the required data for the analysis purpose. From the analysis results, various approaches were identified as the main factors to consider achieving mergers objects (Čirjevskis 2020). They included firms with future for growth, strong financial capacity, strong technical capacity, strong profitability, strong human and entrepreneurial capital, and corporate’s selection capacity.

# **Chapter 1: Introduction**

## **1.1 Background to the study**

Mergers are among the most used strategies in corporate finance to enable firms to achieve different objectives across the world. When the term merger is mention, most people think of synergies and associated added value (Selvi 2018). The adoption of mergers began in the USA in the 20th century and has since then spread to the rest of the world. Currently, mergers are among the standard business growth practice for firms that wish to remain competitive in an ever-changing world economy (Melka et al. 2012). Firms in the UK, the US, and other parts of the world pursue this strategy to achieve competitive advantage through new market entry, consolidation, growth, and, most importantly, anticipated financial gains (Milbourn and Xie 2010). Mergers have affected almost all companies in the business sector. Despite the widespread use of this strategy, it is noteworthy that only a few transactions meet their expectations. Evidence from current research indicates that at least 50% of all mergers end up failing to meet the desired objectives of the transaction (Patel 2019).

When mergers occur, functions like marketing, finance, and human resources can easily be shared across internal borders, and this brings about cost savings and ultimately add value to an organisation. Logically, mergers and acquisitions (M&A) are undertaken to increase an organisation’s performance. However, several cases indicate that achieving this aims is not as easy as it appears. For instance, (Whitaker 2016) conducted a study focusing on the US manufacturing industry investigated the impact of administration costs and synergy costs on firms’ merger choices. The findings from this study revealed that availability of more inputs for sharing in the new organisation influenced the likelihood of mergers occurring.

However, complex interdependences between business units in the new firm formed after mergers could raise administration costs, thus reducing the benefits of mergers. Furthermore, mergers aiming for synergies face two major problems described as contagion effect and overutilization of existing resources (Hale 2017). Contagion effect happens when a firm initiates resource sharing at different business units, thus contaminating the intended gains that could be realizable from resource sharing.

Nevertheless, irrespective of the various adverse outcomes of mergers, successful mergers exist. Merger activities have continuously grown and have attained new heights in the last few years. For instance, from 1995 to 2001, merger activities were five times more than the previous merger boom in US economic history (Iannotta 2010). The total merger and acquisition deals over this period totaled approximately $4 trillion, which was more than the combined value of the previous three decades (Caiazza et al. 2013). As recent as 2006, the value of M&A averaged at $10 billion daily, becoming the highest at that time (Caiazza et al. 2013). Given the enormous monetary value of these transactions, there is a need to evaluate whether all mergers, particularly large-scale M&A result in value accretion.

### ***1.1.1 Mergers defined***

The term merger is commonly used interchangeably with the acquisition. However, the two terms differ in meaning. On the one hand, a merger is defined as a combination of two companies where the only one survives with the other one ceasing to exist (Pereira 2017). Essentially, mergers can be classified into three categories, namely, horizontal, vertical, and conglomerate mergers. Horizontal mergers are the combination of two competitors, while vertical mergers occur when firms in a buyer-seller relationship combine (Uddin and Boateng 2014). Conglomerate mergers occur when two non-competing firms combine. Acquisition, on the other hand, occurs when one firm purchases another, thus taking over all or some of its assets, employees, and profits (Iannotta 2010). Acquisitions can be hostile or friendly takeovers. Even with these definitions, mergers and acquisitions are confused and interchangeably used by financial and business executives. It is important noting that pure mergers rarely occur as most firms go for acquisitions disguised as mergers to prevent one firm from domineering the other. In most cases, the purchasing corporation may attempt to make the negotiation appear as a cooperative partnership aimed at maximizing growth potential (Kuriakose and Raju 2018). Nevertheless, the larger company ends up gaining control over the smaller one by the time the deal is closed.  The end result for both M&A is to enable a business to growth faster and become more profitable than what could be achieved in a normal organic growth.

