# General Trends That Led to The Emergence of Mergers and Acquisitions

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**Abstract**

In financial markets, trends refer to long-term movements in a time series and trend estimates are seasonally adjusted through a process based on the observation of average values. Merger and acquisition trends provide an idea of market movements, and merger and acquisition trends are considered to affect the product market, capital market and labor market policies of an economy. Global markets are also heavily influenced by merger and acquisition trends.

**Key Words**: Merger.acquisition.capital.global.economy

**Introduction**

In recent years, M&A (merger and acquisition) activity has globalized at a dramatic pace. As transaction activity has continued on a global scale, certain trends in cross-border M&A activity have begun to emerge. One interesting trend has been that Asia Pacific firms have increasingly targeted the developed markets of North America and Europe for transactions. An Aon Hewitt survey found that nearly 50% of Asia Pacific firms expect M&A activity in North America and Europe. Meanwhile, companies in North America and Europe have continued to seek emerging market opportunities and have targeted transactions in Asia Pacific and South America.[1]

In Europe, although the number of domestic M&As has consistently prevailed, the value and probability of completion of cross-border European Union (EU) transactions have increased dramatically between 2001 and 2007. Acquisitions have continued to be primarily friendly and negotiated through private transactions. These characteristics contrast with the increasing role that hostile transactions through public tender offers have played in the US. In contrast to other regions of the world, research has shown that the effect of industry regulation on European M&A has not had a significant impact on M&A in Europe. Moschieri & Campa (2013) argued that in Europe, "deal attitude and the presence of competing offers are more important for deal completion than deal origin, payment method, or industry regulation."[2] These results suggest that job characteristics may represent a stronger barrier to M&A completion than the creation of a deregulated and homogeneous market in Europe.

Elsewhere, emerging markets have continued to grow and have led the recovery in foreign direct investment (FDI) since 1998. Cross-border mergers and acquisitions (M&As), including those in developing countries, have become a major component of foreign direct investment. Cross-border M&As have had a more significant differential impact on target firm risk than domestic

[1] Aon Hewitt (2011). Culture integration in M&A: Survey findings, Consulting Report.
[2] Moschieri, C., & Campa, J.M. (2013). New trends in mergers and acquisitions: Idiosyncrasies of the European market. Journal of Business Research. Retrieved from http://dx.doi.org/10.1016/j.jbusres.2013.07.018

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acquisitions. Compared with domestic acquisitions, the sample of cross-border M&As showed reduced overall target firm risk in the three years following the acquisition. Even after controlling for local market index volatility, there remained a significant difference between domestic and cross-border M&As in terms of target firm risk after the acquisition.

**M&A Performance Outcomes**

M&A performance outcomes are defined as measures of employee quality (tardiness, absenteeism, and turnover), as well as employee retention, timeliness, complaints, and costs. [3] The research identified in this systematic review of the relevant literature suggests that a high level of cultural integration/assimilation, as well as the ability of the consolidated firm to develop capability-building mechanisms, is a measure of the effectiveness of organizational performance. The level of integration between the two merged firms significantly improves performance, while the replacement of top managers in the acquired firm negatively affects performance. In addition to the level of integration between the two firms, other variables that explain M&A performance are cultural distance, cultural compatibility, cultural fit, management style similarity, cultural change, and cultural convergence or acculturation on the integration of the organization's financial performance.

At the individual level, negative outcomes of socio-cultural integration include: reduced employee productivity and commitment, reduced job satisfaction, high absenteeism rates, increased senior management turnover, and failure to achieve projected organizational synergies. During the post-merger and acquisition (M&A) period, concerns about job insecurity increase significantly, while organizational commitment decreases significantly. During the post-merger period, layoffs are more likely, due to the combination of resources and cost savings. Research also suggests that cultural integration processes during the post-merger and acquisition (M&A) period affect employee turnover rates in M&A. Employee turnover erodes human capital in firms, reduces the performance of the acquiring company, and damages the long-term value of the acquired firm's assets.

Because of the high demands placed on employees involved in M&A integration, job satisfaction can be helpful in maintaining positive employee performance during periods of change when the organization may be vulnerable to employee resistance to change. At the organizational level, low job satisfaction is associated with increased absenteeism, job turnover, reduced task performance, and decreased employee morale. Research has also shown that communication is key to increasing employee job satisfaction during a merger. Existing theory on M&A integration suggests that the organizational and/or national cultures of the merging firms must be similar, or at least complementary, to be successfully integrated. [4]

To ensure the success of cultural integration, leaders are responsible for identifying problems in the organization and taking corrective actions.[5] Merger communications and the organizational plan should be communicated to employees as early as possible. During a merger, employees want to know about their organization's long-term plan because decisions at the strategic level affect the operational level. As a result, organizational strategy needs to be communicated from managers to employees, which can be accomplished through e-mail, newsletters, spokespersons, and meetings. Leaders in high-tech organizations use the narrative of technological determinism—the belief that social progress is driven by technological innovation, which in turn follows an "inevitable" course within the organizational framework—as a discursive practice in which they invoke the "inevitability" of technology to justify managerial decisions in order to prove to the public that organizational change is inevitable.

