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RESEARCH NOTES AND COMMUNICATIONS
MANAGEMENT OBJECTIVES IN MERGERS AND ACQUISITIONS

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A taxonomy of managerial goals in mergers and acquisitions is developed through a cluster analysis of data from interviews with merger and acquisition practitioners. These clusters of objectives overlap with some objectives cited for mergers and acquisitions in the academic literature, but the correspondence is not complete. Further analysis shows that different types of mergers and acquisitions are characterized by different managerial objectives. The implications of this research for the development of a contingency model of the relationship between managerial objectives and mergers and acquisitions are discussed.

Management goals and objectives have been of central interest in research on mergers and acquisitions (M&A) for decades (Reid, 1968; Steiner, 1975; Jensen and Ruback, 1983; see also Simon, 1964). Research in this area has generally taken one of two approaches: first is to develop comprehensive 'lists' of all the managerial goals and objectives that might motivate managers to engage in M&A (e.g. Steiner, 1975; Allen *et al.*, 1981; Goldberg, 1983); second is to focus on how particular managerial goals or objectives motivate managers to engage in M&A (e.g. Williamson, 1975; Pfeffer and Salancik, 1978; Amihud and Lev, 1981; Lubatkin, 1983; Eckbo, 1983). Efforts to show that certain goals, such as market power (Ellert, 1976), dominate over others, such as operating synergies (Mandelker, 1974) or efficiency (Eckbo, 1986), have yielded mixed results. The purpose of this paper is to explore the relative importance of a variety of managerial goals and objectives for different M&A types.

METHOD

Managerial goals and objectives in mergers and acquisitions

A list of 20 possible goals or objectives was developed for managers engaging in merger and acquisition activities. This list was derived from previous research by numerous authors (e.g. Kitching, 1967; Howell, 1970; Steiner, 1975) and is presented in Table 1. Care was taken to include possible managerial goals from several different disciplines, including economics, finance, strategy, and organization theory.

Sample and data

Data were collected from 32 individuals intimately involved in developing and managing M&As. These people were all *professional M&A intermediaries* who have conducted or scrutinized the analyses associated with numerous M&As, and who have a substantial network of associates involved in M&A.[1] They include merger special-

[1] Merger and acquisition intermediaries were sampled, instead of an acquiring firm's executives, for two reasons. First, the executives of an acquiring firm have a strong incentive to make it appear that their actions are consistent with shareholders' interests. Also, to justify their own actions, executives may be unwilling to discuss the original goals or objectives for a merger or acquisition that has not met those goals or objectives. While not free from these biases, it was felt that data from professional intermediaries would be less affected. Second, while company executives may understand their own goals or objectives, their experience tends to be company- or industry-specific. By contrast, intermediaries have a broader experience base from which to draw in making the judgements elicited here.

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Table 1. Managerial goals for mergers and acquisitions

1. Promote visibility with investors, bankers, or governments, with an eye to subtle benefits later.
2. Accelerate growth or reduce risks and costs in a particular industry in which the acquiring company has a strength such as executive wisdom.
3. Utilize interlocking and mutually stimulating (synergistic) qualities of the acquired company *vis-à-vis* the acquiring company.
4. Attain improved competitiveness inherent in holding a sizeable market share or important market position.
5. Utilize financial strengths of the acquired company such as foreign tax credits or borrowing capacity.
6. Gain complementary financial features such as those that balance earnings cyclicality.
7. Reduce risks and costs of diversifying products and services delivered to customers within an industry.
8. Utilize the acquiring company's expertise in marketing, production, or other areas within the acquired company.
9. Divest poor-performing elements of the otherwise undervalued acquired company, in portfolio management style.
10. Improve efficiencies and reduce risk in the supply of specific goods and/or services to the acquiring company.
11. Penetrate new markets by utilizing the acquired company's marketing capacities.
12. Improve economies of scale by utilizing the acquired company's distributional capacities to absorb expanded output.
13. Gain valuable or potentially valuable assets with the cash flow or other financial strengths of the acquiring firm.
14. Broaden the customer base for existing goods and services of the acquiring company.
15. Create economies of scale by relevant capacity expansion.
16. Reduce risks and costs of entering a new industry.
17. Expand capacity at less cost than assembling new facilities, equipment, and/or physical assets.
18. Fulfill the personal ambitions, vision, or some particular goal of the acquiring company's chief executive.
19. Pursue opportunities to sell stock at a profit by such acts as pressing management of the acquired firm for improved earnings.
20. Utilize the acquired company's personnel, skills, or technology in other operations of the acquiring company.

ists in investment banks, venture capitalists, financial advisors, executives of underwriting firms, corporate lawyers, etc. All had offices in New York, Toronto, or Vancouver. Much of the sample held *very* senior executive positions in their institutions (e.g. Vice-President Mergers and Acquisitions, President, Partner, Chairman).