### ***1.1.2 The assessment of the value accretion of mergers***

Companies have diverse options they can pursue as growth strategies. Growth is a crucial aspect for any company either listed, multinational, or individual owned firms. Picardo (2014) argues that firms may decide to pursue organic growth options such as expanding their sales personnel, venturing into new geographical markets, development of new products. Firms can also pursue inorganic options including forming strategic alliances, franchising, joint ventures, and M&A.

Mergers remain one of the most debated strategies in the contemporary business environment. Recent studies indicate that merger and acquisition activities continue occurring in a wide range of sectors such as energy, insurance, and banking, among others. The main motivation for these mergers is to improve the shareholders’ value (Kumar et al. 2019). The majority of corporations involved in mergers focus on becoming leading product leaders in the market. A sample of recent financial and corporate mergers indicates that such a move enables firms to attain superior performance. Moreover, a merger may be motivated by the need to improve competition as it helps firms to minimize business risks and gain greater market share (Kumar et al. 2019). For instance, the financial performance of two merged firms improves because of the increased shareholder value. Moreover, the value accretion of mergers is realized through improved economies of scale, tax reduction, and revenue improvement.

## **1.2 Problem statement**

Shareholders and corporation managers opt for mergers in the hope of enhancing the financial performance of their businesses. The main motivation for the majority of firms to undertake mergers to attain synergies and create value to the post-merger organisations. However, studies on this topic have yielded mixed results. Some studies suggest that merging corporations perform better financially compared to their previous performance before the merger. Nevertheless, other studies have found negligible improvements in the financial performance of firms after mergers. For example, Kumar et al. (2019) noted that mergers yielded insignificant financial performance of firms as determined by industry adjusted average profitability. As a result of these inconsistent research findings, shareholders or corporate managers contemplating mergers find themselves at crossroads. Such conflicting findings make it challenging for players in the business sector to decide with certainty whether merging two firms is a value accretive undertaking (Caiazza et al. 2013). Without growth strategies such as mergers, joint ventures, and strategic alliances in the modern globalized business environment, it could be quite difficult for firms to attain competitive advantage. Therefore, modern firms strive to remain competitive by using one or more growth strategies. Recent corporate history is supported by various large scale mergers that have become success by taking advantage of mergers such as Lenovo and IBM, HP and Compaq.

This research focused on large scale mergers to provide insights upon which shareholders and managers can base their judgments when it comes to mergers. Therefore, this study aimed at finding out the impact of large scale mergers on the financial performance of firms, taking a survey of recent successful mergers.

## **1.3 Research objectives**

### ***1.3.1 General objective***

To determine the impact of large-scale mergers on the value of listed firms, and to understand success factors for mergers.

### ***1.3.2 Specific objectives***

1. To determine how organisations achieve value accretion goals and potential synergies through mergers
2. To determine the criteria used by organisations in analysing potential merger goals

## **1.4 Research questions**

1. How do organisations achieve value accretion goals and potential synergies through mergers?
2. Which criteria is the most appropriate to use in analysing potential merger objectives?

## **1.5 The relevance of conducting the study**

This findings of this study could be used by the management of different firms in identifying the critical factors perceived to be important in the success or failure in merger activities. More specifically, these findings could be used as a benchmark tool for large firms interested in achieve growth strategies especially in the markets where organic growth is limited.

# **Chapter 2: Literature Review**

## **2.1 Overview**

Scholars argue that firms consider merger option for two main reasons, which are espoused in the synergistic merger theory, and financial synergy theory. This section contains a detailed discussion of these theories alongside other literature relevant to the topic under investigation.

## **2.2 Theoretical Framework**

Mergers often aim to achieve synergies and value accretion in the post-merger organisation. The concept of synergy argues that the sum should be larger than its components, that is, 1+1 =3. According to Sirower (2017), synergy refers to the increases in the resulting cash flows and competences beyond what is independently achievable by the two companies. Given the potential increase firms value brought by mergers, it could be deduced that synergies are perceived as the main incentives for mergers. Most specifically, merger synergies are realised through improvements and efficiencies at various organisational levels. In order to understand mergers and their related energies, various theories, including synergistic merger theory and financial synergy theory.

