Mendel University in Brno
Faculty of Business and Economics

Factors affecting M&A failures in the Czech Republic

Diploma thesis

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Declaration

Herewith I declare that I have written my final thesis: "Factors affecting M&A failures in the Czech Republic" by myself and all used sources and data are quoted in the list of references. I agree that my work will be published in accordance with Section 47b of Act No. 111/1998 Coll. On Higher Education as amended thereafter and in accordance with the *Guidelines on the Publishing of University Student Theses*.

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Abstract

Putna, R. Factors affecting M&A failures in the Czech Republic. Diploma thesis. Brno: Mendel University in Brno, 2015.

The purpose of this thesis is to investigate merger failure rate and critical success factors that lie behind outcome of mergers. Based on many influential papers and studies it has been identified that mergers and M&A in general have high failure rate. After the literature research in M&A definition, history and studies already conducted in this field the own research is employed in order to achieve the main objective of this thesis. The quantitative research is conducted on mergers conducted from 2007 to 2010 in the Czech Republic. The qualitative analysis consists of semi-structured interviews with experts in M&A field.

Keywords

merger, acquisition, M&A, business combinations, critical success factors in M&A, due diligence, synergy effect

Abstrakt

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Diplomová práce zkoumá poměr úspěšných a neúspěšných fúzí a kritické faktory, které výsledky fúzí ovlivňují. Na základě mnoha studií a výzkumů bylo prokázáno, že se fúze a M&A obecně potýkají s vysokým poměrem neúspěšných transakcí. Po vymezení teoretických základů, historie M&A a dosavadních výsledků zkoumání problematiky, je zapojena vlastní analýza směřující k naplnění hlavního cíle. V rámci kvantitativního výzkumu je analýza zaměřena na fúze, které se uskutečnily na území České republiky v letech 2007 až 2010. Kvalitativní analýza sestává z semistrukturovaného rozhovoru s experty v oblasti M&A.

Klíčová slova

fúze, akvizice, M&A, podnikové kombinace, kritické faktory úspěchu M&A, due diligence, synergický efekt

Content

List of graphs

List of diagrams

List of tables

1 Introduction

Mergers and acquisitions (abbreviated M&A) are a crucial part of business development as it is evident that long-term success of the companies is partially dependent on their strategic decisions. These decisions are often shaped into reality by merger or acquisition. M&A is also important with regard to competition. Successful M&A transaction enables to increase the market share, give competitive advantage, provide access to a new technology and many more without establishing a new company or spending large sums of company's revenue on research and development. It can be stated that M&A activities are core of many business strategies success and unfortunately failures as well.

The M&A transaction is a complex process that bears considerable risk and uncertainty. Empirical evidence throughout decades shows very high failure rate, value destructions, financial instability, impaired strategic position or organizational weakness in over 60 % of cases from the smallest one to the biggest one (AOL and Time Warner, Columbia Pictures and Sony Corporation, Daimler and Chrysler). Even though it looks like a dangerous practice it does not hurt the investor's appetite as M&A transaction hit record EUR value in 2007. With five year slump since that we can observe another wave coming out from the start of 2014 and the value is expected to hit almost 3,2 billion EUR worldwide.

First wave of the M&A transactions is dated at the end of the 19th century, it can be seen that the activity is clustered into particular periods. Mergers tend to occur during period of high economic growth, very low or decreasing interest rates and rising stock market. The motivation was always different from increasing efficiency in the beginning through gaining significant market power, diversification through conglomerates to speculations.

It is evident that successful M&A transaction is not an obvious outcome. As the matter of fact lot of circumstances have to be in the favour of the participants not only before and during transaction but long time afterwards as well. The goal of the thesis is to identify those circumstances.

Such analysis requires an exhausting amount of data. There were two possibilities how to achieve that – analysing foreign or domestic M&A transactions. The final choice was the latter for several reasons. The thesis is data dependent and author's orientation and ability to receive reliable data is much higher in case of domestic transactions rather than those in abroad. Considering the literature research mostly foreign books, publications and articles were used because of much deeper theoretical background that it offers.

2 Objectives of the thesis

Based on many influential papers and studies it has been identified that M&A have high failure rate. The main objective of this thesis is to identify critical success factors that have significant impact on M&A success and failure.

Main objective: What are critical success factors in M&A?

To conclude such a goal several partial objectives have to be stated.

Partial objective 1: Define and describe M&A process and potential hassles.
Partial objective 2: How can we decide that M&A were successful or not?
Partial objective 3: Examine different approaches and results to a given topic.
Partial objective 4: Mining and analysis of financial data of selected companies.
Partial objective 5: Interview experts in a M&A field.

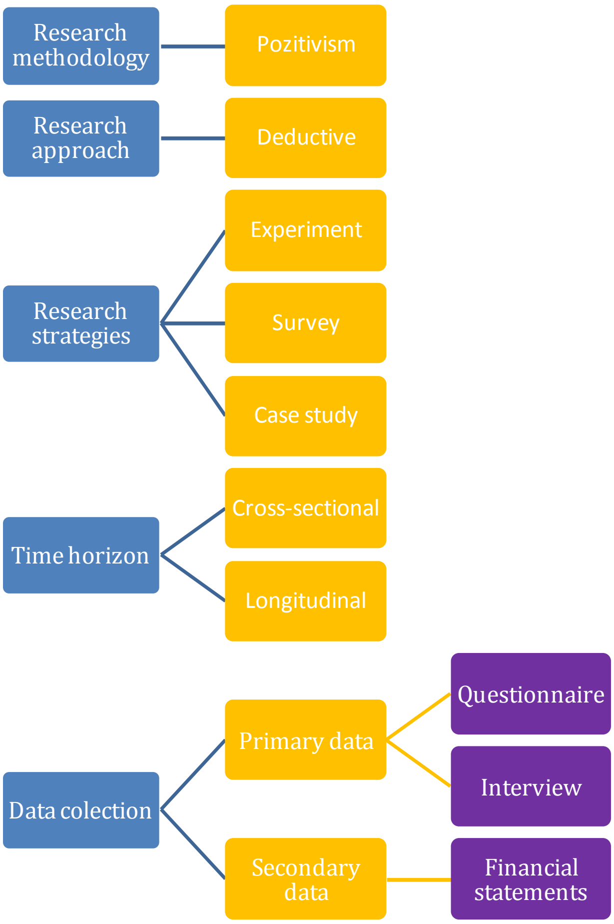
3 Methodology

After the background for the research topic is established through the literature review with the knowledge gap identified, the next step is to draw a route map for answering the research questions including the identified research proposition. This chapter discusses the research approach and data collection method.

3.1 Research methodology

The research methodology is the description, explanation and justification of various methods of conducting a research (Pannerselvam, 2004). In order to explore different research methods - the 5-layer Onion is used (Saunders and Tosey, 2013). The diagram below summarizes methods used in this thesis:

Diagram 1 Research methodology summary

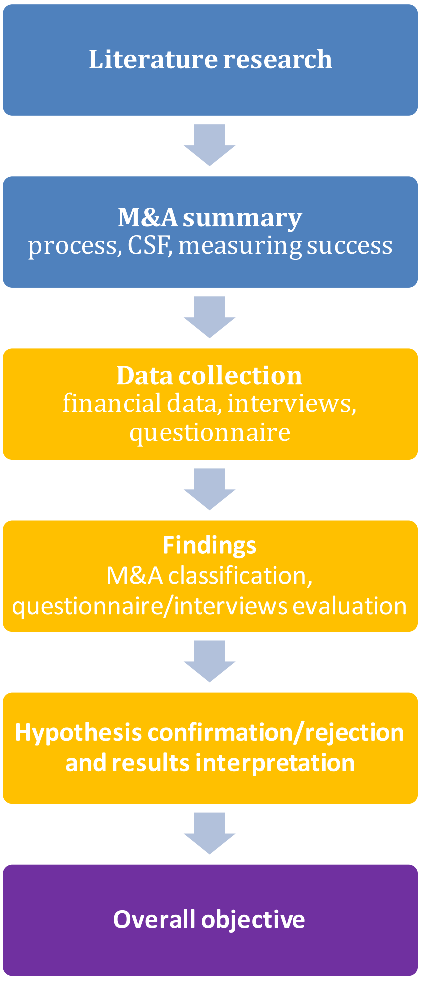


Source: Author’s own elaboration

3.2 Research process

The process begins with literature research on M&A including analysis of critical success factors identification in various studies and researches. The approaches toward measuring M&A failure rate is also analyzed based on numerous studies and researchers. Proposition of critical success factors is formed based on this information and further confronted with critical success factors identified during interviews with experts. Later the financial data of analyzed companies are collected and analyzed creating distribution of successful and failed mergers based on financial performance. The results are confronted with responds provided in questionnaire send to analyzed companies. Based on all available data - factors affecting M&A failure will be evaluated.

Diagram 2 Research process summary



Source: Author's own elaboration

3.3 Financial analysis of selected companies

Mergers and acquisitions are two different business combinations however they are closely related to each other as far as critical success factors are concerned. The close relationship can be observed especially in foreign literature where authors do not distinguish between them calling both transactions simply M&A. considering real world situation - acquisition is usually first step before conducting a merger. Moreover literature review and interviews with experts prove that critical success factors are in most cases the same in case of merger or acquisition with slight differences. The literature survey of this thesis explains both terms in order to see differences clearly however financial analysis and selection of companies is based only on the merger transactions. The reason for such decisions lies in merger data availability and better ability to measure merger synergy effect in terms of financial data. Financial analysis is conducted on companies that conducted merger during years 2007 to 2010 covering 4 years of development.

The time horizon is chosen based on the criteria of actual information – considering the time of data collection (early stage of 2014) the last year is for merger transaction 2010 where data from 2012 are collected. Obtaining results in case of mergers conducted in 2011 would be more problematic as lot of them did not have financial data from 2013 uploaded in the commercial registry by that time.

Four years are chosen as an observation period for each merger. In the first year we record financial data of „independent“ companies that are 1 year before the merger itself. This is also basis for further comparisons and exploration of synergy effect of merged companies. Consequent three years analyze new company that includes all parties of the merger. Three years are chosen based on literature review (3 years should be sufficient to fully integrate companies).

The companies that conducted a merger are listed in „Obchodní věštník“ in “Merger and spin-off” category. The companies are sorted by year. For the purpose of representative data sample we want to analyze as many companies as possible. However not all the companies’ data are available or complete. The company is chosen to the sample if following data and additional information can be obtained for the observed period:

- the company conducted a merger (verified by existence of merger contract)
- the merger took place within 2007 and 2010
- all necessary financial data and information for years 2006-2012 can be obtained

Each sample contains names of merged companies, name of a new company in case of merger by establishment, industry where companies operate. For the purpose of financial analysis total assets, total liabilities, total revenues, depreciation, operating profit and profit/loss from accounting period are recorded.

The ROA plays an important role in the analysis. Literature review offers several possibilities how to calculate the metrics. For the purpose of this research the following formula was chosen:

$$ROA = \frac{EAT}{TA} \quad (2)$$

Even though that ROA often calculates with EBIT in the nominator author decided to use EAT as all the companies operate in the same tax / legal environment and effects of taxation should be also projected into the results. The same applies for interest where investments (and their financing) are important part of merger and it is integral part of company's policy. From the same reason author decided to use ROA rather than EBITDA/margin metrics.

In order to clearly see the development the ROA of the companies - 1 year before the transaction was calculated as sum of companies individual EAT and their total assets:

$$ROA_{t-1} = \frac{\sum_{i=1}^{n} EAT_i}{\sum_{i=1}^{n} TA_i} \quad (8)$$

The data obtained from financial statements can be seen on a CD attached to this thesis.

3.4 Structured questionnaire

The sampling gives us 210 companies that conducted merger during 2007 to 2010. Most common technique of quantitative analysis is structured questionnaire that has been found appropriate also for our purpose. The contacts for the companies were obtained in Commercial registry and Albertina database.

The questions are formulated based on the literature research and interviews with experts and they are distributed regardless of the fact whether companies' merger is identified as successful or not. The survey consists of 12 questions where the last one had form of an open question.

The survey has been constructed within Click4Survey system. The system allows design of the questionnaire, uploading of mailing list and distribution to the recipients. The survey is distributed to the recipient mail client in the form of web link. Consequently the results can be downloaded in form of .xlsx. This allows us to filter through the results and closely see links and patterns in the responds.

Author tried to minimize the risk of response from incompetent person by specifying (in the cover letter) that answers shall be provided only by person that was integral part of the transaction and had worked in the company during time of the merger.

The full form of the questionnaire is available in the appendix of this thesis.

3.5 Semi-structured interview

The last method of primary data collection was the semi-structured interview with experts within M&A fields. Even though this way of data collection brings many disadvantages such as getting to the relevant people, motivate them to spend their time over answers and most importantly subjectivity of responses causing “interviewer bias”.

On the other hand interview enhance the possibility to closely examine given subject and mainly receive the information that is verified and is coming from person that has superb orientation within the given problematic.

In order to achieve relevant information from interviewees two constraints have to be set:

- Interviewees were / are currently involved in M&A projects
- Different interviewees hold different roles within M&A projects

The first constraint ensures that responses are backed up by relevant experience and are reliable for the purpose of our research goal. The second constraint can reveal differences in responses based on different industry and position where interviewee operates.

Respondents are subsequently contacted by e-mail or telephone. All potential respondents have expressed their desire to participate. After discussion over terms of interview the interview form is sent via email to the recipients account or discussed face-to-face. Author was finally able to conduct three interviews – they are thoroughly described and analyzed in Chapter 5.

The questions were formulated based on the literature review to best suit our analysis. In the first part the open questions tried to identify key success factors and problematic issues within each stage of M&A transaction. The second part consisted of standardized evaluation table giving each CSF (identified in the literature review) specific rank (1 - least important in terms of CSF to 5 – the most important in terms of CSF).

The full form of the questionnaire is available in the appendix of this thesis.