Continuous soliciting of names of important M&A intermediaries, and the fact that the major merchant banks and other institutions were heavily represented in the sample, gives confidence that a rich and representative sampling of key members of the M&A community has been obtained. Moreover, this circle of intermediaries quickly closed on itself, as is often the case in 'snowball' samples of this sort (Barnett, 1974). Data were collected through structured interviews held privately at the office of each participant, and were approximately two hours in duration.

The interviews focused on ranking the importance of the 20 different goals for M&A (listed in Table 1) for five different categories of M&A. The five different categories of M&A examined were M&A in general, plus vertical, horizontal, concentric, and conglomerate M&A types (Reid, 1968; Kitching, 1967; Souder and Chakrabarti, 1984).[2] Definitions and examples of each category of M&A were presented to each participant, and reviewed just before ranking the importance of the managerial goals for a particular M&A type began.

Each participant was asked to rank managers' five most important goals for each of five categories of mergers. For each ranking task, participants were given a randomized set of 22 cards, 3 by 5 inches. On each card was placed one of the 20 merger and acquisition goals listed in Table 1. Participants then sorted the cards,

[2] The following written specific definitions of the major merger types were given to participants:

Vertical: Mergers in which a buyer–seller relationship exists or could exist between the two firms. (FTC [Federal Trade Commission] vertical mergers.)

Horizontal: Mergers between firms with identical products operating in the same or different markets. (FTC horizontal mergers plus FTC market extension/conglomerate mergers.)

Concentric: Mergers between firms with highly similar production or distributional technologies. (FTC product extension/conglomerate mergers.)

Conglomerate: Mergers between two firms that have no buyer–seller relationship, no technical and distributional relationship, and do not deal with identical products. (FTC pure conglomerate mergers.)

selecting and ranking the five most important goals for a given merger and acquisition category. To familiarize themselves with the 20 goals listed in Table 1, as well as with the ranking task, participants were first asked to rank the importance of these goals for M&A *in general*. These data are not included in the analyses below. After this initial ranking task, each participant ranked the importance of different goals for each of the remaining four types of mergers.

The data collected in this process consisted of four 32 by 20 matrices. Each cell in a matrix contained a participant's ranking of the importance of a particular managerial goal or objective (1 = first most important, . . . 5 = fifth most important, 0 = not among the five most important) for a particular kind of merger and acquisition.

ANALYSIS

Cluster analyses were performed on the collected data to develop a taxonomy of M&A objectives (Hartigan, 1975). Several different analyses were performed, all generating very similar clustering results.[3] This paper reports in detail only the analysis where all ranks were recoded in a binary form (1 = a motive was ranked among the top five most important by a respondent, 0 = otherwise) and where rankings for M&A in general were omitted. Rankings of all four types of M&A were considered simultaneously in developing the taxonomy of objectives. The clustering algorithm used in this analysis was CONCOR (Breiger *et al.*, 1975), although other algorithms generated similar results. CONCOR results for these ranking data are presented in Table 2.

As with all cluster analyses, an important question is how many clusters should be reported for a data set. The application of various statistical tests, together with the interpretability of this solution, suggested that five clusters adequately grouped the data in this analysis.[4]

Table 2. Clustering results. Algorithm was CONCOR (Breiger *et al.*, 1975). ALPHA cutoff was 0.95. Data was binary (1 = motivation ranked in top five of importance for a given type of merger/acquisition). All four types of mergers/acquisitions (vertical, horizontal, concentric, and conglomerate) considered simultaneously

Cluster number	Goal numbers	Description of cluster (objective)
I	8, 15, 20	Mergers are a way managers obtain and exploit economies of scale and scope
II	2, 3, 10	Mergers are a way managers deal with critical and ongoing interdependencies with others in a firm's environment
III	4, 7, 11, 12, 14, 17	Mergers are a way managers expand current product lines and markets
IV	13, 16, 18	Mergers are a way managers enter new business
V	1, 5, 6, 9, 19	Mergers are a way managers maximize and utilize financial capability

