CONTRASTING MERGERS AND ACQUISITIONS IN BOOM AND BUST PERIODS: AN EMPIRICAL INVESTIGATION OF DECISION CONTEXT, PROCESSES AND OUTCOMES[1]

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CONTRASTING MERGERS AND ACQUISITIONS[2] IN BOOM AND BUST PERIODS: AN EMPIRICAL INVESTIGATION OF DECISION CONTEXT, PROCESSES AND OUTCOMES

ABSTRACT

Research on Mergers and Acquisitions has attracted significant interest over the past three decades. An impressive body of knowledge has been accumulated. Following recommendations by Haleblian, McNamara, Carpenter and Davison, this paper examines whether the new regulatory environment (e.g. SOX) and the stock market recession of the period 2000-2003 had any impact on the performance, the motives and the processes of M&As. To do so it draws on two samples, one referring to the period 1997-1999 (M&A boom period) and the second to the period 2000-2003 (M&A bust period). The results indicate that the motives for M&As differ between boom and bust periods. However, no statistically significant difference exists in the performance (both financial and non-financial) of M&As. Results consistently indicate that approximately 60% of M&As fail, irrespective of boom or bust period. This is a striking result that can be attributed to the fact that acquiring companies did not change the processes that they followed, both before and after the deal closure. Implications for theory and practice are discussed.

[2] Following other researchers, the terms merger and acquisition (M&A) are used interchangeably in the current paper.

INTRODUCTION

The value of worldwide Mergers and Acquisitions (M&As, hereafter) has attracted a considerable amount of academic and professional attention. Relevant literature suggests that the past century has witnessed five major M&A waves[1]. The fifth wave ended in 2000, where the value of worldwide M&As hit a peak, reaching $3.4 trillion. This high value went down by 50 per cent in 2001, sank again in 2002 and remained flat in 2003.[2] The situation was reversed during 2004; where by the fourth quarter more than $ 1.9 trillion worth of deals were announced.

Researchers in their attempt to explain the key forces of the five M&A waves have put forth two broad theories[3]. The first one is concerned with the financial forces that drive M&As. According to this perspective, often labelled as the "market-driven" hypothesis, there is a positive correlation between the stock price of the acquiring firms and the M&A activity.[4] This positive relationship suggests that the rising stock prices increase the possibility of raising funds for conducting M&As and enhance the stock swapping (exchange of stocks between the acquiring and the target firm)[5]. It has been argued that the stock market boom was a key force behind the fifth wave. As far as the second theoretical perspective is concerned, real economy forces such as technical advances that facilitate economies of scale and scope and deregulatory changes that permit entry into more profitable sectors enhance the development of an M&A wave.[6]

Analysts suggest that both financial and economy forces contributed to the downward trend of M&As observed over the period 2001-2003.[7] More specifically, the *stock market crash of the main US and European Exchanges*, during the period 2001-2002, where the returns for both European and US exchanges were negative

(34% and 32%, respectively) [8] impacted negatively on the volume and value of M&As, as it stopped the stock "swapping" of the 1997-2000 period.

The second institutional factor is the new regulatory environment which came as a result of large corporate financial scandals, including companies like Enron, WorldCom, Global Crossing and Arthur Andersen. The aforementioned scandals, affected negatively the financial markets, and investors lost their trust to financial statements. To prevent the existence of similar accounting scandals in the future, a new law was passed in the US in July 2002, named Sarbanes_Oxley (SOX). The enactment of SOX created a new business environment with huge consequences for companies. One of the most important is that it has altered the landscape of M&As as it has stretched out the normal due diligence process.[9] In case of acquisition of a private company, the acquirer must check during the due diligence period, whether the target is SOX-Compliant or not, as the responsibility after the deal is passed to the acquirer. If the target is not SOX compliant, then the acquirer will have to spend time and resources in order to make the target compliant with SOX. This is the reason why many Public Companies hesitated to acquire private firms after the enactment of SOX. The regulatory environment has also changed in Europe. Two recent corporate scandals (Royal Ahold and Parmalat) showed that Europe is in need of similar regulation. Some country laws have started to be "SOX-Like". An example is the Italian 231/2001, which clarifies the responsibility of top management in the case of frauds.[10] Such laws have also contributed to the downward trend of M&As which was observed in Europe from 2000 to 2003.

Finally, the third factor which seems to have affected negatively the volume and value of global M&As is the recession of the western economy which was observed after 2000 due to the after effects of the "dot.com" burst and the terrorist attack of 11 September. This downturn in the global economy which continued until the end of 2003 is one of the reasons why the volume and value of M&As decreased.[11]

To conclude, what we observe is that the fifth M&A wave, collapsed in the end of 2000, and was followed by a merger bust period which lasted until the end of 2003. During the merger bust period a series of regulatory changes took place which are responsible for the decreased M&A activity. Haleblian et al. in their very recent review on M&As argue that they found no study examining directly how and if these regulatory and/or financial changes have influenced acquisition performance[12]. They also urged future researchers to consider the effects of SOX and other regulatory changes on M&A characteristics and performance.