4 Literature research

This chapter covers basic characteristics of mergers &acquisitions (M&A), different forms of transactions, M&A process, motivation of the firms, risks connected with the transactions and we will take a short course into mergers & acquisitions history.

Following the basic characteristics of M&A we will investigate and summarize empirical evidence and statistics connected with the topic. Literature research enables us to set a framework for success measurement of mergers & acquisitions. This will also complete partial objective of the thesis.

4.1 Mergers & acquisitions overview

For the purpose of the thesis it is critical to define basic terms. Although sometimes used interchangeably or synonymously, mergers and acquisitions are slightly different things.

The distinction in meaning may not seem to matter because both of them are strategic transactions that usually change not only the control of a company but also its strategic direction. Depending on the transaction, the financial, legal, tax, and even cultural impact of a deal may differ substantially. Let us define the most important terms in this field (Baker and Kiymaz, 2011).

4.1.1 M&A terms definition

The usual terms often come from foreign sources and their application is often unsystematic.

Ownership (capital) transactions –considered as the broad definition of the area. Ownership transactions encompass all transactions connected with existence of the company and the ownership relations within the company. Most often we are talking about control of the current company or control of the new one, mergers and spin-offs of the company.

Business - an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants (Financial Accounting Standards Board, 2007).

Business combinations –all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including those sometimes referred to as “true mergers” or “mergers of equals” - for example Time Warner and AOL merger (Brealey, Myers, 20012) and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights (Financial Accounting Standards Board, 2007).

M&A – a general term used to refer to the consolidation of companies commonly used in foreign literature (as well as in the Czech literature). In the broad sense, may imply a number of different transactions ranging from the purchase and sales of undertakings, concentration between undertakings, alliances, cooperation and joint ventures to the formation of companies, corporate succession/ ensuring the independence of businesses, management buy-out and buy-in, change of legal form, initial public offerings and even restructuring (Kusstatscher and Cooper, 2005).

Merger - the combination of two or more companies in creation of a new entity or formation of a holding company. It is the legal act where one or both (or more) companies cease to exist. The companies are deleted from commercial register (without liquidation). The mergers can be divided depending on the form of business (Valach, 2001), territory or business activity (Reed and Lajoux, 2007).

Acquisition – a corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own (Reed and Lajoux, 2007). There are two types of acquisition – capital or asset acquisition (Valach, 2001).

Acquiree - the business or businesses that the acquirer obtains control of in a business combination (Financial Accounting Standards Board, 2007)

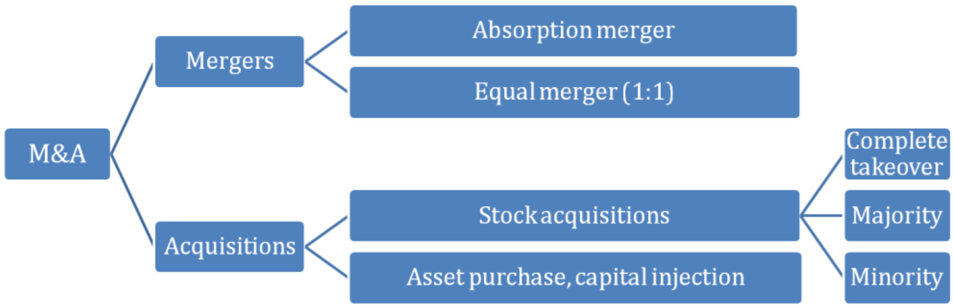
Acquirer - the entity that obtains control of the acquiree.

Consolidation – an alternative term for merger where two or more companies cease to exist in order to create a new one. The new corporation undertakes all the assets and liabilities of both (or more) companies that cease to exist (Valach, 2001).

Tender offer - an offer to purchase some or all of shareholders' shares in a corporation. The price offered is usually at a premium to the market price (Reed and Lajoux, 2007).

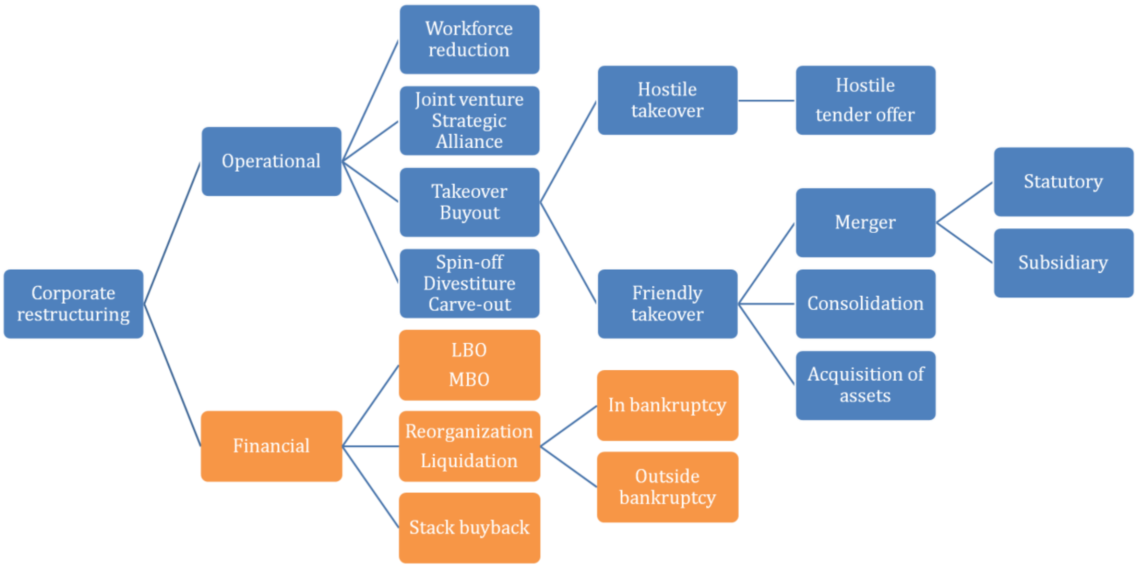
Takeover - a change of major shareholder. It can be sequence of any type of the enterprise combination; however it is quite typical for acquisitions. The takeover does not have to be necessarily by mutual agreement. In that case we speak about hostile takeover (Hitt, 2006).

Diagram 3 M&A categorization – narrow view



Source: Straub (2007)

Diagram 4 Corporate Restructuring process – broad view



Source: DePamphilis (2011)

4.1.2 Mergers classification

Merger is legal consolidation of two or more companies (transaction occurs on the company level, not on the shareholders level as in the case of acquisition). Important to mention is that sometimes merger can be sort of last step in companies' consolidation after acquisition. The merger occurs only in case of consensus of all the owners of participating companies. In case of merger we cannot speak about unfriendly takeover.

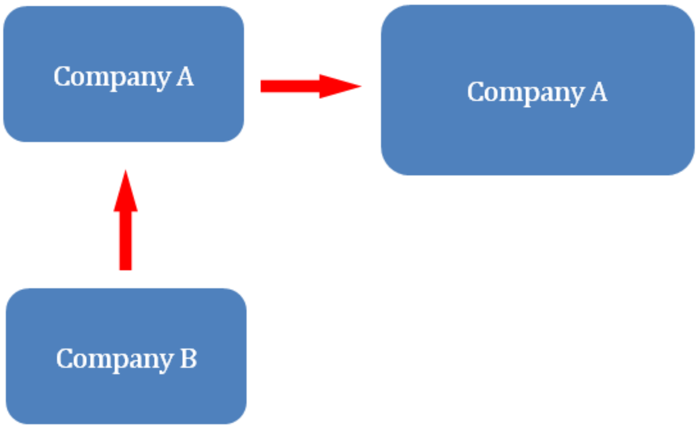
The rules across different states vary. Usually there has to be approval of qualified majority or more than 50 % of owners in order the merger took place. In the Czech Republic the rule is defined in Act no. 125/2008 stating that approval of the merger project is conditioned to approval of 2/3 of shareholders or owners. The company statutes can increase the share needed for approval of the merger.

The mergers can be divided according to form of business (Valach, 2001), territory or business activities (Reed and Lajoux, 2007).

1. Division according to the form of business

- *Merger by absorption* – the situation in which one company buys all stocks of one or more companies and the absorbed companies cease to exist.

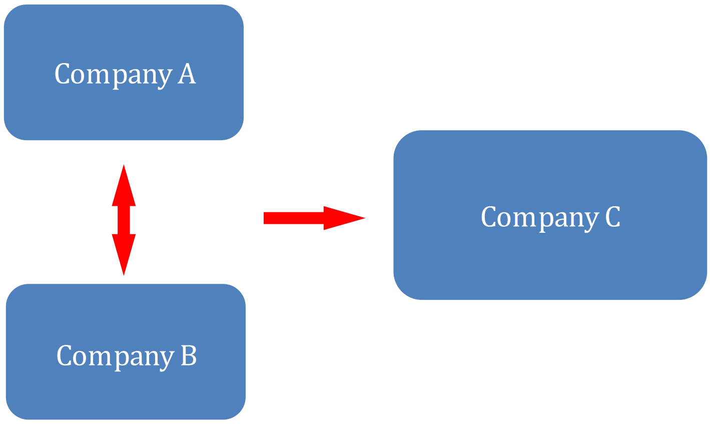
Diagram 5 Merger by absorption



Source: Vomáčková (2005)

- *Merger by establishment* – a case where two or more firms are merged into a newly created one and the combining firms in the merger are dissolved. Merger by establishment could imply also consolidation (Gaughan, 2002).

Diagram 6 Merger by establishment



Source: Vomáčková (2005)

2. Division according to the economic area

- *Cross border transactions* –merger where is at least one participating company seated in different state. There are three possible scenarios; acquiring / new company can be seated in one of the states of the participating companies or in the third state.
- *Domestic transactions* - merger where participating companies are seated in the same state. Such merger is driven by respective law. In the Czech Republic it is Act no. 128/2008.

3. Division according to business activities

- *Horizontal merger* – transaction between two companies operating in the same industry. Such a transaction may create a monopoly or oligopoly in a market by eliminating or reducing competition implying that there might be some issues with antitrust law (Reed and Lajoux, 2007)
- *Vertical merger* – transaction does not involve a competitor. It involves similar connections with a supplier (vertical backward integration) or customer (vertical forward integration). It can be also called non-horizontal merger. The goal for this type of merger is to reduce costs in purchase or distribution (Reed and Lajoux, 2007).
- *Conglomerate merger* – transactions in between the firms from different industries. Rationale for such merger lies in portfolio diversification, risk reduction and stability improvement (Rigby, 2013).

4. Other classification

- *Merger of equals* - the combination of two firms of about the same size to form a single company. In a merger of equals, shareholders from both firms surrender their shares and receive securities issued by the new company (Financial Accounting Standards Board, 2007)
- *Spin-off* - The creation of an independent company through the sale or distribution of new shares of an existing business or division of a parent company. (Vomáčková, 2005).
- *De-merger by spin-off* – the divided company will not cease to exist—only some of its assets and liabilities are transferred to one or more newly established companies (Financial Accounting Standards Board, 2007).

4.1.3 M&A process

It is quite obvious from the literature research that M&A process is described slightly differently by individual authors.

In the paper by Bohlin, Daley and Thomson (2000) the merger process consists of six generic phases that can be grouped into three stages; pre-merger planning the merger and post-merger integration.

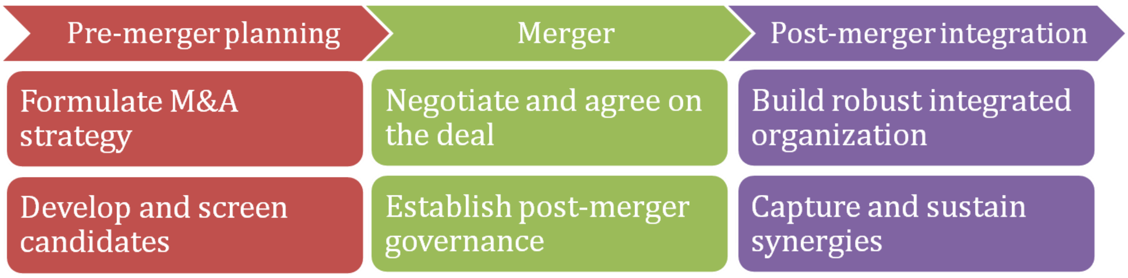
Pre-merger planning starts with a planning phase, visioning and scenario planning will give both decision-making teams a clearer picture of the synergies they can be expected and what will be required to achieve them.

The merger itself consists of negotiation, the deal agreement and establishing post-merger governance and architecture. The study quite surprisingly emphasizes the need for cultural due diligence as a key part of employees motivation and post-merger integration: "Before and after issuing the Letter of Intent, and certainly before the deal is closed, due-diligence activities can and should include assessments of the historical and present labour/management culture and of critical human resource policies and procedures making up what employees view as core cultural elements." Due diligence in this case helps to reveal potential post-merger costs that are significant and can jeopardize the viability of the deal.

Post-merger integration encompasses building robust integrated organization and capturing/sustaining synergies. The following criteria must be met in the post-merger phase (Bohlin, Daley and Thomson, 2000):

- crystal-clear vision of the new organization including the mission, strategy and core values
- the integration must be owned and executed by the key stakeholders
- continual and proper communication across the system and in synchronization with on-going day-to-day operations
- open, interactive and responsiveness of integration to feedback

Diagram 7 Three stages of a merger



Source: Bohlin, Daley and Thomson (2000)

A similar approach to M&A process is offered by Galpin and Herndon (2013) in Watson Wyatt Deal Flow Model. "The model breaks down the process into six smaller stages namely Formulate, Locate, Investigate, Negotiate, Integrate and Motivate. The most significant milestone is when the two transacting firms sign the agreement, finishing the deal and entering the integration stage. The first three stages then belong to the pre-deal phase while Negotiate represents the deal phase which ends when the above milestone is achieved, and the post-deal phase contains the Integration and Motivation."