### ***2.2.1 Synergistic merger theory***

Synergistic theory suggests that mergers make firms gain in terms of operational performance by coming together as this enables them to leverage their strengths and resources, thus improving their join performance. The synergy concept suggests that the sum should be greater than its component. Differently put, two firms that merge ought to have increased value than their value if they exist separately (Kehinde and Abata 2010). In mergers, synergies can be viewed as the increase in a company's competitiveness that results from cash flows beyond what the initial merging companies could accomplish independently. Therefore, the synergy concept entails value addition created by resource sharing, thus ensuring benefit acquisition that could otherwise not be achievable (Iannotta 2010). Synergies occur in different forms within mergers depending on the type of business and merger.

Synergy theory applies various categories of resources to achieve value accretion. According to Krishnan et al. (2009), the resource-oriented view provides a useful strategy in the understanding of synergistic mergers. Consequently, resources in a firm's possession compared to the resources and opportunities available in the economy upon which such resources could be used to determine the value created. Resources are either tangible assets such as building s and capital or intangible assets like competencies and skills (Hale 2017). There are various categories of synergies include revenues, financial, cost synergies, and market synergies (Schriber 2016). Revenue synergies lead to increased revenues and are often associated with economies of scope. An example of revenue synergies includes the products' or customers' extension, bundling or cross-selling. Cost synergies are associated with cost reduction and economies of scale, including overhead costs and administrative costs (Schriber 2016). Financial synergies are related to the reduction in capital costs by lowering risks and increased financial margins and improved cash flows. Finally, market synergies are related to increased margins attainable through improved negotiation capabilities towards customers and suppliers.

The above classification of synergies gives an indication of how financial gains can be gained or saved. Synergies benefit mergers in the form of efficiency gains, competition gains, entry speed gains, consolidation gains, and resource gains (Schriber 2016). Other benefits include resource sharing gains, bargaining power gains, price pressure gains, increased market share and market share gains, and finally, knowledge and learning curve gains.

Synergy theory could also be used to explain mergers that are undertaken to achieve synergies for boosting future cash flows, thus enhancing a company's value. A firm is able to achieve operating and financial synergies through the increased company size or scope (Patel 2019). The synergy mergers theory also argues that bidders have the potential to attain efficiency gains as they can combine their business with an efficient target, thus boosting the target performance. Moreover, bidder firms could realise specific complementarities between their company and the target firm.

### ***2.2.2 Financial synergy theory***

The financial synergy theory is anchored on the suggestion that nontrivial transactions costs related to external capital raising alongside differential tax provided for dividends could result in a more efficient allocation of capital (Mburu 2018). Other benefits associated with this theory include growth from low to high marginal returns and increased production activities, and these provide a rationale for firms to pursue conglomerate mergers (Amel-Zadeh et al. 2014). Therefore, companies can opt for mergers as a strategy for adjusting to the changes in the external business environment. Most firms have a limited growth opportunity internally, thus making mergers a more favourable growth strategy (Hankir et al. 2011).

According to Hellgren et al. (2011), financial synergies lead to reduced capitals costs, hence lowering systematic risks via investments in unrelated ventures. Consequently, this leads to business expansion and provides an opportunity to access cheap capital or the creation of an internal capital market with the ability to operate on superior information for efficient allocation of capital.