With these considerations in mind, we designed an exploratory study to investigate whether M&As that took place in the merger boom period (pre SOX time) are different from the M&As of the bust period (post SOX time). The current paper based on two multi-method studies aims to trigger empirical work in this area by examining the following questions: Are there any differences with respect to the motives for M&As between boom and bust periods? Do acquiring firms follow different processes both before and after the deal closure during boom and bust periods? Moreover, are M&As more successful in the bust or the boom periods?

The research took place in Greece, a country in which M&As flourished during the period 1997-1999 ("boom" period) and decreased dramatically in number during the period 2000-2003 ("bust" period). Greece's environment favoured for many years the internal development of companies. The existence of monopolistic sectors such as telecommunications, air transportation and energy, the relative low number of listed firms in the Athens Stock Exchange and the great number of state-owned enterprises discouraged the development of M&A waves in the 1970's and the 1980's[13]. However, the deregulation of several industries, the privatization of the majority of the Greek state-owned enterprises and the stock market boom observed from 1997 to 1999, created the first huge M&A wave in Greece[14]. It should be noted that this M&A wave ended with the stock market crash at about year 2000 (table 1, exhibit A shows the progress of the main index of the Athens Stock Exchange).

Apart from examining the above research questions, our unique data set enables us not only to bring evidence from a country outside the US or the UK context, but also to discuss the potential impact of national culture on M&A process and outcome. Finally, to the best of our knowledge the research question we deal with has never been explored empirically in any context. As the global financial crisis is hopefully heading towards its end, it is the perfect period to explore research questions like those posed in the present paper.

THEORETICAL BACKGROUND

Research on M&As has grown rapidly during the last three decades. Some academics have attempted to classify studies on M&As into streams of research[15]. According to the discipline from which they originate, M&A studies can be clustered into four major categories.

Economic Scholars represent the first major category of M&A researchers. Researchers of this stream have focused on the motives for acquisitions[16] and have evaluated the performance of M&As using accounting-based measures.[17] *Finance Scholars* constitute the second major category and have examined the performance of M&As using stock market based-measures. [18]

Strategic Management Scholars represent the third category. Research from this stream can be clustered into four sub-categories. In the first sub-category, researchers have examined the consistency of the M&A to its business strategy [19] while in the second one, they have examined the motives for M&As.[20] The third sub-category has examined the process of conducting an M&A[21] while the last one includes papers that offer prescriptive advice on how to conduct more successful M&As in the future.[22] Additionally, we find many studies in the strategic management literature examining the post-M&A performance.[23]

Finally, the fourth category of researchers includes *Behavioural scientists* who have examined the so-called "soft" issues of M&As. They have examined in more depth the role of culture[24] and various Human Resource Issues in M&As.[25]

From the aforementioned, we conclude that researchers tend to focus on one or a few aspects of the M&A "phenomenon". Researchers argue that the absence of integrative frameworks is probably responsible for the lack of understanding that we have on what actually influences the success of an M&A.[26] As M&As are multifaceted phenomena we need frameworks that combine previous fragmented approaches.

Putting M&As into a new research perspective

So far it has been argued that, all these partial approaches in the literature have possibly blocked us from achieving a complete understanding on the M&A "phenomenon". Hence, putting M&As into a new research perspective appears to be imperative.

Child, Faulkner and Pitkelthy argue that "*M&As are among the most important strategic decisions companies ever make*"[27]. Due to this, we support that to improve the current level of knowledge on M&As we should turn to the strategic decision making research where integrative models have already been put into practice and have produced interesting findings. Our purpose is to bring together two research streams which are close to each other but have been studied and developed independently.

By reviewing the literature on strategic decision making, we find that researchers, who have attempted to study Strategic Decisions holistically, have dealt with three broad categories of factors.[28] These are the broader context, the process followed and the organisational outcomes. The rationale behind this typology is that the context shapes the process and this in turn influences the organisational outcomes. Thus, we decided to examine whether there exist differences in the M&A decision context, in the processes followed and in the M&A performance between "boom" and "bust" periods. In the following paragraphs we develop our research questions starting with the M&A decision context.