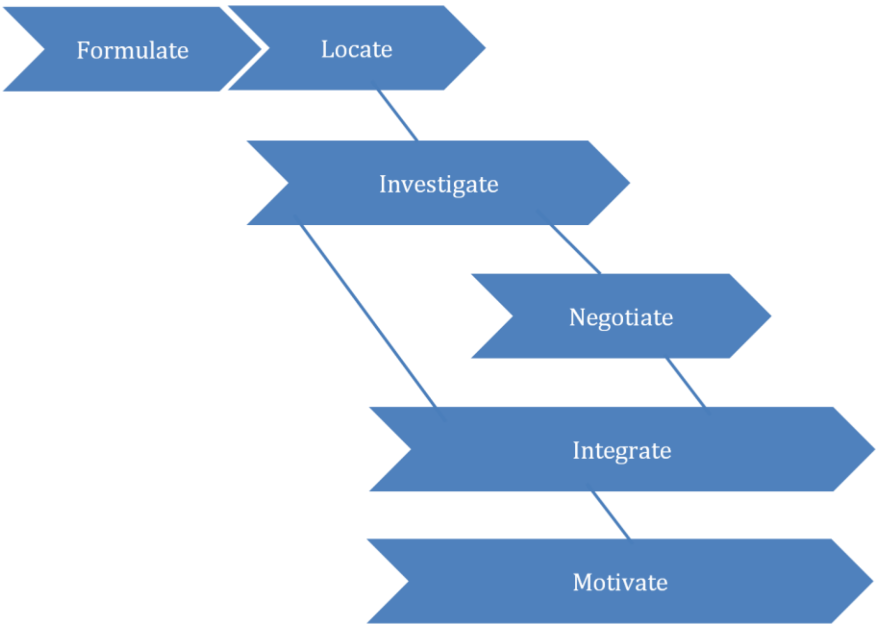
The following diagram breaks-down key activities together with issues and risks connected to the phase in the Deal Flow Model:

Diagram 8 The Deal Flow Model

Source: Galpin, Herndon (2013)

The different stages do not come in the linear order – in reality the process of particular stages may start even before previous phase completion (Galpin, Hendon, 2007):

Diagram 9 Watson Wyatt Deal Flow Model in practice



Source: Galpin, Herndon (2013)

- **Formulate**

The enterprise must set its business objectives and growth strategy clearly, rationally and data-oriented way. Top executives have to specify criteria based on the objectives that they have determined. The criteria have to be set in a form of goals such as market share, new products, technologies, geographical access and general amounts for financial synergy. The specific action plans for implementing the strategy have to be developed. The company should evaluate what the ideal target company looks like as well (Galpin and Herndon, 2013).

Large enterprises have to consider individual strategies of their particular business units. Business units divide the enterprise to relatively independent parts that have to be in conformity to the planned merger. The technique that can assist with such decision might be strategic planning tool Ansoff Matrix developed in 1957 (Mařík and Dědič, 1992).

The Ansoff Matrix portrays corporate growth strategies via existing products and new products in existing and new markets. There are four possible market combinations:

Tab. 1 Ansoff Matrix

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Source: Mařík and Dědič (1994)

Company has to consider whether it wants to achieve growth with existing products in their current market segments with ultimate goal to increase market share (market penetration) or to seek growth by targeting existing products in new market segments (market development). The company can develop new products to its existing markets (product development) or diversify into new business areas by developing new products for new markets (Kotler and Keller, 2013).

- **Locate**

Target companies must fulfil a set of criteria so that they are good strategic fit with the new / acquiring company. The criteria have to be assessed by a range of criteria such as relative size, type of business activities, capital structure, organizational strengths, core competencies or market channels.

The screening phase is in most cases performed in-house by the acquiring company as the reliance on the outside firms is kept to a minimum since the preliminary stages of mergers and acquisitions must be kept in secret and independent (Evans, 2000).

- **Investigate**

This phase consists of more detailed analysis of the target company. It should reveal whether the target company really is a good fit with the acquiring / merging company.

Due diligence

DePamphillis (2011) defines due diligence as an exhaustive review of records and facilities and typically continues throughout the negotiation phase of M&A. Some degree of protection is achieved through a well-written contract but legal documents should never be viewed as a substitute for conducting formal due diligence.

According to Reed and Lajoux (2007) due diligence refers primarily to an acquirer's review of an acquisition candidate to make sure that its purchase would pose no unnecessary risks to the acquirer's shareholders. The term also refers to the mutual review undertaken by the two parties to a merger. Many deals that look good on the back of an envelope look bad in a spreadsheet. Due diligence must be considered in conjunction with other acquisition's activities or goals including strategic planning, valuation, financing, structuring and charting the future of the business combination with all its risks and opportunities. The information is obtained by examining financial statements, assessing management and operations and reviewing legal liability.

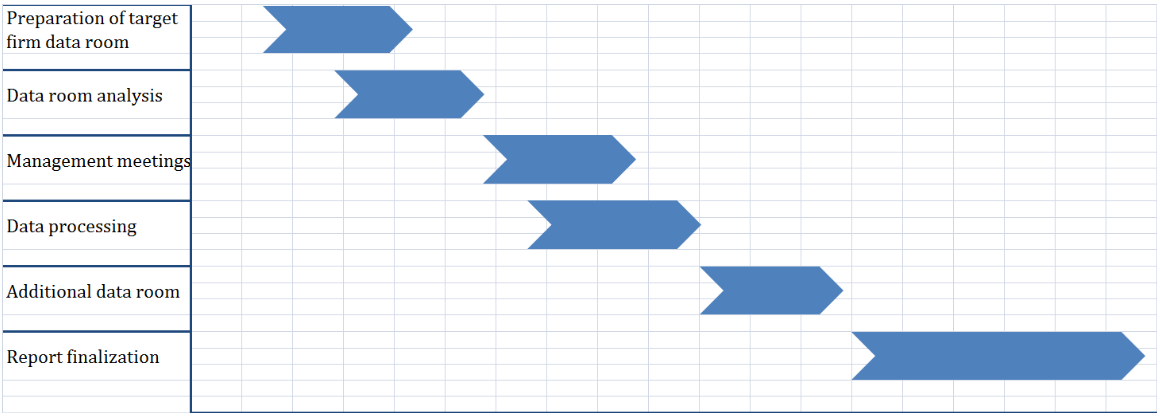
The scope of the due diligence depends mainly on the acquirer's time and how much money it has to investigate. This will depend to some extent on the status

of the company in the community, the number of years it has been in business, whether it has been audited by a major firm for some years, and any other factors that help to establish the basic stability of the firm, such as long-term customer retention (Reed and Lajoux, 2007). It is worth noticing that due diligence is conducted by an independent expert that calculates with both external and internal company information – the quality of due diligence is to a large extent dependent on the willingness of the target company to share the relevant a truthful information (Evans, 2000).

The key element in the due diligence is to set rules for information access and to prevent any possible leaks. Data room is the term used to describe the system for information access from the target company to the acquiring company (Hlaváč, 2010)

The due diligence timeline has following structure (Hlaváč, 2010):

Diagram 10 Due diligence timeframe



Source: Hlaváč (2010)

Financial statements review

The review consists of confirmation of assets/liabilities/equity existence in the balance sheet, determining financial health of the company based on the income and cash-flow statement.

Management and operations review

The review serves to determine the quality and reliability of the financial statements based on an assessment of internal controls and to gain a sense of contingencies beyond the financial statements.

Legal compliance review

Checking for potential future legal troubles stemming from the target company's past.

Document and transaction review

The review ensures that the paperwork of the deal is in order and that the structure of the transaction is appropriate.

Valuation

The valuation is one of the key phases in M&A it is also the starting point for negotiation phase. Valuation is based on information uncovered as part of due diligence. Several valuation methods exist and the criterion for selection is that valuation should mirror real value of the business including the future value (enhanced value through plans of the owners or managers). Considering the viewpoint of owners and managers the mergers can de distinguished into two groups (Valach, 2001):

1. Going concern (Stand-alone basis)

   Based on the information valid at the date of valuation where future development is considered only to the extent that can be predicted from available sources. The major changes connected with the merger or acquisition are not considered.

2. Valuation based on synergy

   This approach includes all the future intents of the owner and the managers. The valuation includes enhanced revenues or reduced costs depending on the type of synergy to be realized.

The valuation techniques are distinguished in three groups:

3. Cost methods
   3.1. Accounting value – setting the value based on the financial statements of the enterprise that is sum of the assets / liabilities.
   3.2. Substantial value – valuation is the sum of individual (and real) price of the assets. This method is useful tool in deciding whether to buy an existing company or to build a new one. The important assumption is that the company will not discontinue its operation.
   3.3. Liquidation value – value of the company in the situation of an immediate sale of the assets. The assumption is that the company will discontinue its operation.
4. Revenue methods
   4.1. Discounted cash-flows - the value of a company today is equal to the present value of the future (but uncertain) cash flows to be generated by the company's operations, discounted at a rate that reflects the riskiness (or uncertainty) of those cash flows. The most widely used version of DCF is called free cash-flows to the firm model (Kislingerová, 2007).
   4.2. Economic value added – subtracting cost of the capital time capital value from net operating profit after the tax (NOPAT). The value is discounted to the future periods (Kislingerová, 2007).
5. Comparison methods
   5.1. Comparable enterprises – setting the value according to the realized sales of similar companies
   5.2. Comparable transactions – setting the value according to the market price. It is applicable only to the publicly traded companies (Valach, 2001).

Tab. 2 Advantages/disadvantages of M&A valuation techniques

Method	Advantages	Disadvantages
DCF	• modeling of expected performance and to understand sensitivities • understanding of performance, CF and balance sheet relationships	•may not reflect of pricing trends in the markets
Comparable transactions	•comparison with actual transactions •reveals who other buyers are, it may offer insights into potential competitive bidders	•transaction data may be incomplete, most siilar deals may not be published, every deal is unique
Comparable companies	•benchmark of how the public markets view particular industries	•ignoring the reality of expected future performance
Liquidation analysis	•the most relevant if a business is being merged for its underlying assets as opposed to going-concern value	•may not reflect economic value of the business

Source: Ernst&Young (1994)

- **Negotiate**

The negotiation phase consists of setting the deal terms from the legal, structural and financial perspective. Securing key talent and integration teams as well as closing the deal itself (Galpin, Herndon, 2013). We can break-down the phase into four categories:

Refining valuation consists of preliminary target company valuation update. A buyer requests and reviews at least three to five years of historical financial data. The historical data should be adjusted for non-recurring gains, losses or expenses. These adjustments allow the buyer to smooth out irregularities in the historical information and better understand the underlying dynamics of the business.

Deal structuring involves the allocation of cash-flow streams and risks. Each party determines its initial negotiating position, potential risks and its management and conditions under which either party can leave the negotiations. The deal structuring serves also as understanding of potential disagreements – from simple arguments to more complex issues such as form of payment, legal, accounting or tax structures. The structure includes also determination of assets ownership.

Conducting due diligence – another more thorough round of due diligence is conducted. Frequently the buyer wants as much time as necessary for the process whereas the seller’s intention is to limit the length and scope as much as possible. The explanation is quite simple – the longer and more detailed due diligence it is more likely that buyer uncovers facts that will help him in lowering the purchase price or stronger negotiation position when deal is structured.

Develop financial plan consists of development of balance sheet, income and cash-flow statements for the combined companies. The statements should include the expected costs of financing the transaction. The financing plan is an important document for investors and lenders as well. It provides a coherent analysis of why the transaction is a good investment opportunity.

- **Integrate**

DePamphilis (2011) considers integration phase as one of the most critical and problematic: "The euphoria that surrounds the successful completion of a transaction erodes quickly when the challenges of making the combined firms perform in line with the predictions laid out in the business and merger plans become apparent. After the documents are signed, the buyer has lost most, if not all, leverage over the seller."

Exploiting the synergy often becomes impossible for several reasons starting with lost capability of transaction financing, cultural conflict and subsequent key employees exodus. The necessary part of the M&A is integration plan that has to be set before closing the deal. The steps in the integration part depend largely on the type of the integration of the combined companies:

- Target company is autonomous after the merger
- Target company is autonomous but the strategic goals are updated after the merger
- Target company adopts functions and rules of the acquirer
- Companies create one functional unit after the merger
- The target company fully integrates the acquirer into its structure (reverse integration)

The scope of the integration sets potential problems – the deep integration will more likely strengthen synergy effect but on the other hand increase risks, conflicts and costs on the coordination. The attitude of the management towards the transaction is also important step to take into consideration. Naturally the friendly mergers have higher possibility of successful integration rather than the hostile ones (Oliver Wyman, 2008).

Management consulting firm Oliver Wyman sets out a framework (tailored approach) to help in integration concept development. Eight fundamental decisions have to be made before the integration takes place.