## **2.3 Impact on mergers on shareholders' value and the firm's growth**

Contemporary organisations are under constant pressure from their surroundings, particularly shareholders. In particular, shareholders desire to achieve progress in terms of an increased in their investments and returns. In an increase in returns ultimately leads to organisational growth. Such growth is considered to be an important success factor in today's competitive business environment. According to Schriber (2016), organisations can grow either organically or through M&A. Organic growth occurs when a firm grows from its buoyancy. In such a case, a firm utilises existing capabilities and resources to maximise revenues. Based on the firm's specific prerequisites and market conditions, organic growth may be successful to a larger or smaller extent. It is worth noting that organic growth alone cannot sufficiently meet shareholders' high demands and value expected. In particular, this applies to mature industries where chances for organic growth are limited. In such a scenario, M&A and synergies are crucial. However, most firms combine mergers with organic growth strategies to achieve market expansion, economies of scale, and knowledge acquisition. M&A offer firms with faster access to additional resources, particularly in markets where acquiring such resources is expensive and takes long periods.

From the above discussions, the overall goal of mergers is to attain value accretion. Growth in mergers is achievable in different ways based on an organisation's motivations. Nevertheless, synergies are often involved in any merger activity. The strongest motives for mergers include cost savings, sales and distributions, production facility, market shares, and technology (Amel-Zadeh et al. 2014). Any potential synergy between the two firms is attainable in any of these motivations. Therefore, an underlying assumption of synergies is that they occur as a consequence of mergers. In other words, it is a firm's incentive to grow that initiates mergers. A successful realisation of synergies could thus contribute to an organisation's desired growth, as illustrated in figure 1 below.

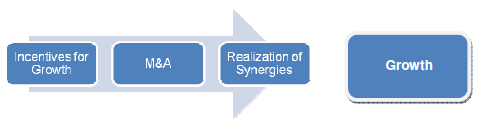


Figure 1: An illustrative model for firms’ incentives for growth and M&A’s creation

## **2.4 The criteria used in analysing potential merger objectives**

When the merger price exceeds the true value of synergies, a firm’s value could be damaged, and this could be categorized as an unsuccessful merger. However, overvaluation of M&A is the most common mistakes when it comes to evaluating the potential of mergers (Patel 2019). Such a mistake occurs due over-optimism of the managers involved in the merger activities, poor financial advice, and lack of experience (Amel-Zadeh et al. 2014). Therefore, synergy value plays a critical role in the overall value of the merger deal, hence the need for the estimations to be as realistic as possible. When assessing the value of the post-merger value, revenue and cost synergies are the most important components to consider. Revenue synergies, on the one hand, are more difficult to project because of their intangible nature (Patel 2019). Revenue synergies are harder to estimate than cost synergies as they depend on factors such as customers, competitors, markets, and prices. Consequently, it becomes difficult for firms to control these factors since it is difficult to estimate how much or who will buy from them. Cost synergies, on the other hand, take longer to accumulate compared to revenue synergies (Whitaker 2016). Moreover, cost synergies are tangible in nature, thus, easier to control and acquire concrete information regarding them, as managers can choose to spend or not spend on them. For these reasons, integration often aims at prioritizing cost synergies. However, an appropriate mix of revenue and cost synergies is necessary when evaluating potential mergers as illustrated in figure 2 below (Hale 2017).

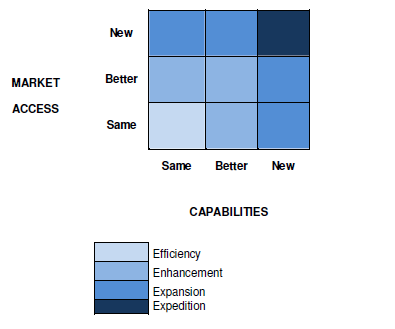


Figure 2: Various mix of synergies achievable based on organisation’s capabilities and market access

An organisation’s capabilities are related to aspects such as supply chain, cost structure, operations, while market access relates to various aspects of a firm such as brand and sales force (Whitaker 2016). In figure 2 above, an organisation is said to be the *new*position if its market access or capabilities do not overlap with those of the other organisation. Similar capabilities or market access are illustrated by the *same* position in which merging firms aim to bring cost synergies together, thus achieving economies of scale (Hale 2017). Finally, a better position illustrates a scenario where both revenue and cost synergies are present.