M&A Decision Context

Context refers to factors that shape the process that managers use to formulate and implement a decision. Context represents the "why" of strategy and is further separated into the "outer" (social, economic, political and technological environment in which the firm operates) and the "inner" context (i.e. structure and culture of the organization).[29] In addition, Pettigrew suggests that research should consider the role and significance of the nature of the decision problem in shaping the process.[30] Past research indicates that the decision context as opposed to other layers of context such as the environmental, the organizational or the characteristics of the Top Management Team, affects more the process of making strategic decisions.[31] To date, the relationships between decision-specific factors and decision process characteristics have received limited attention as researchers approach the "nature" of the decision partially and there exists no consensus on the operationalization of these constructs.[32]

With respect to the M&A decision context, research has provided evidence that different motives for M&As require a different extent of integration (post-M&A process).[33] For instance, in conglomerate acquisitions where the major motive is to achieve financial synergies, the level of integration is lower compared to horizontal acquisitions where the major motive is to achieve economies of scale.[34] Among the most frequently mentioned motives are the achievement of scale economies, the creation of value for shareholders, the spread of financial risk and the increase of market power. [35]

Additionally, despite the central role that M&A motives have received in the literature, we know very little as to whether they differ between "boom" and "bust" periods. Taking all these into consideration, the following research question will be explored:

Research Question 1: Is there a difference in the decision context (motives) of M&As between boom and bust periods?

M&A Process

The study of the process of strategy making has received a central role in the management research, making it difficult to be described with a single paradigm.[36] Some well-known definitions of process come from Pettigrew who states that "*process is a sequence of individual and collective events, actions and activities unfolding over time in context"* and De Wit and Meyer who argue that *"process is about the manner in which strategies come about"*.[37] The idea that the acquisition process is important and needs to be studied in greater depth was introduced by

Jemison and Sitkin.[38] They suggested that the choice perspective which dominates the literature on M&As should be supplemented with a process perspective which may be the most important antecedent of acquisition success.

Since then, many researchers have investigated specific dimensions of the M&A process. The majority of studies have dealt with the *post-M&A integration* process based on the premise that "*all value creation takes place after the acquisition"*.[39] Several variables have been studied such as the existence of a communication programme, the frequency of communication, the speed of changes, and the Top Management Turnover following acquisitions.[40] All these variables have been found to exert an influence on the successful implementation of a deal. For instance, *the existence* and the *increased frequency of communication* to employees contribute to the success of an M&A by reducing the uncertainty of employees.[41] In addition, *rapid integration* is positively linked to the success of an M&A while the opposite is the case when high *Top Management Turnover* exists. [42]

Another smaller line of research has examined *pre-M&A actions* such as the pre-M&A planning, the due-diligence process and the premium paid.[43] All the aforementioned variables have been found to have an impact on the successful implementation of M&As. For instance, the existence of an in depth *due-diligence* referring to both financial and non-financial aspects of the target firm and the existence of a *pre-M&A plan* influence positively the success of a deal.[44] On the other hand, high *premiums* may be associated with less successful M&As.[45]

In our view, the above approaches do not approach the M&A process as a multidimensional phenomenon as they focus either on the formulation (pre-M&A actions) or the implementation of an M&A (post-M&A actions). However, as Pettigrew stresses, in order to understand strategy process we need to study both the formulation and the implementation of a decision as well as the broader context in which it is unfolded. [46]

Furthermore, some business analysts and academics have reported that there exist differences in the M&A processes followed between “boom” and “bust” periods[47]. For instance, Henry et al. report that in the after-2000 bust period, acquiring firms pay on average lower premiums[48]. Also, Mandami and Noah argue that the speed of deal closure may be slower in the post-SOX environment as acquirers have to examine additional variables[49]. However, these studies are of theoretical nature and cannot be used as a reliable basis for developing specific hypotheses to be tested. Therefore, we will explore the following research questions:

Research Question 2: Is there a difference in the processes followed before the M&A between boom and bust periods?

Research Question 3: Is there a difference in the processes followed after the M&A between boom and bust periods?

Post-M&A Performance

One of the most researched questions is that of whether M&As are successful or not. Despite the great number of papers that have dealt with this issue, our knowledge on the performance of M&As appears to be incomplete.[50] In the words of Zollo and Singh even today there “*exists considerable heterogeneity with respect to the definition of the performance and to its measurement*.[51] As far as the definition of the performance is concerned, the majority of studies have examined the impact of an M&A on the acquiring firm [52] while fewer studies have focused on the impact of an M&A on the target firm.[53] Results indicate negative returns for the acquiring firms while the opposite is the case for the target firms.

As far as the measurement of performance is concerned, the available body of research can be classified into three groups. The first group has examined the post-M&A performance relying on accounting based measures. Results from this group of researchers appear to be mixed although no clear evidence of improved post-acquisition performance exists.[54] The second group of researchers measure the performance of an M&A using stock-market based measures. The majority of these studies measure the stock market-price changes surrounding acquisitions[55] while others have examined the long-run performance of acquiring firms after acquisitions. Both short and long run studies find no evidence of improvements in shareholder wealth after acquisitions.[56]

Finally, a large proportion of researchers rely on subjective criteria such as managers' retrospective assessments regarding the materialization of the original goals before the M&A.[57] Results of this stream report failure rates around 50%.

Concluding with the post-M&A performance, recent empirical studies suggest that future empirical work on M&As should employ multiple performance criteria both objective (e.g. accounting, stock-market returns) and subjective (e.g. managers' retrospective assessments regarding the materialization of the original goals set before the M&A).[58]

As in the decision context and process, we are not aware of any empirical study examining whether M&As are more successful in "boom" or "bust" periods. Therefore, we will explore the following research question:

Research Question 4: Is there a difference in the M&A success rate between boom and bust periods?