Collapsing the cluster structure from five to fewer clusters proceeds as follows:

Cluster number	Five clusters	Four clusters	Three clusters	Two clusters
I	A_{11}	A_1	A_1	A
II	A_{12}	A_1	A_1	A
III	A_2	A_2	A_2	A
IV	B_1	B_1	B	B
V	B_2	B_2	B	B

To examine how the importance of these five different clusters of goals and objectives varied by type of M&A, the cluster solution was applied to each of the data matrices for vertical, horizontal, concentric, and conglomerate types

[3] Other analyses included all five data matrices with the original codes, all five data matrices coded in a binary format, and the four data matrices (vertical, horizontal, concentric, and conglomerate) with the original codes. In these different analyses, only one goal ever switched clusters (goal 17 in Table 1). This is an unusually high level of consistency across different clustering analyses (Hartigan, 1975), and suggests quite robust results (Breiger *et al.*, 1975).

[4] A variety of statistical measures can give guidance in establishing the appropriate level of aggregation in a cluster analysis, including comparisons of within- and between-cluster variance at different levels of aggregation (Frank and Green, 1968; Sarle, 1983), and the examination of the impact of different levels of aggregation on the relationship between the cluster solution and another variable of interest (in this research, type of merger and acquisition). These analyses, when combined with the interpretability of the cluster solution, suggest that this data set can be appropriately described using the five reported clusters.

of mergers. This was done by rearranging the rows of each of these data matrices to match the partition of goals obtained in the cluster analysis. Then, the average ranking of entries within each cluster for each type of merger or acquisition was computed. To maintain consistency, the binary versions of each of the data matrices were analyzed in this manner. The average ranking of all participants in each cluster for each type of merger and acquisition shows the percentage of respondents who thought that the goals in a given cluster of objectives were among the five most important for a given type of merger or acquisition. The resulting averages are presented in Table 3.

RESULTS

A taxonomy of goals and objectives in mergers and acquisitions

The five clusters derived from the analysis are labeled in Table 2. The goals grouped together in *cluster* I suggest that M&A are a mechanism for managers *to obtain and exploit economies of scale and scope*. In each case, these goals focus on taking skills or assets in one firm and using them in the other firm to create scale economies. Moving these skills from the acquired firm to the acquiring firm is emphasized in goal 20, while moving skills from the acquiring firm to the acquired is emphasized in goal 8. Goal 15 directly emphasizes capitalizing on economies of scale. This cluster of objectives is similar to the efficiency-oriented arguments of Eckbo (1983), Halpern (1973) and others.

Table 3. Percentage of times objectives of specific clusters are cited as important for different types of mergers and acquisitions

	Cluster number				
Merger type	I	II	III	IV	V
Vertical	0.135 M	0.583 H	0.266 M	0.302 M	0.069 L
Horizontal	0.271 M	0.302 M	0.255 M	0.406 M	0.106 M
Concentric	0.208 M	0.260 M	0.474 H	0.177 M	0.044 L
Conglomerate	0.031 L	0.031 L	0.036 L	0.656 H	0.525 H

The goals grouped together in *cluster II* suggest that M&A are a key mechanism through which managers *deal with critical and ongoing interdependencies* with firms in their environment. Both goal 2 and goal 3 suggest ongoing interdependence between a firm and its acquisition targets. In the case of goal 2 this interdependence is indicated by the ability of an acquiring firm to use its 'executive wisdom' with the acquired firm. For goal 3, interdependence is indicated by the existence of synergy. For the last goal included in this cluster, goal 10, merger or acquisition takes the form of vertical integration that responds to ongoing supply dependencies. This cluster is similar to the motives for M&A emphasized by transaction cost and resource-dependence theorists (e.g. Williamson, 1975; Pfeffer and Salancik, 1978).

The goals grouped together in *cluster III* suggest that M&A are sought by managers who are motivated to *expand their current product lines and markets*. Goal 4 emphasizes the importance of improving a firm's market position. This goal does not imply that firms are seeking new markets, but rather are attempting to strengthen and expand current markets. Goal 7 suggests that managers are using M&A to enhance their ability to serve customers within a given industry, while goal 12 emphasizes expanding the distributional capabilities for an acquiring firm's current products. Both goals 14 and 17 refer to expanding a firm's current product markets. Only goal 11 in this cluster refers to *new* markets. However, even for this goal, no new products are mentioned, suggesting that M&A can be a means through which firms find new markets for old products. None of the goals listed in this cluster emphasizes product or market diversification. They all emphasize product market expansion. This product market expansion goal underlying M&A has not received strong emphasis in previous research (however, see Allen *et al.*, 1981), even though it is related to both the market power arguments of Ellert (1976) and the efficiency arguments of Halpern (1973).