Finally, the involvement of the right personnel plays a crucial role in realising the merger objectives. The personnel in charge of merger activity might not have the requisite knowledge regarding the best practices and post-merger operatives (Hale 2017). Consequently, it is important for operative personnel such as specialised managers at a business level to help in identifying potential risks and possible improvement areas during the merger process.

# **Chapter 3: Research Methodology**

## **3.1 Overview**

This section focused on the research method used, data type and collection method used, and literature search strategy employed. It also highlighted the validity, reliability and criticism of the method used. Finally, this section focused on the analysis of the study results.

## **3.2 Research Design**

There are generally two main research methods that could be utilised in this study, namely, quantitative and qualitative methods. Qualitative research approach, on the one hand, refers to a systematic method of collecting, organising, and interpreting textual materials derived from observations. According to Huff (2009), qualitative methods are best suited for identifying and comparing characteristics of empirical facts, including easily comprehensible information alongside data attributes considered to be difficult to capture. Since value accretion is a complex aspect and that it differs based on the organisation’s corporate strategy and industry under consideration, the qualitative method could assist in achieving the following. It could help in exploring what different forms value accretion can take, why specific merger strategies are preferred and why they result in different results. Qualitative methods could also help in exploring how certain mergers create synergies and how where such synergies can be found. Huff (2009) also describes the common goals associated with the qualitative method. For instance, qualitative method explains why and how things happen and provide extensive and in-depth details to abstract explanations alongside exploring unanticipated consequences and antecedents. All these focus areas attempt to provide answers to the what, why, where, and how, type of questions.

A quantitative method, on the other hand, provides an opportunity for rich descriptions and qualified arguments backed by empirical data. It also provides room for objectivity and well-founded reflections and connections. However, a qualitative method was considered as the most appropriate approach in this study (Goel and Waechter 2010). Although a quantitative method provides precision, overs implications and objectivity, it could not provide answers on how mergers are interrelated with value accretion in firms. Moreover, the quantitative method would not provide an in-depth understanding of the study topic under investigation since the detailed firm-specific data would be difficult to obtain. Furthermore, statistics require the translation of verbal information into numbers which would not be suitable for complex questions that require exhaustive answers from respondents (Huff 2009). Consequently, using the quantitative method would result in losing several valuable points for recreating the whole picture.

## **3.2 Data Sources and Data Collection**

This study was based on both secondary and primary data. Secondary data includes data already collected for other reasons, which could be used as it is relevant to the field of study under consideration. Relying on secondary data is advantageous in that it is cheaper to acquire than primary data, and it is less time consuming to acquire. For these reasons, secondary data provide a preferable data source than primary data. In this study, secondary data was utilised, particularly in the initial stages of thesis compilation, as it offered useful information regarding organisations selected. It also provided materials for compiling a theoretical framework, which mainly comprised previous findings related to the issue of value accretion and the concept of synergy. Primary data was used in this study to provide information related to empirical findings. Use of primary data in this study was advantageous in that it provided a more updated and realistic data compared to information derived from secondary sources.

The main information sources in this study included articles and books. The primary data was used to complement the secondary one, as these formed the two main data sources. The secondary data was collected from specific websites of selected firms where company information, annual reports and press releases could be obtained. Primary data was collected using interviews with firm representatives. The interviews were facilitated through emails and phone calls with relevant company representatives of firms that had undertaken large scale mergers in the last two decades. Dictaphones and computers were used to record and collect information obtained using interviews. Company representatives from 5 that have undertaken large-scale merges in the last two decades were considered for interviews. These organisations included BE Group, OEM International, Addtech, Indutrade, and Lagercrantz group.

## **3.3 Literature Search Strategy**

Several information sources were used with the most relevant being those written by organisational strategists. Most of the academic articles utilised in this study included those published by scholars working as M&A consultancy companies, and this made such information realistic and pragmatic. The database utilised included Google Scholar, and the key search terms utilised were mergers, corporate strategy, synergy impacts, and M&A. Company-specific data from business magazines and analysis reports of financial institutions was also formed crucial literature incorporated in this study.