RESEARCH METHODOLOGY

Data collection-sampling Issues

To achieve our research objectives, we designed two studies. The method followed in both cases can be characterised as multimethod, in-depth field research study.[59] The data sources for both studies include: 1) Semi structured interviews with the most knowledgeable manager. We initially contacted by phone the CEO of the acquiring firm as he/she is considered to be the most knowledgeable informant in such cases and explained the purposes of the research. We then requested his/her participation in our research. In cases where the CEO was unavailable to participate in the research, we asked him/her to name the key respondent with the most intimate knowledge of the acquisition process. We then contacted this informant and requested for his/her participation in the research. Overall, around 67 per cent of the responses came from CEOs, 19 per cent from CFOs and the rest 14 per cent from marketing directors. Interviews were conducted in the working space of the respondents and they lasted from two to four hours. We followed the "funnel-sequence" whereby the interview typically started with a semi-structured discussion, primarily based on a number of open-ended questions. When this 'informal' discussion was completed, interviewees were handed the questionnaire designed to measure the majority of the variables reported here. 2) Supplementary data from archival sources (e.g., annual financial statements, internal documents, reports). In both studies we examined only friendly acquisitions, which represent the dominant type of M&As in Greece.[60]

Sample considerations

The population of the first study is composed from all the Greek companies that proceeded in domestic M&As during the period 1997-1999. Strategic alliances and participation of less than 51 percent in the company's capital are excluded. Thus, the population of the first study consists of 243 M&As. In order to avoid distortion problems as we will explain in the reliability and validity section, we designed to study only one M&A per company. This leaves us with a population of 143 M&As drawn from 13 industrial sectors. We studied 72 M&As which indicates a response rate close to 50%. In addition, since we evaluate the performance of M&As with accounting criteria and adjust for industry effects, we decided to exclude from our sample non horizontal acquisitions. Thus, our sample consists of 63 M&As.

Regarding the population of the second study, it is composed from all the Greek companies that proceeded in domestic M&As during the period 2000-2003. It consists of 119 M&As drawn from 12 industrial sectors. We studied in total 36 M&As which indicates a response rate of 43.2%. We further excluded two cases from the sample which referred to unrelated acquisitions. Thus, the sample size of the second study consists of 32 M&As.

Table 2 (Exhibit A) presents a list of the industries and table 3 refers to the relative size of target to acquirer.

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Reliability and Validity Considerations

A study based on participant recall may have inherent limitations.[61] A number of procedures have been suggested to help reduce their impact, including the use of multiple informants.[62] Even these methodologies do not guarantee objectivity. The nature of the present studies (in-depth interview with key participants, data from archival sources), the idiosyncrasies of the samples (few key informants in each M&A) as well as the enormous amount of effort to obtain even a single informant to discuss in depth often delicate matters, relating to an M&A, made it difficult to use multiple informants per M&A and to aggregate their responses. In addition, relying on a single respondent keeps in line with the vast majority of M&A studies[63]

However, several tactics were followed in both studies in an effort to alleviate possible biases.[64] First, archival records documenting the M&A process and its characteristics were collected prior to each main interview. Second, particular caution was exercised to minimize distortion and memory failure problems by selecting recently taken M&As, by interviewing only major participants and by cross-checking interview data against other sources. Furthermore, another major consideration was the minimization of *common method bias*. To correct for such effects, we took the following precautions. First, M&A performance is measured with both objective (we calculated ROA from the annual financial statements) and subjective (managers' retrospective assessments regarding the effective materialization of 12 financial and non financial objectives, which were set before the deal closure). Second, we assured respondents that their answers will be treated with confidentiality and that there are no right or wrong answers. This procedure reduces the likehood that respondents will edit their responses so as to be more socially desirable and consistent with how well they think the researcher wants them to respond[65]. Third, the items used in the analysis were distributed through a lengthy questionnaire. Fourth, scale anchors were reversed in several places to reduce and compensate for the development of response patterns.

Operationalization and measurement of variables

In the present study, we made an effort to use well-known and tested measures of the main variables when possible. As far as the decision context is concerned, we evaluated the significance of five *motives* for M&As. As far as the process is concerned we distinguish between pre-M&A actions and post-M&A actions. As regards pre-M&A process, we measure the existence of a *pre-M&A plan*, the *premium* paid, the *speed of deal closure* and the quality of the *due-diligence process*. As regards post-M&A process, we measure the existence of a *communication programme, the percentage of employees laid off*, the *speed of changes* and the *Top Management Team turnover*. Finally, responding to recommendations for multiple performance criteria we employed one objective (*return on assets*) and one subjective (*managers' retrospective assessments* regarding the success of an M&A) criterion. The operationalization of the above-mentioned variables as well as relevant papers using them is described in Exhibit B. We also discuss issues of internal reliability.