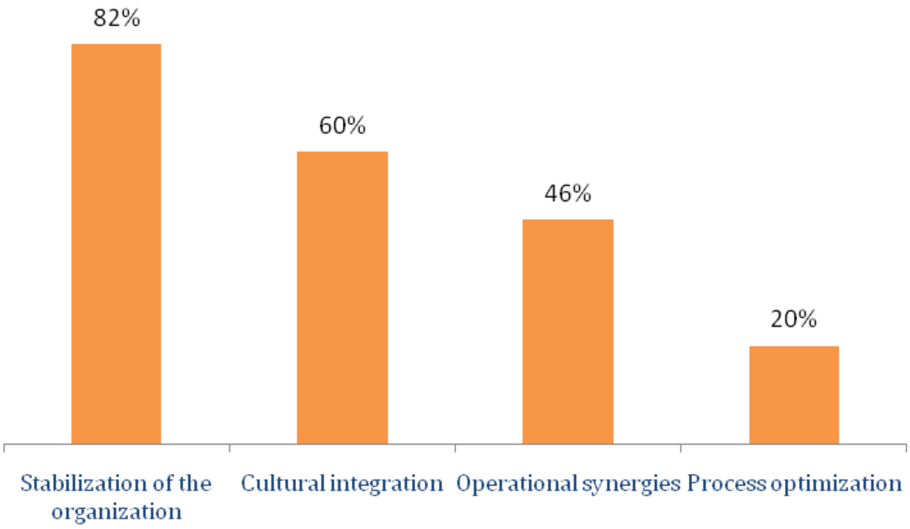
Diagram 11 Tailored approach

Source: Oliver Wyman (2008)

- Type of synergy–in the case of cost synergies all division of companies are subjected to a review of potential cost reduction. From the very start it must be clearly communicated unpleasant decisions connected to with the layoffs carried out. A different approach will be needed with growth strategy – it will consists evaluating market opportunities and generating new business ideas – the integration is more like a growth project.
- Speed – quick integration has its benefits (especially towards financial community) but it carries risks and increased uncertainty. Considering friendly takeover or merger slower pace can increase the chances for success.
- Extent of integration–in general the more intense focus on cost synergies the more extensive is the post-merger integration process. Enormous workload is added to business activities. Company becomes wrapped up in its own concerns and loses the sight of customers. In such a case massive amount of additional sources must be committed to the integration.
- Integration spirit–the merger of equals can bring the best of both companies' worlds but it can be dangerous as well especially when it comes to expectations. Considering the takeover the acquiring company acts like the lord of the manner and forces employees of the company to accept the changes or to resign.
- Start of integration–in the real practice there is usually lag between the merger offer signing and its closing (e.g. approval of antitrust officials). The forced waiting can be exploited by the competition as the employees, suppliers and customer can become unsettled with the situation.
- Integration team–if there is significant delay in deal revision (e.g. by antitrust officials) the acquiring company can work only with "clean teams". The team plans the integration based on third party information as the exchange of information is subjected to strict rules. If the information is incorrect a lot of damages can be done for future decisions making. In terms of proper integration planning it is more beneficial to work with joint team.
- Basis for decisions – the more dissimilar the culture of both companies and the stronger the resistance of the management is the greater the need for detailed instructions from the acquiring company. The decisions must be employed right in the beginning of the integration. In case of a merger the decision can be made in the preliminary stage.
- Change management – two companies' merger with similar background requires fewer explicit actions than those with dissimilar backgrounds. In both cases it is

vital for the appropriate employees to meet at an early stage and to share their experience. Change management leads to a long-term success of the merger as well. Examples of such actions could be workshops, outdoor training or meetings (Oliver Wyman, 2008).

Graph 1 Challenges of PMI



Source: Oliver Wyman (2008)

The integration phase can be divided in between cultural, organizational and resources integration.

- Cultural integration is the deeper the greater the differences among cultures are. A point to consider is that fact that increasing distance in between merged companies the greater the risks is (cross-border mergers). As the matter of fact cultural differences can be adopted much better in cross-border transactions rather than domestic transactions where differences are not taken much into consideration hence are hidden (Lukášová, 2004).
- Organizational integration consists of organizational structure, strategic plans, standards, processes integration.
- The resources integration consists of human resources, financial resources and asset and equipment integration.

- **Motivate**

Motivation is a long term task in alignment of organizational issues with business strategy. Such issues can be described and solved in rules and policies, setting goals and measures, rewards and recognition training, organizational structure or physical environment.

4.1.4 Legal considerations

The main legal documents connected with mergers are Commercial Code and Transformation Act (no. 125/2008). The transaction itself has to be in specific cases approved by Office for the protection of the competition. The specific cases are defined in Act no. 143/2001 as follows:

- the turnover of business combinations is higher than 1,5 billion CZK (=54 229 936 EUR) where at least 2 of the enterprises reached threshold turnover 250 million CZK (= 9 038 322 EUR)
- the turnover of at least one of the participant is higher than 1,5 billion CZK (=54 229 936 EUR) and worldwide turnover of another participant is higher than 1,5 billion CZK (=54 229 936 EUR)
- all of the companies below stipulated threshold are not subjected to the approval of Office for the Protection of the Competition.

The Transformation Act (in force since 1.7.2008, last update 1.1.2012) goal was to apply the directive of the European Parliament and Council of the European Union no. 2005/56 regarding cross-border M&A transactions into the Czech law.

Tab. 3 Law regulation on EU and CZ level

	EU level	CZ level
Commercial law	Directive of the European Parliament and Council of the Euoropean Union no. 2005/56 regarding cross-border M&A transactions	Act no. 125/2008 regarding companies transformation
Competition law	Treaty on Functioning of the European Union Article 101 and Article 102	Act no. 143/2001 regarding protection of the competition

Source: Author's own elaboration

The Act no. 125/2008 requires an expert revision of the transaction. The expert revision is consequently presented to the general meeting before the approval of the transaction. The latest update of the Act gives justice court the authority to select the expert in case of any doubts. The statutory bodies of the participants are obliged to draft transformation plan. Merger occurs based on the merger project that has to be approved by the general meeting –by both acquirer and target companies.

4.1.5 Rationale for mergers & acquisitions

There are many theories explaining rationale for merger activity. The theories are not mutually exclusive and each has an important inside for merger activity explanation (Baker and Kiymaz, 2011). Most of the arguments are logical and considering the existing evidence we cannot reject any of the theories. One of the common characteristics of the theories is an assumption that there may be many motivating factors for merger (Straub, 2007).Considering broad approach we can distinguish between neoclassical, agency and behavioural theory. The following sections describe particular theories in more detail.

Neoclassical theory

An early survey of the evidence on mergers and acquisitions (M&As) is characterized the market for corporate control as one in which managerial teams compete to manage assets while shareholders act as mostly passive judges. In the market for corporate control, merger arbitrageurs and takeover specialists fill the role of intermediaries. In such a market, higher skilled managers who can get the most value out of an asset will gain control of that asset. Exchanges happen only because value can be created either through synergies or by replacing managers who suffer from low-skill or excessive agency problems."

The synergies mentioned above could come from economies of scale or scope or from technology combination. The synergies are often expressed as cost reduction or revenue enhancement.

For example cost reduction synergy (usually comes from economy of scale) can be described in the situation when if two firms merge they do not need two separate marketing departments or administrative buildings. They can provide the same level of service to a greater customer base without any proportionate cost increase.

Revenue enhancement synergies are usually connected with economies of scope. When two airlines merge together they can offer much more combination in the route map connecting more cities together hence attract more customers. (Baker and Kiymaz, 2011).

Researches also point out the financial motive for the transaction. Lewellen (1971) argues that" acquiring assets with cash flows not perfectly correlated with a firm's existing assets' cash flows lowers the volatility of the combined firm's cash flows, increasing its debt capacity and ability to utilize the tax deductibility of interest."

Erickson and Wang (2007) propose that "profitable acquirers can essentially buy tax shields by purchasing a target with loss carry-forwards." The synergy merely comes from uniting the tax shield represented by the carry-forward with the profits of the acquirer. The government provides all the synergies through reduced taxes.

Last but not least is the theory based on Tobin's Q by Jovanovic and Rousseau. Q-based investments predict that firms with higher q should invest more than low q firms. This is applicable for mergers as well. The mergers are a way for transfer of capital from poor management or marginal projects to better projects / management (Straub, 2007).

Agency theory

The theory assumes that separation of an ownership and management can carry both benefits and costs.

In the most recent study by Gorton, Kahl and Rosen (2009) the model encompasses a shock to industry creating value increasing merger opportunities. “Managers have private benefits of control that they would like to preserve. Anticipating the possibility of being acquired in one of these mergers, some managers will undertake “defensive acquisitions” in an attempt to become too big to be bought. Other managers will undertake acquisitions designed to make their firm more attractive as a target, garnering a higher premium.”

Behavioural theory

Study by Vishny and Shleifer (2003) note the strong correlation between merger activity and stock market appreciation. Bidder managers are fully aware that their stock is being overvalued and they seek to use it to finance the acquisition of a target before valuation is corrected. This model assumes that market is inefficient.

A confirmation that mergers are driven by a complex pattern of motives can be observed in a study by Trautwein (1990):

Tab. 4 Theories of merger motives

Merger as a rational choice	Merger benefits bidders	Net gains through synergies	Efficiency theory
		Wealth transfers from customers	Monopoly theory
		Wealth transfers from target's shareholders	Raider theory
		Net gains through private information	Valuation theory
	Merger benefits managers		Empire Building theory
Merger as process outcome			Process theory
Merger as macroeconomic phenomenon			Disturbance theory

Source: Trautwein (1990)

Efficiency theory – the transaction is planned that due to the operational, managerial and financial synergies the combined companies produce more benefits rather than operating independently

Monopoly theory – the transaction is planned with respect to the market power. Horizontal and conglomerate M&A may allow firms to cross-subsidize products, simultaneously limit competition in more than one market, and deter potential entrants from the markets, all of which result in higher market power

Raider theory - a raider attempts to obtain some of the wealth of the stockholders of the firms for which they bid. This objective could be accomplished, for instance, by way of greenmailing, or exorbitant payment demands following a prosperous M&A.

Valuation theory - M&A is planned and executed by managers who have better information about the target's value than the stock market

Empire building theory - M&A is planned and executed by managers who thereby maximize their own utility instead of shareholders' value

Process theory - decisions are not rational choices, but rather the results of existing processes characterized by the persons concerned and their environment. Organizational routines, political interests, and managers' former experiences are, for instance, essential contextual and environmental motives that could impact the process of decision making and its outcomes

Disturbance theory - M&A waves are caused by economic disturbances: Economic disturbances cause changes in individual expectations and increase the general level of uncertainty, thereby changing the ordering of individual expectations. Previous non-owners of assets now place a higher value on these assets than their owners and vice versa. The result is an M&A wave.

Motivation for merger is important factor when considering M&A transaction (un)success. Important fact to consider is that distinguishing between different merger motives can be simplifying as particular merger is usually driven by more factors. As Brealey and Myers (2012) denote - no matter what the motive is the common goal is to maximize the value of the firm to its stockholders and owners. Management teams that deviate too far from this rule are likely to be replaced.

The most frequently mentioned word in relation to mergers and acquisitions is synergy. In another words combining two business units can enhance value through economies of scale and cost savings (Straub, 2007).

The expected presence of synergistic advantages encourages companies to invest in the costs associated with the M&A process as well as pay specific shareholders a premium for their shares. The benefits associated with synergy may result in a combined company having a positive net acquisition value (NAV):

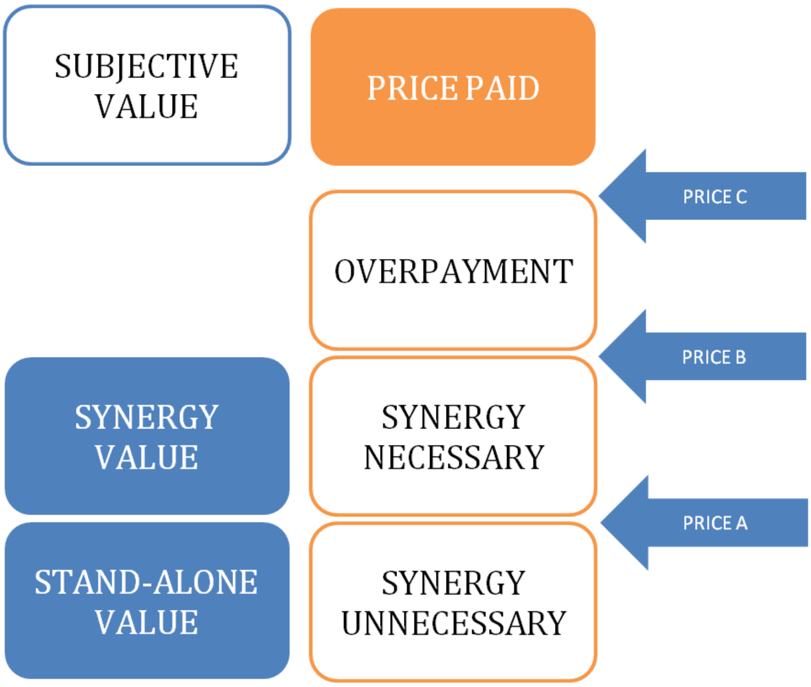
$$NAV = V_{ab} - (V_a + V_b) - P - E \qquad (27)$$

where

V_{ab} = the combined value of the two firms
V_b = the market value of the shares of B
P = premium paid for B
E = expenses for the acquisition process
V_a = A's measure of its own value

Similar relationship is depicted in the diagram below. It shows subjective value and realized price. The added value will be realized if realized price equals to the standalone value. If the price is higher, the synergy effect has lower probability. If the price is above the scope of the synergy value we can deduct that transaction will be failure from the synergy viewpoint:

Diagram 12 Subjective value vs. price paid



Source: Straub (2007)

Summary of motives for M&A

The following list of merger motives serves as the base of this thesis.

1. Cost reduction synergy

- economies of scale – increasing the production reduces the costs
- reducing superabundant activities – elimination of unnecessary HR or activities
- value added control – reducing costs in material purchases or logistics (supply chain)
- flexible production capacity – an ability to undertake more orders

2. Revenue enhancement synergy

- increasing customer base – new markets or distribution channels
- cross-selling – a possibility to use the distribution network for a completely new product and vice versa
- enhancing product portfolio – new products, production processes and technology
- internationalization – a merger with a foreign company can be a great benefit when penetrating new market in abroad

3. Unquantifiable synergy

- brand – a possibility to reach new customers or quality increase

- human resources – a base to realize synergy effect, this factor is one of the most critical in M&A activities
- R&D and technology – as mentioned in the interviews, this is often a key M&A decision factor

4. Other motives for M&A

- increasing or stabilizing the market share – considering horizontal merger this is a good strategy against increasing competition or as a defence in supplier-customer relationships
- tax incentive - profitable acquirers can essentially buy tax shields by purchasing a target with loss carry-forwards (Erickson and Wang, 2007)
- acquire discounted assets – motivation in the case of company liquidation
- portfolio diversification – the case especially in conglomerate mergers but applicable in general on each merger
- manager motivation – defence strategy against takeover, increasing the salary and position in the company (Straub, 2007)

4.1.6 Risks connected with mergers & acquisitions

Merger activity is undoubtedly bound to a certain level of risk in all of its phases. Considering the fact that 60 % of completed mergers did not fulfil the goals we can state that risks are significant.