## **3.4 Research Approach**

Research approaches can broadly be classified into two, namely deductive and inductive. Deductive approach commences from general theories and proceeds to a specific field using a top-down approach (Pereira 2017). Such an approach is well illustrated using a waterfall principle, where theories lead to the hypothesis, and hypothesis lead to observation, with observation, ultimately leading to confirmation and conclusion (Pereira 2017). The inductive reasoning, on the other hand, is the opposite of the deductive approach and takes a bottom-up approach. It is well illustrated using a hill-climbing principle, as it commences with specific observations which lead to more broad and general theories.

It is worth noting that general facts derived from secondary data and already existing theories were widely used. Most specifically, the secondary data informed the formulation of the theoretical framework of this study, and primary data collection followed in the form of interviews. For this reason, new findings were likely to emerge during the collection of primary data (Kumar et al. 2019). Consequently, the double-checking for factual changes were necessary. Such a data handling approach could be described as iterative, as no clear sequential order was followed. In this study, both deductive and inductive methods were utilised (Goel and Waechter 2010). A combination of both deductive and inductive approaches is referred to as adductive.

## **3.5 Reliability and validity**

Reliability, on the one hand, refers to the degree which similar outcomes would be attained if the research was reproduced with similar measures. It is related to how connected a study is to the current and future information. In this study, the theoretical framework employed was derived from secondary data. Hence, it could be used to produce similar results provided similar methods are used (Uddin and Boateng 2014). Given equal access to similar information and authors, it would be possible to reproduce similar study conclusions. Moreover, the result obtained using primary data was not a problem as it would be possible to reproduce them provided similar firm representatives were interviewed (Uddin and Boateng 2014). However, given that various aspects such as market conditions, competition, and prerequisites for mergers and synergies change over time, it would be difficult to reproduce similar results for research carried out far from the current timeframe of this study.

The validity, on the other hand, could be described as the coherency of the results actual findings and the anticipated outcomes. In other words, validity determines whether a study has measured what it purported to measure. It is worth noting that various aspects of data handling, including collection and typing, make it possible to lose information in the process (Kumar et al. 2019). Moreover, it is likely for some pieces of texts to go missing, and information misinterpretation t occur in the course of the research undertaking. Consequently, this could cause errors and invalid information in the research process. These problems were eliminated in this research by double-checking the texts and gathering information from different sources.

# **Chapter 4: Discussion**

## **4.1 Overview**

In this section, the researcher presented primary data findings from the five mergers under consideration in this study. Additionally, empirical findings of the company-specific information derived from the organisations websites were presented. Other sections covered included findings from interview questions, practical implications, and conclusion.

## **4.2 Analysis of the Empirical Findings from the five selected organisations**

### ***4.2.1 BE Group***

BE Group’s aims at creating value and increasing competitiveness for its clients by saving them capital, costs and time. This is achieved by providing a customer-based range of products with superior delivery services. The firm a wealth of experience in aluminium, steel and stainless steel (BE Group 2020). The company’s strength lies in quality control systems, reliability, extensive networking, and efficient distribution channels. Therefore, BE’s M&A strategies focus on firms that have the potential to improve its competitiveness and market growth.

### ***4.2.2 OEM International***

OEM International is among leading technical leading firms in Europe. It comprises about 21 operating subsidiaries with operations in 13 nations. Its offers a wide range of industrial systems and components to suppliers in various selected markets spread across Eastern, northern and central Europe (OEM International 2020). OEM boasts of a well-organised and structured local market with an effective logistic that makes it preferred option compared to suppliers’ self-organised sales. The main goal of OEM in its merger activities s to attain sustainable growth and to improve improved return on equity. Through mergers, the company aims to strengthen its market position in its existing markets and product niches alongside expanding into new geographical markets.