RESULTS

Table 4 reports the results of the study. We conducted independent sample t-tests in order to contrast and identify differences in the M&A motives, the processes followed and the M&A outcomes between boom and bust periods.

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Decision Context-M&A Motives

From table 4, we observe that with the exception of one motive, i.e. economies of scale, all the others differ between boom and bust periods. More specifically, in the boom period, acquiring firms appear to be more interested in *creating shareholder value* and in *spreading the financial risk* and *achieving financial synergies*. This result is in accordance with the relevant literature. Golbe and White suggest that there is a positive relationship between stock prices and M&A activity[66]. In a similar vein, Shleifer and Vishny argue when the market's valuation is higher than a firm's fundamental value, managers have a motive to gain profits through M&A transactions. [67] Moreover, Holmstrom and Kaplan argue that the run-up in stock prices in the late 90's created incentives for sort-sighted actions by managers[68]. Thus, in the bust period financial motives appear to be less significant.

As far as pursuing market power is concerned, we observe that this motive is less significant in the "merger bust" period. This result is interesting as it contradicts the relevant literature in which it is argued that nowadays companies are in favour of consolidated-oriented transactions. [69]

The third motive examined is the creation of economies of scale. From table 1 we reach the conclusion that this motive is equally important in both periods. Schuler and Jackson argue that one of the major reasons why related M&As take place is the achievement of economies of scale. [70] Our study examines only horizontal acquisitions. Thus, it follows logically that the motive of achieving economies of scale is similarly important in boom and bust periods.

Finally, we observe that M&As during the boom period were driven more by the desire of the acquiring firms to improve their competitive position by buying target companies before a competitor does.

Pre-M&A Process

Regarding pre-M&A process, we observe that acquiring firms did not change the processes that they followed before the deal closure. More specifically, the percentage of companies that created *written plans* before the acquisition referring to changes on aspects of the target firm such as organizational structure, production processes, employees and production portfolio is at equal levels for "boom" and "bust" periods. In addition, descriptive results show that, in the "boom" period, approximately 54%

of the companies created a detailed written plan, percentage which is 57% in the "bust" period. These figures are particularly worrying given that the existence of a detailed pre-M&A plan has been found to contribute to the success of an M&A. [71]

Regarding the *premium paid,* results indicate that it does not differ statistically between the two periods. This result contradicts assumptions from non-academic sources which suggest that companies after 2000 pay on average lower premiums. [72]

As far as the *speed of deal closure* is concerned, results show no significant difference between the two periods. This questions the relevant literature in which it is argued that in the post-SOX environment the speed of deal closure should be slower as acquirers have to examine additional variables. [73]

Finally, we reach the conclusion that there exists no statistically significant difference between the two periods with respect to the *quality of the due-diligence process*. This result is not in line with the relevant literature in which it is argued that the due-diligence process has obtained a new meaning in the Post-SOX environment.[74] For instance, Henry et al. argue that in this new environment acquirers tend to approach target firms with a lot more care and conduct a more thorough and effective due-diligence analysis. Our results suggest that this is not the case in the Greek context. It should be noted that for both periods the means of the composite variable quality of due-diligence process are close to 4, showing that overall acquiring firms have done a relatively effective due-diligence analysis.

Post-M&A Process

Similar are the results for post-M&A process. We see from table 1 that acquiring firms followed the same post-M&A processes in boom and bust periods. Starting with the existence of a *communication program***,** our descriptive results suggest that 40% and 37% of the companies during the "boom" and "bust" period did not create a formal communication programme. These results are of great importance given the fact that the existence of a communication programme contributes to the successful implementation of a deal.[75]

In a similar vein, no differences were found with respect to three variables i.e. *speed of changes regarding employees*, percentage of *employees* laid off and *Top Management turnover* which refer to the integration of Human Resources. With respect to the latter, our descriptive results indicate rates of 30% and 24% for “boom” and “bust” periods respectively, very close to the average 24% reported in the literature[76]. These top management turnover rates may be an indication of a high M&A failure rate as research suggests that the higher the percentage of executives voluntarily leaving after an M&A, the higher its failure rate. [77]

Post-M&A Performance

Finally, both financial statements and managers’ retrospective assessments indicate that the percentage of failed M&As does not differ significantly between boom and bust periods. Regarding *Return on Assets*, approximately 56% and 65% of the companies during the “boom” and “bust” period respectively saw their financial condition deteriorating two years after the M&A. These results are in line with results of other studies coming from the US and the UK which have evaluated M&A performance with accounting criteria. [78]

As regards managers’ subjective assessments, around 63% in the boom and 64% in the bust period of the top managers participating in our research expressed the opinion that the acquisition did not meet their initial expectations on 12 financial and non financial indicators. These percentages are particularly worrying if we take into account that studies from both the US and the UK have reported it to vary from 44% to 53%. [79]

DISCUSSION

Our empirical evidence shows that the performance of acquisitions as gauged by two alternative criteria (ROA and managers' retrospective subjective assessments) was not improved during the bust period. To further explore this finding we compared the processes that companies followed both before and after the deal closure. In all cases we examined for changes in variables that have been found in other studies to exert an influence on the successful implementation of a deal. Again, no statistically significant changes were observed in pre and post M&A processes between boom and bust periods.