The Economic Times define risk as "future uncertainty about deviation from expected earnings or expected outcome. Risk measures the uncertainty that an investor is willing to take to realize a gain from an investment. Risks are of different types and originate from different situations. We have liquidity risk, sovereign risk, insurance risk, business risk, default risk, etc. Various risks originate due to the uncertainty arising out of various factors that influence an investment or a situation."

DePamphilis(2011) categorize risks into three groups. Operating risks addresses the ability of the buyer to manage the acquired company. It is considered to be more risky in markets unrelated to the acquirer's core business. Financial risk refers to the buyer's willingness and ability to leverage the transaction. Finally overpayment risk considers the dilution of earnings-per share resulting from paying significantly more than the economic value of the company. The effect from this type of failure can last for years after the transaction.

Risk analysis usually includes following phases (Smejkal andRais, 2013):

- Asset identification – define and describe analyzed subject (company)
- Valuation of the assets – defining the value of the assets enables to quantify the loss when things go wrong
- Identify threats and weaknesses – define events that can negatively influence asset value and identify weaknesses of the company that can employ the threats
- Setting the weight of individual threats – define the probability under which a given event may occur

Proper risk analysis enables the management to undertake steps necessary to eliminate those risks. There is a high probability that risk analysis will be conducted more than once in order to fully cover an organization.

The risks need to be controlled, compared, analyzed and this is where risk management tools come into practice (Hlaváč, 2010).

Example of such a tool is the risk matrix that enables us to analyze the risks depending on the weight and possibility under which they may occur. Let us assume that person responsible for the merger receives information from different parts of due diligence. Particular risks are difficult to compare, to weight and they do not include financial valuation. The short example below demonstrates such situation:

Risk	Consequence	Probability
Risk 1 (e.g. stock ownership)	catastrophic	high
Risk 2 (e.g. technological problems)	minor	possible
Risk 3 (e.g. lawsuit)	major	less unlikely
Risk 4 (e.g. CEO retirement)	major	unlikely
Risk 5 (overvalued claims)	major	probable

Graph 2 Risk matrix

Probability	Unlikely	Less unlikely	Possible	Probable	High probabilty
Consequence					
Catastrophic					1
Major	4	3		5	
Intermediate					
Minor			2		
Irrelevant					

Source: Hlaváč (2010)

Coloured-fill fields are risky areas. Which risks need to be eliminated or accepted depend on the type of investor risk awareness. Risk awareness investor will manage all the risks in the risks matrix while risk lovers accept the risks outside of the red and orange fields. Only the rest of the risks will be managed and eliminated (Hlaváč, 2010).

The above mentioned method can be categorized as a qualitative approach to risk assessment – the analysis is not so time and data consuming on the other hand it can be considered as subjective to some extent. The method that combines both qualitative and quantitative methods for the risk assessment is analytic hierarchy process also known as AHP (Straub, 2007). The deeper description of another risk assessment techniques will not be provided as is not an ultimate or partial goal of this thesis.

4.1.7 History of mergers & acquisitions

We can observe six waves throughout the history of M&A. Generally speaking we can state that M&A trend has been set in United States.European market followed this trend with delay and in smaller scale (Kislingerová, 2007).

Patterns of transactions and its profitability vary significantly across different M&A waves there are also common elements. Mergers tend to occur during period of high economic growth, very low or decreasing interest rates and rising stock market.

There are two theories explaining why M&A waves occur. The first explains the waves as reaction of firms in industry to shocks in their operating environment. The shock can be represented by a large scale of factors from deregulation, emergency of a new technology / distribution channels / substitute products to increasing commodity prices. The size and length of such wave depends on how many industries were affected by the shocks. As a response to shocks firms acquire whole or parts of other firms.

Second theory is based on the misevaluation (assumption that markets are efficient and target's share price reflects accurately all information about the firm and its true economic value – in this case investors may undervalue or overvalue the firm). It suggests that mangers use overvalued stock to buy the assets of lower valued corporations (DePamphilis, 2011).

First wave (1897 – 1904)
As Depamphilis (2011) states - the first wave emerged due to drive for efficiency, lax enforcement of the Sherman Antitrust Act, technological change and westward migration. Mergers were mostly horizontal and concentrated in primary metals, transportation and mining. The first wave ended in 1904 due to fraudulent financing, not achieving of desired efficiency and market crash (Economywatch, 2010).

Second wave (1916 – 1929)
This wave focused on the mergers between oligopolies rather than monopolies typical for the first wave. The wave was a result of the United States entry into World War I and the post-war economic boom. The development of railroads and transportation provided necessary infrastructure for the mergers. The second wave mergers tended to be horizontal and further increased industry concentration. Most typical were mergers in metals, food, transportation and petroleum industry. The stock market crash in 1929 together with passage of Clayton Antitrust Act ended this phase.

Third wave (1965 – 1969)
Wave was characterized by conglomerate mergers. Long uninterrupted growth and rising stock market in the United States resulted in record in record price-to-earnings ratios where companies with high P/E ratios would acquire firms with lower P/E ratios and increase the earnings per share of both companies. This re-

sulted in boosted share price of combined companies. Poor performance together with increasing leverage of the conglomerates ended the third wave.

Fourth wave (1981 – 1989)
Period was specific for breakups of many major conglomerates and increased number of hostile takeovers. LBO (leveraged buyout) became primary acquisition strategy. Takeovers of US companies by foreign companies exceeded (both in amount and value) the acquisitions by US companies of firms in Europe, Canada and the Pacific Rim (Japan excluded). Mergers took place between the oil and gas industries, pharmaceutical industries, banking and airline industries. The wave ended with anti-takeover laws, financial institutions reforms and the Gulf War.

Fifth wave (1992-2000)
The wave took place mostly in banking and telecommunications industries - powered by a combination of the information technology revolution, reduction in trade barriers, global trend toward privatization and deregulation. Towards end of the 1990s both amount and volume in transactions set records. The wave ended with the Internet bubble burst, recession in the United States and weakened global growth.

Sixth wave (2003 – 2007)
Last wave was characterized by an explosion of highly leveraged buyouts and private equity investments. The transactions were in many cases financed by the form of syndicated debt. Because it is difficult to determine the ultimate holders of the debt after it is sold, declining home prices and a relatively few highly publicized defaults in 2007 triggered concerns among lenders that the market valueof their assets was actually well below the value listed on their balance sheets. Write-downs of the assets reduced bank capital and bank lending started to lag. Financial markets were destabilised and financing new and existing transactions became very limited (DePamphilis, 2011).

M&A waves in Europe
We can observe the first wave after 1984 -the first one in between 1987 to 1992 and second, bigger one from 1995 to 2001. We can see that the waves are synchronized with 4^{th} and 5^{th} wave in the United States.

The rationale behind European waves can be explained by the following events. Late 1980s were characteristic with collapse of Eastern bloc meaning that involved states started to implement market economy and privatization. In 1992 the SEA (Single European Act) helped establish a single market (europa.eu, 2014) and last but not least in 1999 12 member states adopted new common currency – EUR completing European Monetary Union (Hlaváč, 2010).

4.2 Research in mergers & acquisitions

Mergers & acquisitions are subject of many empirical studies. From those researching for success or failure rate to those that analyze probable reasons behind successful transaction. In the following section we are going to summarize to most important studies in the field.

4.2.1 Empirical studies and the rate of success

As Baker and Kiymaz (2011) suggest "M&A represents a fast-paced and highly complex environment in which transactions provide unique opportunities" however "these complex transactions are laden with potential problems and pitfalls. In fact many M&A transactions fail to realize expected benefits". As Jarillo (2003) states „M&A are at the core of many business successes...and failures". According to Lubatkin (1983), Jensen and Ruback (1983) the M&A do not yield the targeted financial returns. Statements by Young (1981) and Porter (1987) suggested that M&A have a high failure rate.

- Sirower (2000) – 65 % fail to benefit and they subsequently underperform
- Child (2001) – as many as 50 % of M&A are doomed to fail
- Mercer Management consulting (1995) – the 60% failure rate can be observed throughout the history of M&A
- Porter (1988) – 61% rate of failure
- McKinsey (1897) – 75% failure rate
- Banks and Hayes (1998) – 85% failure rate
- Hay group (2007) – more than 90 % of M&A fall short of their objectives
- Weber, Yakov, Tarba, Oberg (2013) – more than 83% companies failed to achieve the goals
- Bruner (2002) – 70 – 80 % of mergers do not create value above annual cost of capital
- Marks and Mirvis (2010) – 75 % of M&A fail to achieve the goals
- Watson Wyatt (2005) – 58 % of mergers do not create substantial value to their shareholders
- Bain & company (2004) – 70% failure rate
- Ernst & Young (2010) – more than 50 % of mergers fail to achieve increase in the shareholders value
- Sing and Christensen (2013) – historical failure rate of M&A is high as 90 %
- Kahn (2006) – failure rate ranges from 60 % to 90 %
- PwC (2013) – failure rate of mergers and acquisitions over 60 %
- Deloitte (2014) – M&A transactions have 83% failure rate
- KPMG (1999) – 83 % of mergers were unsuccessful

4.2.2 Empirical studies and the CSF

Several studies also researched the critical success factors. The section below discusses few of the most important.

Hayward (2002) –CSF can be clustered into three fields. The acquirer may select the wrong target, the target firm poor integration and overpriced target company.

Zweig (1995) – the most probable reasons for merger failure are inadequate due diligence, overestimated synergy effect, irrational strategic objectives, overpriced target firm, cultural conflict, slow and ineffective integration

Rubis (2001) – most common reasons for failure were cultural conflict, decrease in productivity, conflict in management level, slow decision-making process, improper key employees selection

Hoang (2007) – based on the research among top executives in consultancy firms the CSF were identified as following - clear objectives, goals and scope of the projects, Project manager commitment and competence (as well as team members), tight secrecy and information management, price valuation.

PwC (2013) – expected benefits were not realized because of overly optimistic revenue or cash flow forecasts, integration of different corporate cultures, business concepts and managerial styles, poor integration of information and financial reporting systems

Rockwell (1968) – there are 4 must-do factors that will influence the transaction – set the objectives and goals, specify gains for owners, check management ability and finally seek a good fit for the transaction. Other key factors involve analysis of performance factors or facing the problems in early stages of the project.

Epstein (2005) – there are 6 factors to merger success consisting of strategic vision and fit, fine deal structure, proper due diligence, formulation of the key integration processes and decisions, management of human resources and customer relations, addressing external factors that may damage long-term merger value. (Hoang, 2007).

It can be observed from the above mentioned that most of the studies suggest failure rate over 50 %. A possible explanation of such a number lies behind exhausting amount of studies suggesting a large scope of factors influencing the deals.

4.3 Statistical view on mergers & acquisitions

Based on the historical evidence we can conclude several facts. The mergers and acquisitions come in waves (described in section 4.1.7.), the transactions activity is following the business cycle and it is clustered into individual industries.

Statistics worldwide

The table below depicts era starting in 1985 including expected result in 2014. Fifth and sixth wave can be clearly seen in the graph with its peaks in 2000 and

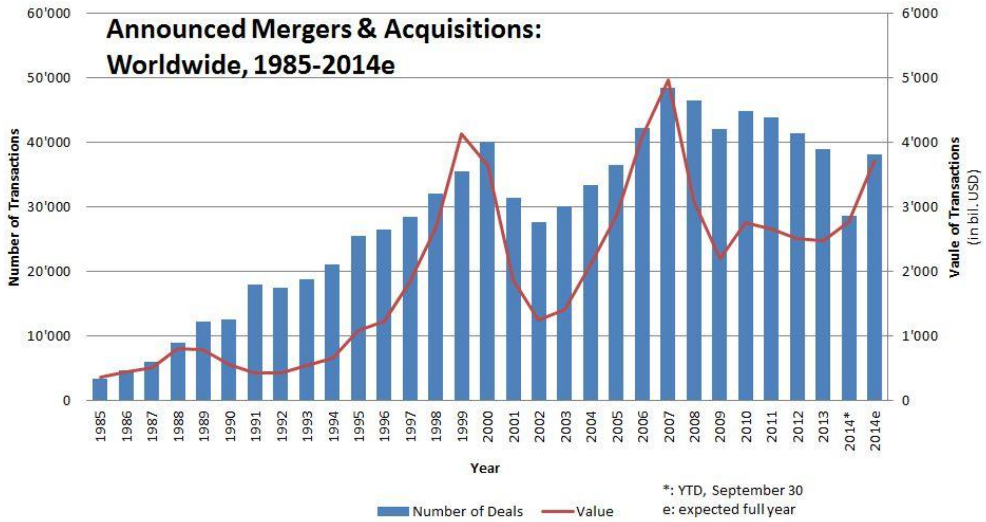
2007 respectively. The contour of the next wave can be seen due to the vast activity during 2014.

Based on the latest edition of Confidence Barometer (Ernst&Young, 2014) healthy grow in M&A should take the market back to the levels seen before financial crisis after five year of stagnation. The Confidence Barometer is survey of panel of 1 600 CEOs, CFOs and other executives in 62 countries from 18 various sectors. Based on the research 40 % of global companies expect to increase the deal activity by 1/3 in 2015 as 44 % executives see global economy as stable. The expectation is that the upcoming wave will be fuelled by middle market deals. The most active sectors will be automotive and transportation, technology, life sciences and retail. The top investment destinations will be Brazil, China, India, United Kingdom and the United States.

The growth is expected also according to the 2014 edition of KPMG's M&A Outlook Survey. The slight difference is the industries that will lead the activity in this case it is technology, life sciences, financial services, oil & gas. The leader in the deals will be the United States followed by China and Western Europe.