### ***4.2.3 Addtech***

Addtech is a technology-based firm in Northern Europe that specialises in the sale of high-tech products and systems to industrial firms in the service industry. The company operates in over 30 countries globally, and comprise over 100 operating subsidiaries (Addtech 2020). All these subsidiaries strive to become market leaders in the market niches they operate. Mergers form a critical component of business growth and are necessary for the achievement of set goals. For Addtech, trading and sales in the standard product are the foundations of its operations. Other standard operational features for Addtech include the building of long-term client relationships and advancing its technical competence, which is necessary for in-depth development and achievement of adaptive products and services. The firm has a strong corporate culture that holds the business together in which technical competence and business skills are critical concepts that have allowed for its financial resource and broad network. The M&A activities Addtech has been involved in the past focused on identifying technology firms and entrepreneurs with the capacity to boost its existing operations. Moreover, M&A activities have enabled the company to maintain a strong entrepreneurial spirit and evolve inorganically in the long-term. Over the years, Addtech has undertaken several M&A activities have been built around profitability and growth goals each M&A process involves assessing the identified company on several criteria. Examples of these criteria include the following: 1) well management and profitability; 2) firms that can offer high-level technical content and expertise, and one that adds customers’ value. Other criteria assessed include well-established relations with suppliers and the potential to improve Addtech’s profitability and growth.

### ***4.2.4 Indutrade***

Indutrade is conglomerate comprising 140 companies which are headed by individual presidents. The conglomerate has a long history of M&A. For instance, the firm has undertaken around 90 M&As in the last decade, which account for the largest share of its sales growth (Indutrade 2020). With a network of suppliers, networks, and other market factors, Indutrade has established a good depiction of the potential companies to consider in its M&A strategy. Moreover, the company has a team of experts with the requite knowledge regarding customer processes and demands.

### ***4.2.5 Lagercrantz Group***

Lagercrantz Group operates a Swedish-listed firm with a wealth of experience, technical capacity, capital, and network. The firm also uses a decentralised model in which business decisions are the responsibilities of the subsidiaries as they are closest to the suppliers and customers (Lagercrantz Group 2020). Consequently, this brings about improved commitment to the company’s employees’ good man-ship representing a key competitive advantage. The company has a strong customer base as it has operations in about 8 countries in Northern Europe and China. Moreover, the firm maintains a strong corporate culture which is founded on four concepts, including business manship, freedom and responsibility, efficiency and simplicity, and willingness to change (Lagercrantz Group 2020). The company uses M&A strategies to achieve its growth targets. All M&As activities undertaken by Lagercrantz aims to strengthen its market position in the existing market. The company also uses M&A as a new market entry strategy. Through the merger activities, Lagercrantz’ management has been able to maintain a strong financial muscle for developing new products. The company also retains the key management teams of the merged firms, and this ensures there is a smooth integration in the merger process.

## **4.3 The analysis of Interview Findings**

Under this section, the researcher analysed the responses in an attempt to answer the research questions. Consequently, it was possible to identify the underlying themes by highlighting the repeated patterns of ideas from the responses provided. The research objectives and questions to guide the analysis in this section were also used, as shown in the following discussions.

### ***How organisations achieve value accretion goals and potential synergies through mergers***

* 1. What influences the success of a potential merger?

When considering merger strategies, it is usually important for a firm to determine how the merger process will be realised. 78% of the respondents interviewed identified cooperation with other firms as one of the main factors that led to the initiation of a merger. The timing of the merger was also identified as an important success factor by 80% of the respondents. In particular, mergers that took less time were more preferred than ones that took longer periods. Another factor identified as an important determinant of a successful merger was the management capacity. More specifically, 85% of the respondents identified a firm’s management capacity as an important determinant of success in mergers. Merger decisions involve a level of risk as the deal could lead result in a substantial financial loss. It is also noteworthy that merger negotiations could take extended time depending on the deal price and the type of merger involved. The figure below represents a graphic representation of these three determinants of merger success.