This is a very interesting result for two specific reasons. On the one hand, it contradicts assumptions form non academic sources according to which in the post 2000 period acquiring firms appear to have learned important lessons from the failures of the past, conduct a more thorough due-diligence, pay lower premiums and spend more time during the integration phase[80]. It is also against the results of a recent empirical investigation in the USA according to which there is a negative relationship between the enactment of SOX and firm's strategic risk taking, suggesting that firm strategy has become more conservative under the new regulatory change[81]. Our study revealed no changes in the bust period as regards process variables such as speed of deal closure, pre-M&A planning, premium paid, communication program, speed of changes regarding employees, percentage of employees laid off etc.

On the other hand, this result casts doubt on the findings of studies coming from the strategic decision making field of research where the decision context plays a dominant role is shaping strategy process[82]. Indeed, we showed that the M&A

decision context (motives for M&As) is different between boom and bust periods. In addition, research suggests that different M&A motives require a different extent of M&A process (integration). Thus, we expected acquiring firms to follow different processes in the bust period.

Why Greek acquiring firms did not change the processes that they followed despite the fact that they had different motives? We have reasons to believe that this is probably attributed to the national setting of the study. Traditionally, the environment of Greece favored in the 1970's and the 1980's the internal development of companies. The first M&A wave made its appearance in the end of 1990's. It seems that Greek firms did not change the processes that they followed due to the lack of experience in developing elaborate systems to conduct successful M&As.

Evidence from the interviews we conducted is consistent with this view. For instance, a CEO of a large financial institution mentioned *"Greek firms on average do not possess a well documented acquisition program. They examine the environment and whenever possible they proceed to ad hoc acquisitions without having developed an articulated acquisition strategy".* Hence, the phenomenon of "serial acquirers" such as Oracle, IBM and Cisco Systems which conduct multiple acquisitions usually organized around some business logic is very rare in Greece. [83]

Furthermore, results from past empirical research seem to provide support to this argument. For instance, Spanos et al. argue that Greek firms follow less formalized decision making processes in comparison to multinational firms operating in Greece[84]. This might be an indication that Greek firms approach acquisitions in a more intuitive way than rational manner[85]. Nikandrou and Papalexandris further support this point by arguing that different HRM practices are adopted by Greek and non- Greek firms in their attempt to integrate and manage an acquisition.[86] A possible reason for this is that Greek firms follow less formalized processes and lack adequate M&A experience that would enable them to develop routines for screening and purchasing companies. Our data show that the average company in our sample had conducted only 2.16 M&As on the average before the M&A that we studied.

A second reason why acquiring firms did not change their post-M&A integration processes as regards the integration of their human resources is possibly related to the legal status of the country. Employment laws in Greece prohibit companies from laying off more than 2 percent of their employees per month[87]. Furthermore, traditionally in Greece companies due to socio-cultural reasons and to the increased bargaining power of labour unions tend to proceed with caution in employee-downsizing programs and avoid massive layoffs. As a result, Greek firms involved in M&As tend to prefer outplacement, redeployment, and voluntary redundancies as methods to reduce employees instead of firing them.[88] Thus, employee reductions are not used as a cost reducing measure in acquisitions[89]. For all the above reasons, it seems that acquiring firms followed the same post M&A processes as regards the integration of their Human Resources. Our descriptive statistics seem to verify the above arguments. The percentage of employees laid off within the first year following the deal closure is only 5 percent for the boom period and 4 percent for the bust period. Moreover, the average period needed for the changes (e.g. transfers, layoffs) in both periods is between 7 and 8 months. Presumably, this is a rather slow pace of change.

Another interesting finding is that of the high failure rates that we see in both boom and bust periods. It seems that Greek companies do not learn from mistakes. The question is whether this is just a Greek phenomenon. Unfortunately, despite the huge body of knowledge that has been accumulated during the past three decades it seems that the international literature reports consistently high failure rates. Of course there exist a few M&A champions (e.g. Cisco Systems, General Electric and others) who seem to have mastered the process of M&A and are able to show above average success rates. However, the average success rates reported in M&A studies are consistently low. In fact we also have striking failures (e.g. the merger of Daimler Benz with Chrysler, the AoL-time Warner merger and many others). All this empirical evidence shows that companies, irrespective of national context, do not learn from past M&A failure and do not behave differently when the external context in which M&As take place changes. Therefore is seems that our findings are not related just to the Greek context, but that they can be generalized. However, it would be interesting if the international research could provide support or refute our findings. To the best of our knowledge no similar research exists to date.