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[3] Cameron, K. S. (1998). Strategic organizational downsizing: An extreme case. Research in Organizational Behavior, 20, 185-229

[4] Cartwright, S., & Cooper, C. L. (1996). Managing mergers, acquisitions, and strategic alliances integrating people and cultures (2nd ed.). Boston, MA: Butterworth- Heinemann.

[5] McEntire, M.H., & Bentley, J.C. (1996). When rivals become partners: Acculturation in a newly merged organization. International Journal of Organizational Analysis, 4(2), 154-174.

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Picture1: ilustration, managerial decisions lead to organizational change [6]

**Mergers and Acquisitions as a Current Business Phenomenon**

Mergers and acquisitions (M&A) have become an important business strategy that helps improve organizational performance. In fact, mergers and acquisitions have been identified as one of the key strategies to help organizations compete in the global economy. Mergers and acquisitions have become attractive business strategies that are widely accepted and used across industries and global businesses. In order to compete effectively in the global economy and retain market share, organizations must find ways to operate more efficiently and remain profitable, adaptable, and flexible. [7] The literature suggests that these organizational goals could be achieved through mergers and acquisitions.

The terms "merger" and "acquisition" are often used interchangeably, although they have different meanings. A merger occurs when two organizations willingly agree to cooperate by combining assets, liabilities, and cultural values on an equal basis across different industries and businesses. Indeed, "a merger is the joining and integration of two previously discrete entities."165[8]

[6] https://media.licdn.com/dms/image/v2/D4E12AQFuiZ-PEV1XTQ/article-cover_image-shrink_720_1280/article-cover_image-shrink_720_1280/0/1662769910781?e=2147483647&v=beta&t=3o_KPvpeH5Y975LMdxykR0mD1Q8hiQrobNZ8_msUcP4
[7] Daniel, T.A., & Metcalf, G.S. (2001). The management of people in mergers and acquisitions. Westport, CT: Quorum.
[8] Horwitz, M.F., Anderson, K., Bezuidenhout, A., Cohen,S., Kirsten, F., Mosoeunyane, K., & Van Heerden, A. (2002). Due diligence neglected: Managing human resources and organizational culture in mergers and acquisitions. South African Journal of Business Management, 33(1), 1-10.

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Mergers can be viewed as the consolidation of two separate firms into a new entity. An acquisition occurs when one organization purchases and takes over the operations of another organization and establishes itself as the new owner. The acquired company ceases to exist, and the acquirer continues to operate and continues to trade the shares of the acquiring company. Horvitz et al. (2002) stated that an acquisition occurs when one firm acquires enough shares to increase its level of control over the other organization and gain ownership of it. From the perspective of employees, a merger or acquisition event can create uncertainty, change, and job loss. However, there are differences between mergers and acquisitions.

Picture 2: Ilustration types of mergers [9]

In an acquisition, power is significantly transferred to the new parent company. The change is usually rapid and often hostile as the acquirer imposes its own control systems and financial constraints. The companies that are acquired in a merger tend to be evenly matched in terms of size, as well as in the power and cultural dynamics of the combined companies. In mergers, however, because of the extended period of time between the initial announcement of the merger and the actual integration, uncertainty and anxiety continue for a longer period of time as the organization remains in a state of ambiguity.

M&As can be categorized as “friendly” or “hostile,” and the criteria behind them vary. In both cases, the role of the board of directors is a decisive factor. In a hostile M&A, after a tender offer is presented to the Board, the Board evaluates the offer and decides whether it is beneficial for the shareholders to accept or reject it. The decision is made not only in the interests of the shareholders, but also examines other areas, such as the national and state economy, the long-term and short-term effects of the transaction, and the benefits of remaining independent. For example, if the board finds the tender unacceptable, it rejects the offer. If the management team of the acquiring company does not agree to the deal, then the M&A will be considered hostile and is therefore said to have occurred.

In the case of a friendly M&A, the Board approves the offer presented by the acquiring firm. Both the acquired and acquiring companies monitor each other's interests and decide to merge. As such, the decision is made by agreement between the management of the two companies, guided by considerations of synergy, creating greater value for shareholders, and improving cooperation between the acquired and acquiring companies. Mergers and acquisitions are a current business phenomenon that most multinational business systems use as a means by which companies try to strengthen their competitive advantage in the global economy. Empirical research has suggested that there is a significant correlation between the size of the newly consolidated

[9] https://cdn.prod.website-files.com/5a710020b54d350001949426/612a6ac9e84a8fbc676477c1_M%26A%20project%20management-p-1080.webp

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organization and its maintenance of a high standard of performance. It is assumed that the consolidated organization would be financially stronger than if it remained separate.

Acquisitions increase the efficiency of the market for corporate control and have been found to contribute significantly to the success of mergers. Birkenshav et al., (2000) argued that by dividing the M&A integration process into task integration and people integration, the authors were able to show how each element took on different forms of logic as the M&A process unfolded. Task integration is measured in terms of the transfer of capabilities and the sharing of resources; while people integration is measured in terms of the shared development of identity and positive attitudes of employees towards the new organization. However, according to the authors, the study of human factors during the M&A integration period must not diminish task or logistical integration. The knowledge gained from successful people integration can be used in conjunction with task integration and serve as guidance for M&A integration leaders during the integration process.

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