1. How do mergers help new firms to attain stronger market positions?

An analysis of the responses from the firms’ representatives interviewed in this study revealed that mergers were more effective in developing the existing customers as opposed to finding new clients. Firms used mergers as a strategy for connecting and strengthening the existing customer base as new firms after mergers were able to add value through increased competences, technologies, and broadening of the offers. In particular, 72% of the respondents revealed that merging helped their firms to acquire more competencies and improved product value necessary in achieving market positions. 56% of the respondents also agreed that mergers had played a significant role in helping their firms to offer increased product value. Also, 84% of the respondents agreed their firms were able to achieve a broaden customer base after mergers. These results were represented using the figure below.

* 1. How do firms evaluate potential merger objectives?

Respondents were asked about the various strategies used in evaluating the potential merger objectives. Merger evaluation was identified as a crucial phase as it was during this stage that certain financial thresholds have to be met before considering a potential merger option. More specifically, 80% of the respondents identified shareholders’ value and profitability growth as the main objectives considered when evaluating potential firms for mergers. Moreover, 75% of the respondents identified good future prospects as important during merger evaluation as it helped to strengthen the new firm’s competitive advantage. 60% of the respondents also identified the presence of a strong entrepreneurial spirit and a high degree of technical competence in respective niches as crucial determinants in evaluating potential objectives. Other parameters identified by respondents as important in evaluating potential merger include strategic and financial position (88%), and the main supplies’ orientation (70%). These responses were represented in the figure below.

1. What kinds of synergies are the most common in mergers?

The two main synergies identified by respondents as important in any merger process were cost (90%) and revenue synergies (70%). Cost synergies were easily identifiable as costs are associated with tangible things such products, plant and equipment, among others. Revenue synergies, on the other hand, focused on customer base. In all the companies under consideration, revenue synergies sought to bring the gap between customers and products, hence the reason majority of them merged with their competitors. Other synergies considered to be important include economies of scale (60%) and tax reduction (55%). The figure below is a representation of the most common synergies identified by respondents.

### ***4.3.2 The most appropriate criteria used to analyse potential merger objectives***

1. Which factor do you consider to be most important before initiating a merger?

The respondents identified four factors they considered as the most important in determining the success of a merger. They included human and entrepreneurial capital (86%), corporate head’s experience, knowledge, and selection capacity (77%). Others factors included strong finances, strong brand name (65%), and strong market position (70%). The figure below is a graphical representation of these factors.

## **4.3 Practical implications**

Value accretion and synergies related to mergers could have varying implications in terms of growth, financial goals, brand reputation, market opportunities. M&As in all the firms under consideration were undertaken with the sole purpose of improving growth and profitability. However, other aspects related to M&As arose from the analysis of this study. First, it is worth noting that research the views represented in this paper were those of the corporate team and senior personnel involved in the merger process. However, it would be important to consider the views of other staffs within the new firm. Combining such views with these derived from corporate heads and senior personnel could lead to interesting findings. Second, it would be important to consider the perceptions of respondents before and after the merging process and evaluate how the various parameters would vary in both pre and post-merger activity. Such an approach could be used as a benchmarking tool to help management teams in adjusting and improving the areas where mergers are less successful.

## **4.3 Conclusion**

In this section, the researcher provided a summary of the entire study by highlighting the most important results obtained. More specifically, the researcher relied on the research questions to provide the summary.

*How do organisations achieve value accretion goals and potential synergies through mergers?* In regard to this question, there were various ways in which firms’ value for accretion and potential synergies could be realised through mergers. They included identifying firms with future for growth, strong financial capacity, strong technical capacity, strong profitability, strong human and entrepreneurial capital, and corporate’s selection capacity.

* *Which criteria is the most appropriate to use in analysing potential merger objectives?*

In general, the merger objectives for the firms were evaluated on the basis of technical expertise, value-added to customers, and market position, firms’ financial and profitability history, and potential profitability in the future. All these factors could be viewed as important growth drivers as they are associated with cost and revenue synergies.

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