Conclusions, Limitations and Possible Extensions

Following the recommendations of Haleblian et al, this paper attempted to examine whether the new context (e.g. regulatory changes such as SOX and the stock market crash of 2001-2003) influenced acquisition performance[90]. It is the first time that such an empirical comparison is attempted in the literature. The contribution to knowledge is that it rejects some assumptions from non-academic sources which argue that after 2000 acquiring companies proceed with more caution, pay lower premiums and overall they conduct more successful M&As.[91]

Another contribution is that in order to explain the lack of change in the performance of acquisitions, we turned to the strategic decision making research and took into consideration the role of decision context and M&A process (both before and after the deal closure). Results showed that although the decision context is different, companies continue to approach acquisitions similarly in the bust period. This finding contradicts results from the strategic decision making field of research and seems to be related to the national setting of the study.

Finally, opposed to the vast majority of acquisition research which still focuses on large publicly traded US firms using quantitative archival data, we conducted two multi-method in-depth field of studies in a non-Anglo setting.

The results must be interpreted bearing in mind some limitations. First, they are representative of the Greek context where SOX had a less direct influence on M&As. It would be particularly interesting to see whether they are replicated in other countries (e.g. USA, UK) where SOX had a more direct influence. The second limitation is that as in Devers et al. study[92], the limited time passed since the enactment of SOX prevented us from evaluating the long-term impact (if any) on the acquisition performance. We believe that this can be a fruitful avenue of future research.

Another limitation is that our respondents were CEOs or executives from the acquiring firm who had been highly involved as senior managers of the acquisition process. We acknowledge that we questioned only managers from the acquiring firm and did not survey executives from the target firm. Practical considerations such as the high level of acquired firm Top Management Team turnover and the fact that in some cases the acquired firm was integrated to the acquirer precluded us from surveying executives from the target firm. Nonetheless, recording only the acquirers' view of the acquisition is in line with the overwhelming majority of previous work on the subject[93]. Future studies should also examine the opinions of the executives of the target firms.

Finally, this study employs a rather simple statistical technique (t-test). The sample sizes although relatively large given the difficulties associated with a multi-method study like this and the size of the population, did not allow us to use more advanced statistical techniques such as Structural Equation Modeling. Future researchers should consider gathering data from larger samples and use more advanced statistical techniques.

TABLE 4
Results of the study

Variables	**M&A Boom period**		**M&A Bust period**		**t-statistic**
M&A Motives	**Mean**	**SD**	**Mean**	**SD**	
Create Shareholder value	5.59	1.50	4.28	1.82	3.73***
Spread financial risk and achieve financial synergies	3.71	1.93	2.69	1.49	2.64**
Pursue market power	6.03	1.63	5.19	1.84	2.29*
Achieve Economies of scale	5.25	1.70	5.38	1.56	-0.34
Improve the competitive environment	4.83	1.72	4.00	2.17	2.02*
Pre-M&A Process					
Pre-M&A planning	1.86	1.32	1.68	1.28	6.63
Premium paid	4.19	1.06	4.22	1.13	-0.12
Speed of deal closure	6.44	4.19	8.00	5.58	-1.52
Quality of the due-diligence process	3.98	0.49	3.89	0.59	0.74
Post-M&A Process					
Communication programme	0.60	0.49	0.63	0.49	-0.20
Speed of changes	3.89	2.20	3.94	2.08	-0.10
Percentage of employees laid off	0.05	0.16	0.16	0.09	0.55
TMT Turnover	0.31	0.38	0.23	0.29	1.12
Post-M&A Performance					
Financial Performance (ROA)	-0.05	0.50	-0.05	0.11	-[III]
Managers' subjective assessments	-0.26	0.54	-0.29	0.73	0.28

Note: *p<0.05, **p<0.01, ***p<0.001, n=63 for the M&A boom period and n=32 for the M&A bust period.

[III] No t-test was performed for Return on Assets

EXHIBIT A

Table 1: The General Price Index (GPI) of the Athens Stock exchange from 1996 to 2004

Year	Price	Change
1996	933.50	
1997	1479.63	**58.50%**
1998	2737.55	**85.02%**
1999	5535.09	**102.19%**
2000	3388.86	**-38.77%**
2001	2591.56	**-23.53%**
2002	1748.42	**-32.53%**
2003	2263.58	**29.46%**
2004	2786.18	**23.09%**

SOURCE: Athens Stock Exchange, http://www.ase.gr

Table 2: Information about respondent firms (Industry)

Industry	**Study 1**	**Study 2**
	%	**%**
Foods and Beverages	23.8	25
Retailing	12.7	3.1
Chemical	15.9	6.2
Computer	11.1	3.1
Banking	9.5	15.6
Health Care Services	4.8	6.2
Construction	4.8	18.8
Insurance	3.2	9.4
Telecommunication	3.2	3.1
Pharmaceuticals	3.2	3.1
Publishing and Printing	3.2	3.1
Clothing	3.2	0
Transport	1.6	3.1