According to Deloitte's 2014 M&A trends report the vast majority of companies anticipate accelerated pace of mergers & acquisitions in next 2 years (2015 and 2016). The industries with the most activity will be technology, life sciences, alternative energy, oil & gas.

Graph 3 Announced M&A Worldwide in 1985 – 2014e



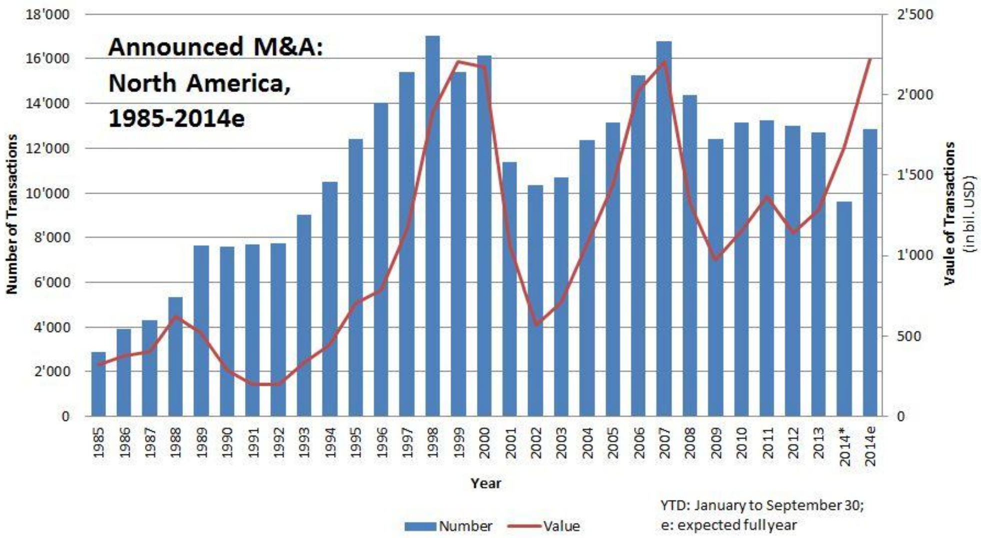
Source: IMAA (Thomson Financial Data), 2014

The European region number and transaction value is shown in graph below. Interesting is the comparison of Europe with North America (leading region in M&A transactions). As the amount of transactions is bigger comparing to the North America, the transaction value is much larger in North America than in Europe.

Graph 4 Announced M&A Europe in 1995 – 2014e

Source: IMAA (Thomson Financial Data), 2014

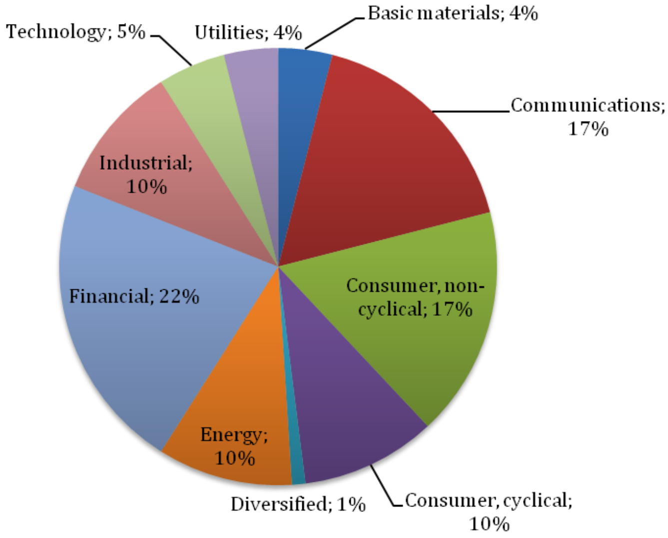
Graph 5 Announced M&A North America in 1985-2014e



Source: IMAA (Thomson Financial Data), 2014

As mentioned above – the deal activity is clustered into particular industry. The situation in 2013 can be seen in the table below. The most active industries were financial (22 %), communications (17 %), consumer non cyclical (17 %) and energy / industrial sectors (both 10 % share).

Graph 6 Total annual deal volume by industry



Source: Bloomberg (2014)

Statistical findings summarized in the report provided by Bloomberg shows significant difference in M&A activity in the US and the rest of the world namely EMEA (Europe, Middle-East and Africa), Asia-Pacific countries and Japan.

Tab. 5 Global M&A activity (mln EUR)

Year	2013		2012		
Area	Volume EUR (USD/EUR = 0,799)	Deal count	Volume EUR (USD/EUR = 0,799)	Deal count	Volume change
Americas	**€920 098**	**12 693**	**€906 175**	**13 144**	**1,54%**
Latin America	€75 563	900	€90 001	1 055	-16,04%
North America	€853 975	11 929	€839 624	12 200	1,71%
Canada	€69 657	1 539	€100 905	1 554	-30,97%
United States	€769 244	10 162	€708 450	10 460	8,58%
EMEA	**€537 389**	**7 004**	**€508 710**	**6 726**	**5,64%**
Eastern Europe	€65 973	1 174	€103 092	952	-36,01%
Western Europe	€426 092	5 199	€367 563	5 173	15,92%
UK	€102 338	1 863	€143 453	1 874	-28,66%
Germany	€69 717	758	€50 936	744	36,87%
France	€46 290	487	€26 868	512	72,29%
Asia-Pacific (exluding Japan)	**€355 026**	**6 418**	**€297 969**	**6 333**	**19,15%**
Australia	€52 344	910	€43 849	860	19,37%
New Zealand	€2 448	109	€3 506	132	-30,17%
China	€146 081	2 308	€106 774	2 382	36,81%
Hong Kong	€22 664	421	€13 859	349	63,53%
South-East Asia	€56 071	1 070	€60 102	982	-6,71%
India	€16 738	602	€26 003	704	-35,63%
Japan	**€46 636**	**1 543**	**€72 013**	**1 597**	**-35,24%**
Total	**€1 861 949**	**27 890**	**€1 786 050**	**27 966**	**4,25%**

Source: Bloomberg, 2014

Statistics in the Czech Republic

In the Czech Republic the problem with the statistic is that comprehensive data about M&A activity are missing. The transactions are listed in the commercial registry but there are no additional statistics regarding the topic. The consultancy firms are not willing to provide public with their internal statistics as they claim that duplicities occur due to the similar activities provided by the largest consultancy firms.

What can be observed however is that M&A follow the worldwide trends with slight delay (similar as whole European region). The times of economic prosperity are significant with increased M&A activity and vice versa. The Czech statistical office confirms the global trend – business cycle is positively correlated with M&A activity.

The 2014 edition of PwC study surveying CEOs of the Czech companies suggest that 76 % of them expect revenues increase in one year and almost 95 % expect the increase in three years time. More than 25 % of the companies plan to realize entering new markets.

4.4 Framework for measurement of mergers & acquisitions

The measurement of M&A performance has been a hot topic in both academic and professional fields since 1960s. The up to date evidence proves that research on M&A performance is fragmented, inconsistent and that research findings cannot be considered as coherent. The inconsistency is explained in many different ways. King (2004) explains it as uniqueness of each M&A transaction (hence no possibility to compare the results). Others claim that yet unidentified variables would better explain variance in M&A performance or as Zollo and Meier (2008) state the construct measurement is poor. The only consensus academics have is that M&A is unique and complex phenomena (Lubatkin and Shrieves, 1983).

Meglio and Risberg published paper in 2010 analyzing 101 articles in top-tier outlets on M&A. The performance is the dependent variable in 87% of articles meaning that performance is consider as one of the most important factors when measuring M&A success / failure. Almost 13 % of researches do not account for time scale. Considering the fact that indicators might show different values over time depending also on the external factors the approach is not quite right in author's view. The time basis analysis have been categorized into short (< 1 year), medium (1 – 3 years) and long-term (> 3 years). The distribution of the studies has been as follows:

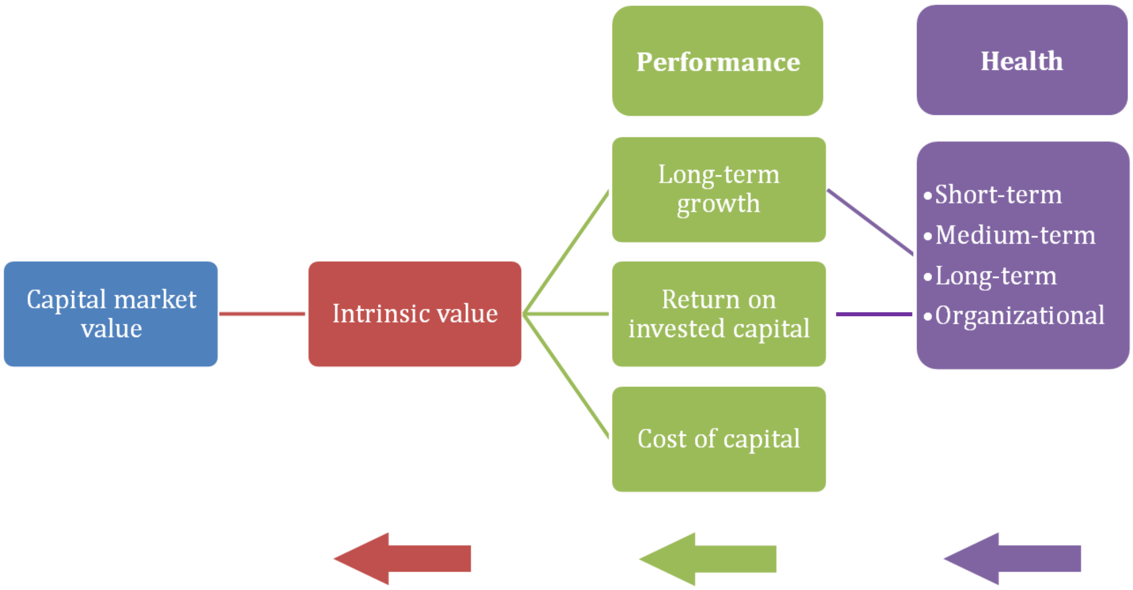
- short-term – 35 %
- medium or long-term – 48 %

Many academics consider three years as an average period of time for the integration process execution. In 75 % of cases the measurement is done from the acquirer's viewpoint. This does not have to be consider in the case of merger as the „acquired" company cease to exist.

The distribution of the studies based on number of indicators used goes slightly in the favour of those with one indicator. Measuring of the M&A performance can be categorized into financial, non-financial or mixed measures. Measuring performance within financial category dominates the researches even though it is important to mention that non-financial measures are gaining more and more popularity for the last decade. Market-based methods and accounting measures are commonly used to describe the performance. Lubatkin and Shrives (1986) justify the use of market-based measures by that they are direct and objective while those accounting based can be easily manipulated by managers. On the other side using of market-based measures is criticised for its inability to rely on clean marker-based data. One of the examples of such an indicator might be accounting ROA used by Zollo and Singh (2004) in order to measure to what extent performance was affected by post-merger decision and learning processes.

McKinsey & Company released a study in 2005 describing new comprehensive method of measuring company's performance:

Graph 7 Factors driving value in a company



Source: McKinsey, 2005

Performance measurement can be viewed from three different perspectives. Financial statements reveal the economic value that company has created in the past – this is also considered as company performance. Second set of metrics shows a company's ability to create economic value in the future and the risks that may endanger the process. This is regarded as company health. The last set asses the capital market value. Important is to account for external factors. For example increasing profitability of an oil company may not be caused by increased efficiency but by rising oil prices.

The study also suggests that metrics such as economic profit and growth might be more useful than those such as EPS (earnings per share). The rationale behind is quite simple: „Although growing companies that earn an ROIC greater than their cost of capital generate attractive EPS growth, the inverse isn't true: EPS growth can come from heavy investment or changes in financial structure that don't create value. In fact, companies can easily manipulate EPS—by repurchasing shares or undertaking acquisitions. Beside above mentioned metrics it is often used market value of the company, return on assets, EBITDA (earnings before interest, taxes, depreciation and amortization) or revenues.

Based on another article from McKinsey & Company (2001) the latter – revenues, deserves more attention in mergers. The authors assume that too many companies lose the revenue momentum as they concentrate on cost synergies and fail to deliver post-merger growth – the damage caused by decreased market performance is not compensated by decreased costs. The assumption is that 2 – 3% increase in revenues compensates 50% decrease in costs. Based on empirical evidence collected from 160 transactions from 1990 – 1996, only 12 % of the companies managed to accelerate the growth (Bekier, Bogardus, Oldham, 2001).

In general we can state that based on the financial analysis indicators we are able to measure merger performance by comparing the values before and after transactions in short, medium or long-term (Dobbs, Koller, 2005).

4.5 Performance measurement limitations

Evaluating M&A transaction success or failure on the financial data basis as shown in several studies (Ravenscraft and Scherer 1987, Dogra 2005, Eccles 1999; Jarrel et al. 1988; Jensen and Ruback 1983, Datta et al. 1992) is justified however deciding about the outcome must be much more complex. The objectives of the transactions have to be taken into account same as strategy formulation and execution. The external factors have to be clearly set aside in order to decide what was really caused by the transactions itself.

Even though the merger was conducted by the book - it may occur that company market value decreased right after the transaction or that financial analysis indicators are worse-off. It cannot be stated that transaction is a failure as the indicators might be influenced by factors outside of the transaction (Straub, 2007).

5 Empirical analysis

The following chapter is concerned with empirical study of critical success factors and their role in (un)success of merger transaction. The approach is based on both qualitative and quantitative analysis. The qualitative analysis consists of semi-structured interview with experts in the field. The quantitative analysis used structured interview distributed to the firms where merger took place.

Considering the territory the domestic transaction have been chosen because of author's orientation and ability to receive reliable data where the chance is much higher in case of domestic transactions rather than those in abroad.

The time frame is set in between years 2007 to 2010 covering in total 4 years development of financial data. Each company in the sample has been followed one year before the transaction (including companies that cease to exist), and subsequently three years after the transaction. More thorough explanation of the reasons for this specific method of data collection is explained in the chapter 3 Materials and methods.