Cluster IV goals suggest that M&A provide a way for managers to *enter new businesses*. For goal 13 in this study the cash flow mobilized through an acquisition is used to gain valuable or potentially valuable assets. Presumably, these assets could be held within an acquiring firm's current business, *or* within another business.

However, goal 13 (in combination with goals 16 and 18) strongly suggests that these firms are motivated to move beyond their current markets and products in merger and acquisition activities. These results are consistent with work by Pitts (1977) and Rumelt (1974).

Finally, the goals in *cluster V* suggest that M&A are a way in which managers *maximize and utilize a firm's financial capabilities*. Each of these goals focuses directly on sources of capital or on the exploitation of capital assets to gain economic advantage. This objective is consistent with the arguments presented by Howell (1970), that *financial synergies* are easier to realize than marketing or production synergies. It is also consistent with the work of Chatterjee (1986) and Lewellen (1971).

Goals and objectives in diferent types of mergers

With the pattern of goals and objective types made explicit in Table 2, it is possible to examine the relative importance of each goal cluster for different conditions (i.e. M&A types). This is done in Table 3. The overall average of the importance of goals for different kinds of M&A was 0.26, with a standard deviation of 0.19. Following methods outlined in Breiger *et al.* (1975), a designation of 'H' (for high) was given to any cell average that is one standard deviation or greater above the overall mean. A designation of 'L' (for low) was given to any cell average one standard deviation or more below the overall mean. Averages within one standard deviation below or above the mean were designated by an 'M' (for medium).

The patterns which emerge from this analysis are quite striking (see Table 3). For *vertical* M&A, objective II is high (mergers are a way managers deal with critical and ongoing interdependencies). Objective V is low (mergers are a way managers maximize and utilize financial capability). The other objectives are moderate. These results are consistent with the transaction cost and resource dependence views that M&A are used by firms to deal with dependency relationships with other firms in their environment (Pfeffer and Salancik, 1978; Williamson, 1975). Note also that vertical mergers are directly linked to a firm's core business activities instead of being primarily 'financial plays'.

For *horizontal* mergers, no clusters of goals emerge as dominant and none emerges as unimportant. Apparently, several different managerial goals can simultaneously motivate horizontal mergers. Chatterjee's (1986) recent work tends to support this interpretation. He argues that horizontal mergers are able to exploit three distinct types of synergies: collusive synergies, operational synergies, and financial synergies. These multiple motives behind horizontal mergers tend to make the market power versus efficiency argument among economists seem a bit futile (e.g. Ellert, 1976 versus Eckbo, 1983).

For *concentric* M&A, objective III (mergers are a way firms expand current markets) is highly rated, while objective V (mergers are a way firms maximize and utilize financial capabilities) is rated low. This is consistent with current enthusiasm for related diversification (Rumelt, 1974). Goal clusters I, II, and IV were rated medium by study participants for concentric M&A.

Finally, *conglomerate* mergers are seen in Table 3 as being motivated very strongly by objective IV (getting into new businesses) and by objective V (maximizing financial capabilities). Just as striking are the very low averages for the other objectives, suggesting that economies of scale and scope (cluster I), managing ongoing interdependencies (cluster II), and expanding current markets (cluster III) are not important objectives in conglomerate mergers. These findings are consistent with research on conglomerate mergers (e.g. Lewellen, 1971; Salter and Weinhold, 1978, 1979; Dundas and Richardson, 1982; Reed and Luffman, 1986). Perhaps of more importance is the indication that conglomerates diversify into new businesses when opportunities in them surpass current internal opportunities. In short, diversification is a consequence of the strategic imperatives of utilizing financial strengths instead of a hedging 'strategy' *per se*.

A summary of the key results of this study is provided in Table 4.