Table 3: Relative Size of target to acquirer (number of employees)

Relative size of target to acquirer	**Study 1 %**	**Study 2 %**
<25%	38.1	37.5
25-49%	22.2	40.6
50-74%	11.1	6.3
75-100%	9.6	6.2
>100%	19	9.4

EXHIBIT B

Operationalization of Variables

DECISION CONTEXT

M&A Motives. Following Brouthers, et al.[94], we decided to measure both economic and strategic motives. We measured the significance of five motives for M&As. The motives examined were: create shareholder value, spread financial risk, pursue market power, marketing economies of scale and improve the competitive environment by acquiring possible targets before a competitor does. We asked managers to evaluate the importance of each of these motives with a 7-point Likert type scale (1=not at all important, 7=very important).

PRE-M&A PROCESS

Pre-M&A Planning. Composite variable resulting from the addition of 4 dummy variables measuring whether the acquirer has conducted written plans before the M&A regarding the organisational structure, the production processes, the employees and the product portfolio of the target firm. Ideas for this variable were drawn from Schraeder and Self and Covin et al.[95]

Premium. It measures the premium paid for the M&A. A 7-point scale was used measuring the premium paid for the M&A with the following options: 1) over 50 % lower than expected, 2) 21-50 % lower than expected, 3) up to 20% lower than expected, 4) equal to expected, 5) up to 20% higher than expected, 6) 21-50% higher than expected, 7) over 50% higher than expected [96].

Speed of deal closure. A continuous variable measuring the length of time in months from the beginning of the negotiations until the deal closure was used[97].

Quality of the due-diligence process. We assessed the quality of the due-diligence process by measuring whether there are differences between the situation expected prior to the deal and the one found after the deal closure regarding the quality of the management level, the organizational efficiency, the working climate, the technological capabilities, the market power, the organisational culture and the financial condition. For each of these we used a 7-point scale (1=much worse, 4=as expected, 7=much better). Cronbach alpha= 0.74, and cronbach alpha=0.78, for boom and bust period respectively, are satisfactory. The idea for this variable was drawn from Carr et al. and Steffen[98].

POST-M&A PROCESS

Communication Programme. It was measured by a dummy variable recording whether the acquiring company had a written communication programme or not.[99]

Percentage of employees laid off. It refers to the percentage of the employees of the target firm who were laid-off during the first year[100].

Speed of Changes (Integration of Human Resources). We measured the time needed in moths for the integration of the Human resources (i.e. layoffs, transfers), with a 7-point scale (1= 1-2 months, 4= 7-8 months, 7=more than one year)[101].

Top Management Team Turnover. Since relevant literature claims that a high Top Management Team turnover affects negatively the success of a deal, we measured the percentage of top managers who departed from the acquired company during the first year[102].

M&A PERFORMANCE

Return on Assets. Following Zollo and Singh, we evaluated post-M&A performance by comparing the average pre-bid returns of the acquiring firm to the reported post-merger returns of the acquiring firm[103]. We chose a time frame of +- two years since the first two years of an acquisition are critical to its success and usually two years are sufficient for the completion of the integration process.[104] We also adjusted ROA for industry effects and excluded from the analyses the year the acquisition took place, following previous researchers[105].

The formula used is expressed as follows:

Change in ROA= $(ROA_{,t+2} - ROA_{s,t+2}) - (ROA_{,t-2} - ROA_{s,t-2})$

Where $ROA_{,t+2}$ and $ROA_{,t-2,}$ represent the return of assets of acquiring firm i in years t+2 and t-1 respectively, and $ROA_{s,t+2}$, $ROA_{s,t-2}$ stand for average industry return of assets two years after and two years before the acquisition respectively. In case where change in ROA is positive, the acquisition is considered to be successful while the opposite is the case if ROA is negative. Data regarding the industry, the average industry returns, the profitability and the assets of the targets and bid firms were gathered from the ICAP database which is a standard source for financial data on Greek firms.

Managers' retrospective assessments of acquisition performance. We assessed (with 7-point Likert type scales, Cronbach alpha= 0.81, and Cronbach alpha=0.84, for boom and bust period respectively) on the one hand managers' expectations before the acquisition on issues such as variation in profits, sales, market share, stock price, borrowing ability, capital cost, finance cost, investment opportunities, competitive position, R&D, innovation and personnel development possibilities, while on the other hand we assessed the performance achieved on these expectations. M&A success was measured by comparing the total sum of the expectations with the total sum of the performance achieved on these dimensions using the following formula:

Managers' retrospective assessments (MRA) = Total sum of materialisation-Total sum of expectations.

In case where MSA was positive, the acquisition is considered to be successful. It could be said that managers' expectations from the acquisition should be measured before it takes place (pre-bid period) and should be compared with data gathered after the integration has been finalized (post-bid period). However, it is extremely difficult to gain access to the acquiring firms during that point of time[106].

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