The objective of this chapter is to identify critical factors within the transactions, set the criteria of merger success. The objectives will be worked out based on the literature research and partly on the interviews with experts in the field.

5.1 Sample analysis

The thesis operates with the following amount of companies where merger took place in between 2007 and 2010:

2007	57 companies
2008	55 companies
2009	53 companies
2010	45 companies

The companies can be classified according to several criteria. The firms were divided according to the industry where it operates, size of the company, and relative size of the merged companies.

Industry

The companies are classified based on the CZ-NACE (Economic activities classification) that came into force in 2008 (Sdělení ČSÚ o zavedení klasifikace ekonomických činností, 2007). Such classification allows us to compare the data from our analysis with the development of economics within industries. In most cases the mergers were intra-industry in few cases where companies' activities have been different the prevalent activity has been considered. There are no transactions in between two companies in completely different fields.

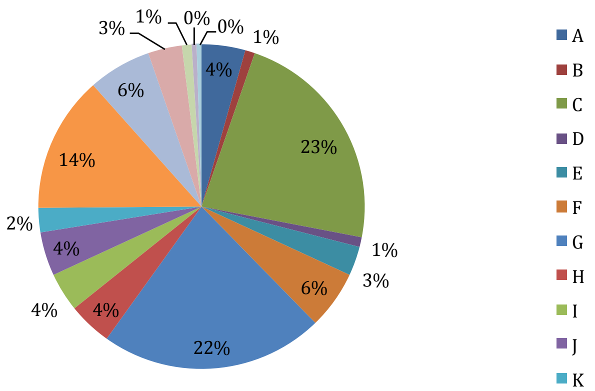
Tab. 6 Companies amount according to the industry sector

CZ-NACE	Industry	2007	%	2008	%	2009	%	2010	%	SUM	%
A	Agriculture, forestry and fishing	1	1,75%	2	3,64%	1	1,89%	5	11,11%	9	4,29%
B	Mining and quarrying	0	0,00%	0	0,00%	0	0,00%	2	4,44%	2	0,95%
C	Manufacturing	11	19,30%	11	20,00%	11	20,75%	14	31,11%	**47**	**22,38%**
D	Electricity, gas, steam and air conditioning supply	1	1,75%	0	0,00%	1	1,89%	0	0,00%	2	0,95%
E	Water supply; sewerage; waste managment and remediation activities	0	0,00%	3	5,45%	5	9,43%	0	0,00%	8	3,81%
F	Construction	3	5,26%	2	3,64%	4	7,55%	3	6,67%	12	5,71%
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	14	24,56%	15	27,27%	9	16,98%	8	17,78%	**46**	**21,90%**
H	Transporting and storage	3	5,26%	3	5,45%	2	3,77%	1	2,22%	9	4,29%
I	Accommodation and food service activities	2	3,51%	4	7,27%	2	3,77%	0	0,00%	8	3,81%
J	Information and communication	6	10,53%	1	1,82%	1	1,89%	1	2,22%	9	4,29%
K	Financial and insurance activities	2	3,51%	3	5,45%	0	0,00%	1	2,22%	6	2,86%
L	Real estate activities	9	15,79%	2	3,64%	11	20,75%	6	13,33%	**28**	**13,33%**
M	Professional, scientific and technical activities	3	5,26%	6	10,91%	2	3,77%	1	2,22%	12	5,71%
N	Administrative and support service activities	1	1,75%	3	5,45%	2	3,77%	2	4,44%	8	3,81%
Q	Human health and social work activities	0	0,00%	0	0,00%	2	3,77%	0	0,00%	2	0,95%
R	Arts, entertainment and recreation	1	1,75%	0	0,00%	0	0,00%	0	0,00%	1	0,48%
S	Other services activities	0	0,00%	0	0,00%	0	0,00%	1	2,22%	1	0,48%
TOTAL		**57**	**100,00%**	**55**	**100,00%**	**53**	**100,00%**	**45**	**100,00%**	**210**	**100,00%**

Source: Author’s own calculation

The companies are distributed amongst all the industry sectors with the exception of (O - Public administration and defence; compulsory social security, P-Education, T - Activities of households as employers; undifferentiated goods - and services, U - Activities of extraterritorial organisations and bodies). We can observe steady decline in wholesale and retail from 14 transactions in 2007 by almost ½ to 8 transactions in 2010. More rapid decline can be seen in information and communication from 6 transactions in 2007 to only 1 transaction in consequent years. Volatile year-to-year changes are recorded in real estate activities while water age, waste and agriculture and fishing have increase in 2009 and 2010 respectively. The most active industries are manufacturing and wholesale and retail trade.

Graph 8 Sample distribution across business industries



Source: Author’s own calculation

Tab. 7 2007 Transaction values in respective industries (ths CZK)

CZ-NACE	no of companies	% share	Transaction Value	Average Trans Value
A	1	1,75%	26 324 Kč	26 324 Kč
C	11	19,30%	90 183 668 Kč	8 198 515 Kč
D	1	1,75%	19 221 418 Kč	**19 221 418 Kč**
F	3	5,26%	1 428 522 Kč	476 174 Kč
G	14	24,56%	9 052 704 Kč	646 622 Kč
H	3	5,26%	916 796 Kč	305 599 Kč
I	2	3,51%	885 718 Kč	442 859 Kč
J	6	10,53%	842 881 Kč	140 480 Kč
K	2	3,51%	2 718 794 Kč	1 359 397 Kč
L	9	15,79%	27 841 451 Kč	3 093 495 Kč
M	3	5,26%	2 342 165 Kč	780 722 Kč
N	1	1,75%	704 641 Kč	704 641 Kč
R	1	1,75%	19 192 Kč	19 192 Kč
TOTAL	**57**	**100,00%**	**156 184 274 Kč**	**2 740 075 Kč**

Source: Author's own calculation, financial statements of selected companies

Tab. 8 2008 Transaction values in respective industries (ths CZK)

CZ-NACE	no of companies	% share	Transaction Value	Average Trans Value
A	2	3,64%	1 996 523 Kč	998 262 Kč
C	11	20,00%	8 988 980 Kč	817 180 Kč
E	3	5,45%	107 349 Kč	35 783 Kč
F	2	3,64%	2 076 792 Kč	1 038 396 Kč
G	15	27,27%	10 769 707 Kč	717 980 Kč
H	3	5,45%	888 893 Kč	296 298 Kč
I	4	7,27%	1 531 579 Kč	382 895 Kč
J	1	1,82%	96 889 Kč	96 889 Kč
K	3	5,45%	5 716 225 Kč	**1 905 408 Kč**
L	2	3,64%	7 078 611 Kč	**3 539 306 Kč**
M	6	10,91%	2 070 366 Kč	345 061 Kč
N	3	5,45%	636 710 Kč	212 237 Kč
Total	**55**	**100,00%**	**41 958 624 Kč**	**762 884 Kč**

Source: Author's own calculation, financial statements of selected companies

Tab. 9 2009 Transaction values in respective industries (ths CZK)

CZ-NACE	no of companies	% share	Transaction Value	Average Trans Value
A	1	1,89%	523 339 Kč	523 339 Kč
C	11	20,75%	13 711 163 Kč	1 246 469 Kč
D	1	1,89%	7 315 928 Kč	**7 315 928 Kč**
E	5	9,43%	4 670 152 Kč	934 030 Kč
F	4	7,55%	4 997 304 Kč	1 249 326 Kč
G	9	16,98%	7 473 585 Kč	830 398 Kč
H	2	3,77%	6 685 506 Kč	**3 342 753 Kč**
I	2	3,77%	692 587 Kč	346 294 Kč
J	1	1,89%	15 100 190 Kč	15 100 190 Kč
L	11	20,75%	6 410 474 Kč	582 770 Kč
M	2	3,77%	601 073 Kč	300 537 Kč
N	2	3,77%	1 342 912 Kč	671 456 Kč
Q	2	3,77%	847 484 Kč	423 742 Kč
Total	**53**	**100,00%**	**70 371 697 Kč**	**1 327 768 Kč**

Source: Author's own calculation, financial statements of selected companies

Tab. 10 2010 Transaction values in respective industries (ths CZK)

CZ-NACE	no of companies	% share	Transaction Value	Average Trans Value
A	5	11,11%	610 609 Kč	122 122 Kč
B	2	4,44%	1 167 155 Kč	583 578 Kč
C	14	31,11%	14 874 760 Kč	1 062 483 Kč
F	3	6,67%	402 514 Kč	134 171 Kč
G	8	17,78%	3 557 436 Kč	444 680 Kč
H	1	2,22%	366 976 Kč	366 976 Kč
J	1	2,22%	335 970 Kč	335 970 Kč
K	1	2,22%	11 543 322 Kč	11 543 322 Kč
L	6	13,33%	6 247 899 Kč	**1 041 317 Kč**
M	1	2,22%	191 988 Kč	191 988 Kč
N	2	4,44%	433 249 Kč	216 625 Kč
S	1	2,22%	455 613 Kč	455 613 Kč
Total	**45**	**100,00%**	**40 187 491 Kč**	**893 055 Kč**

Source: Author's own calculation, financial statements of selected companies

The Tab. 7 through Tab. 10 reveal more important metrics that is value of particular transactions within industries. The largest value can be assigned to manufacturing throughout all the observed years. However the average transaction value had significant decline since 2007 by approximately 87 %. It can also be observed that other industries do not follow similar year-to-year trend as the amount of transaction is vast in overall and one transaction can influence the statistics very easily as it can be seen in electricity/gas/steam/air in 2007 or information and communication in 2009.

Size of the companies within the sample

We are able to divide the sample according to absolute size of the companies. The size is counted as amount of total turnover of the acquiring company in the year of the transaction. The categories are based on Commission Recommendation 2003/361/EC of 6th May 2003 concerning the definition of micro, small and medium-sized enterprises. The exchange rate is calculated as 27,4925 CZK/EUR (CNB, 18th October 2014). The total balance sheet is as follows:

Tab. 11 Companies distribution according to total turnover

Category	No. Employees	Total Assets EUR	Total Assets CZK	Category range (CZK)
micro	10	2 000 000	54 985 000	0 - 54 958 000
small	50	10 000 000	274 925 000	54 958 000 - 274 925 000
medium	249	43 000 000	1 182 177 500	274 925 000 - 1 182 177 500
large	>249	>43 000 000	> 1 182 177 500	1 182 177 500 - infinity

Source: Commission Recommendation 2003/361/EC of 6th May 2003

We observe transaction value in each size category, where average transaction value is also calculated:

Tab. 12 Companies distribution by size in 2007 (ths CZK)

Category	No. companies	% share	Transaction value	Avg transaction value
micro	13	22,81%	438 926 Kč	33 764 Kč
small	9	15,79%	1 386 296 Kč	154 033 Kč
medium	24	42,11%	18 756 320 Kč	781 513 Kč
large	11	19,30%	135 602 732 Kč	12 327 521 Kč
companies no.	**57**	**100,00%**	**156 184 274 Kč**	**2 740 075 Kč**

Source: Author's own calculation, financial statements of selected companies

Tab. 13 Companies distribution by size in 2008 (ths CZK)

Category	No. companies	% share	Transaction value	Avg transaction value
micro	9	16,36%	1 512 379 Kč	168 042 Kč
small	13	23,64%	1 677 183 Kč	129 014 Kč
medium	26	47,27%	13 421 204 Kč	516 200 Kč
large	7	12,73%	25 347 858 Kč	3 621 123 Kč
companies no.	**55**	**100,00%**	**41 958 624 Kč**	**762 884 Kč**

Source: Author's own calculation, financial statements of selected companies

Tab. 14 Companies distribution by size in 2009 (ths CZK)

Category	No. companies	% share	Transaction value	Avg transaction value
micro	3	5,66%	411 303 Kč	137 101 Kč
small	16	30,19%	3 493 824 Kč	218 364 Kč
medium	22	41,51%	16 849 764 Kč	765 898 Kč
large	12	22,64%	49 616 806 Kč	4 134 734 Kč
companies no.	**53**	**100,00%**	**70 371 697 Kč**	**1 327 768 Kč**

Source: Author's own calculation, financial statements of selected companies

Tab. 15 Companies distribution by size in 2010 (ths CZK)

Category	No. companies	% share	Transaction value	Avg transaction value
micro	5	11,11%	214 015 Kč	42 803 Kč
small	20	44,44%	3 781 363 Kč	189 068 Kč
medium	13	28,89%	8 610 741 Kč	662 365 Kč
large	7	15,56%	27 581 572 Kč	3 769 172 Kč
companies no.	**45**	**100,00%**	**40 187 691 Kč**	**866 452 Kč**

Source: Author's own calculation, financial statements of selected companies

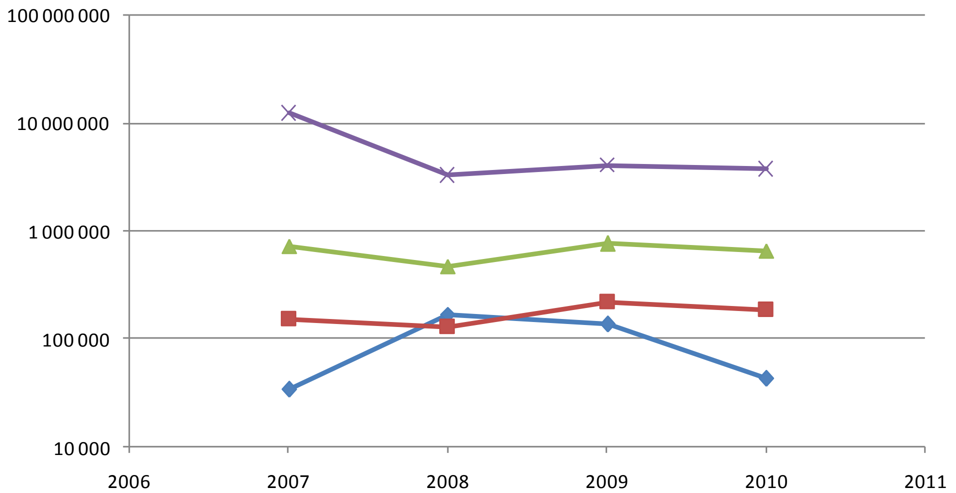
Tab. 16 Companies distribution by size in 2007 – 2010 (ths CZK)

Category	No. companies	% share	Transaction value	Avg transaction value
micro	30	14,29%	2 576 623 Kč	85 887 Kč
small	58	27,62%	10 338 666 Kč	178 253 Kč
medium	85	40,48%	57 638 029 Kč	678 094 Kč
large	37	17,62%	238 148 968 Kč	6 436 459 Kč
companies no.	**210**	**100,00%**	**308 702 286 Kč**	**1 470 011 Kč**

Source: Author's own calculation, financial statements of selected companies

Two interesting observations can be made. First is a significant increase of average transaction value in micro category in 2008 and 2009. Increase in 2008 is that big that average transaction value is higher in absolute terms than small enterprises. Second is that it contradicts the trend of other groups (small, medium, large) that have similar trends to each other. The decrease of activity is also much steeper than in case of small, medium and large enterprises. The development can be clearly seen in the following table:

Graph 9 Development of average transaction value by company size (ths CZK)



Source: Author's own calculation, financial statements of selected companies

Relative size of the companies

Comparison of total balance sheets within individual transactions give us interesting insight to the question whether firms tend to target companies that are significantly smaller or they are more towards equal merger.