DISCUSSION

This analysis has several implications for the development of a contingency theory of managerial objectives in M&A. First, three merger motives previously cited in the literature *do not emerge* in the current analysis: (1) managers use

Table 4. Summary of importance ratings for major relevant objectives clusters for different types of mergers and acquisitions

Vertical	High	Manage critical dependencies
	Low	All others
Horizontal	High	None
	Medium	Enter new businesses Economies of scale and scope Expand along product lines Manage critical dependencies
	Low	Utilize financial capability
Concentric	High	Expand along product lines
	Low	Utilize financial capability
Conglomerate	High	Utilize financial capability Enter new businesses
	Low	All others

M&A to diversify their employment risk (Amihud and Lev, 1981) or, more broadly, that diversification is primarily driven by hedging motives even in conglomerate M&A; (2) M&A enable the capital market to replace poor management with good management; and (3) M&A reflect managerial hubris (Roll, 1986). This non-emergence may be due to reluctance on the part of study participants to negatively evaluate the motives of managers in mergers or acquisitions, or may reflect reality and the need for further research.[5]

Second, this study's results are consistent with other work on particular goals for specific M&A types. For example, managing resource dependence has particular relevance to firms engaging in vertical mergers (Pfeffer and Salancik, 1978). The finding that no single goal dominates horizontal mergers is consistent with Chatterjee's (1986) suggestion that these types of mergers accomplish several objectives simultaneously. This finding also suggests that one should not look for a resolution of the long-standing debate between 'market power' and 'efficiency' explanations of horizontal mergers. Instead the debate is best interpreted as demonstrating that both of these motives, as well as several others, may be operating in horizontal mergers rather than a single dominant goal. Thirdly, expanding current markets is the dominant motive in concentric mergers and supports the diversification view of Rumelt (1974). Fundamentally different results for concentric compared with horizontal M&A points out that concentric M&A type should not be ignored in research designs, and supports efforts of researchers such as Souder and Chakrabarti, 1984, who have focused on concentric M&A. Fourthly, results for conglomerate acquisitions are consistent with the finance field's emphasis on utilizing financial strengths, and with the finance argument that corporations are limited vehicles for diversifying risk (Lewellen, 1971). If one thinks of conglomerate M&A as a special form of concentric M&A, in which financial strength is the key capability (as in reality it is), then concentric and conglomerate acquisitions appear to tap nearly identical motives: opportunistic expansion or growth.

Finally, while this research extends previous work on particular managerial objectives in M&A, *in one way* it is also consistent with and extends the 'list' approach. This study shows that often the patterning of multiple goals is important in M&A. In vertical mergers goal clusters I, III, and IV are all seen as 'somewhat' important and concentric mergers goal clusters I, II, and IV are all seen as 'somewhat' important. Conglomerate mergers show no goal clusters 'somewhat' important; however, *two* goal clusters are high. This means that, while a particular type of merger and acquisition may be *primarily* motivated by a specific goal or objective, other goals or objectives might also have influence. Thus, while simple lists appear inadequate to the task of unraveling the purpose of corporation action, use of several goals in this study's taxonomic approach does expand understanding of the interaction between corporate strategy and M&A action.

Future research

This research, hopefully, sets the stage for the development of a contingency theory of the

[5] However, discussions with study participants after each ranking task revealed little reluctance to criticize the motives of managers engaging in M&A and explicit conversations about goals (say, goal 18) gives confidence that participants could have dealt with an unpleasant (say, the hubris) issue.

relationship between managerial goals and objectives and merger activity. Future research will need to specify, in more detail, the relationship between particular types of M&A and the patterns of managerial objectives. Both more, and different kinds of, goals and objectives will need to be investigated before a complete contingency approach is developed. More detailed definitions of merger types may also prove useful.

Although the results reported here are provocatively suggestive, and although the research approach has provided a rich data set with which to analyze managerial motives and objectives in M&A, this study has two important limitations. The first is that these results are based on a relatively small sample of 32 M&A specialists. This small sample reflects the relatively difficult and time-consuming data collection process of dealing directly with knowledgeable intermediaries. In this study, large sample size was sacrificed for a more complete and rich data set. In short, although this sample appears to be well placed to be able to judge managerial motives in different kinds of M&A, future research will need to generalize beyond this relatively small sample if the contingency theory mentioned earlier is to be developed.

Second, the design of this research avoided problems which would arise if managers were asked directly about their objectives (e.g. self-justification and social desirability bias). However, the judgements of intermediaries may be at least partially incorrect. Other sources of judgement and other research methods are called for in future research.

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