To clarify this metrics the companies were dived into 3 categories:

A target company is small relative to acquirer (respectively new company)
B target company has approximately ½ size of the acquirer
C target company has approximately same size or is bigger than acquirer

Tab. 17 Relative size of the merged companies in 2007 (ths CZK)

Category	No. companies	% share	Trans value	Avg trans value
A	40	70,18%	71 572 948 Kč	1 789 324 Kč
B	17	29,82%	84 611 326 Kč	4 977 137 Kč
C	0	0,00%	0 Kč	0 Kč
Total	**57**	**100,00%**	**156 184 274 Kč**	**2 740 075 Kč**

Source: Author's own calculation, financial statements of selected companies

Tab. 18 Relative size of the merged companies in 2008 (ths CZK)

Category	No. companies	% share	Trans value	Avg trans value
A	29	52,73%	19 120 867 Kč	659 340 Kč
B	18	32,73%	11 550 473 Kč	641 693 Kč
C	8	14,55%	11 287 284 Kč	1 410 911 Kč
Total	**55**	**100,00%**	**41 958 624 Kč**	**762 884 Kč**

Source: Author's own calculation, financial statements of selected companies

Tab. 19 Relative size of the merged companies in 2009 (ths CZK)

Category	No. companies	% share	Trans value	Avg trans value
A	32	59,26%	56 675 036 Kč	1 771 095 Kč
B	20	37,04%	11 042 442 Kč	552 122 Kč
C	1	3,70%	2 654 219 Kč	2 654 219 Kč
Total	**53**	**100,00%**	**70 371 697 Kč**	**1 327 768 Kč**

Source: Author's own calculation, financial statements of selected companies

Tab. 20 Relative size of the merged companies in 2010 (ths CZK)

Category	No. companies	% share	Trans value	Avg trans value
A	28	62,22%	17 125 341 Kč	611 619 Kč
B	11	24,44%	17 371 988 Kč	1 579 272 Kč
C	6	13,33%	5 690 362 Kč	948 394 Kč
Total	**45**	**100,00%**	**40 187 691 Kč**	**893 060 Kč**

Source: Author's own calculation, financial statements of selected companies

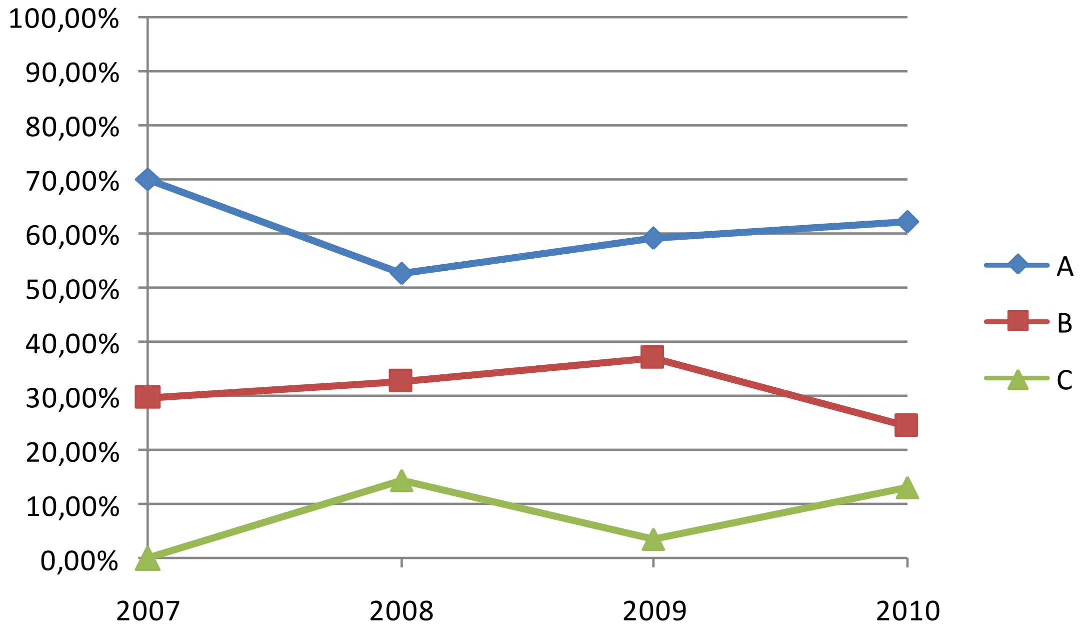
Tab. 21 Relative size of the merged companies from 2007-2010 (ths CZK)

Category	No. companies	% share	Trans value	Avg trans value
A	129	61,43%	164 494 192 Kč	1 275 149 Kč
B	66	31,43%	124 576 229 Kč	1 887 519 Kč
C	15	7,14%	19 631 865 Kč	1 308 791 Kč
Total	**210**	**100,00%**	**308 702 286 Kč**	**1 470 011 Kč**

Source: Author's own calculation, financial statements of selected companies

Two points of interest can be deducted from the above tables. Majority of transactions were between companies where one was significantly larger than the other where merger of equals was observed only in 7,14 % of cases. We can also state that no trend can observed as depicted in the following graph:

Graph 10 Share of transaction according to the relative size



Source: Author's own calculation, financial statements of selected companies

5.2 Sample distribution

In order to successfully confront primary data (structured questionnaire) and secondary data (financial statements) we have to divide the sample in between successful and unsuccessful transactions. The strict division is very problematic – this has been confirmed in the literature review. The most objective categorization would arise from primary motivation of participating companies and fulfilling of those objectives. Only changes that were consequence of the transaction itself would be considered. Such categorization is almost impossible regarding the number of analyzed companies and to some extent subjectivity of the respondents. One of commonly used technique is financial analysis from financial statements as is the case of this part where 4 year period is recorder for each company (1 year before the transaction and 3 years after the transaction including the year of transaction as well).

Sample distribution process

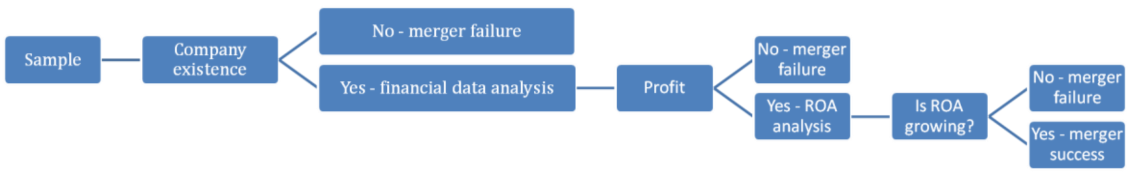
The process is threefold where each step eliminates transactions that are categorized as unsuccessful.

The first step assumes that long-term existence of the companies is the most important element. Once the company ceases to exist the merger cannot be considered as successful. This criteria is verified in the commercial registry.

The second step also assumes long-term existence of the company however this time from deeper perspective. As identified in the literature review and confirmed during interviews with experts – company should be fully integrated within 3-years' time after the transaction. If the company encounters problem with loss in all observed years the company future is at least uncertain. The author realizes that profit can be purposefully decreased by owners/managers (e.g. tax burden) however it is clear that long-term negative value is not acceptable. The merger is considered unsuccessful in the case that company encounters loss in all observed periods after the transaction.

The thirds and last step consists of ROA analysis. This particular metrics is used not only based on the literature research that identified ROA as a valid measurement for company performance (not only in case of M&A) but also assumes synergy effect. Successful transactions are such where company's ROA is higher after merger as it was before the transaction. The metrics calculates with earnings after tax (EAT) – it is important to mention that EAT is influenced not only by the internal processes and decisions but also by external factors. The whole process is depicted as following.

Diagram 13 Sample distribution process



Source: Author's own elaboration

Step 1 – existence of the companies

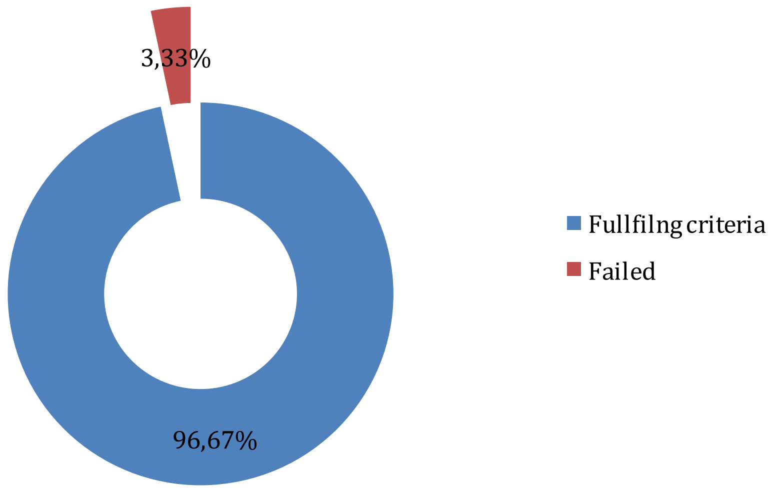
The sample contains 7 companies in overall that bankrupted or had been in liquidation in the observed period (3,57 % out of the sample). Such companies created only 3,33 % of the sample. The development does not reveal any trend.

Tab. 22 Step 1 sample analysis

	2007	2008	2009	2010	Total
No. of companies	57	55	53	45	210
Bankruptcy or liquidation	2	1	3	1	7
Share of total amount	**3,51%**	**1,82%**	**5,66%**	**2,22%**	**3,33%**

Source: Author's calculation, Commercial registry

Graph 11 Step 1 sample distribution



Source: Author's calculation, Commercial registry

Step 2 – profit/loss of the companies

The loss in all observed periods is in the case of 31 out of 210 companies (14,76 %) Sample can be further divided into companies that had loss even before the transaction where merger was sort of damage control – later proved as unsuccessful. The second case is that companies had profit before the transaction but together encountered only loss – in such case further qualitative analysis has to be undertaken in order to identify the problems.

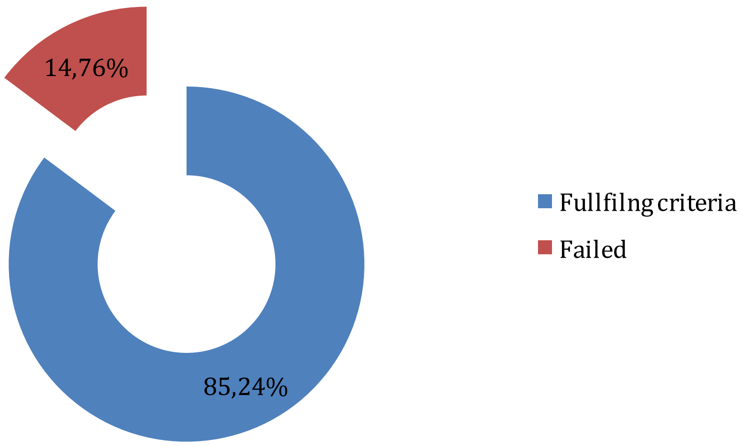
A declining trend can be observed. From 11 companies (almost 20 % out of the sample) in 2007 and 2008 to only 2 companies in 2010 (4,44 % out of the sample).

Tab. 23 Step 2 sample analysis

	2007	2008	2009	2010	Total
No. of companies	57	55	53	45	210
Bankruptcy or liquidation	2	1	3	1	7
Fullfiling step 1	55	54	50	44	203
Profit/Loss	11	11	7	2	31
Share of total amount	**19,30%**	**20,00%**	**13,21%**	**4,44%**	**14,76%**

Source: Author's calculation, financial statements of selected companies

Graph 12 Step 2 sample distribution



Source: Author's calculation, financial statements of selected companies

Step 3 – Return on assets

In order to completely understand the changes in the metrics the companies are divided into 6 groups where each group has same characteristics in the observed years. The table below summarizes these categories.

Tab. 24 ROA development categories and their description

Result	Group	Group description
SUCESFULL	1	ROA is always higher than before the transaction
	2	ROA declines in the year of the merger however it is higher in consequent years than before the merger
	3	ROA fluctuates however the average is above the value before the merger
UNSUCESFULL	4	ROA fluctuates and the average is below the value before the merger
	5	ROA fluctuates with decling trend or loss is recorded
	6	ROA is lower in all consequent years after the merger than before

Source: Author's own elaboration

The emphasis is to analyze the trend rather absolute values assuming that successful merger is when ROA increases or is at least the same. Benchmarking the values with the industry is not appropriate in this case. Explanation is quite simple – merger can be motivated by damage control and saving the company against bankruptcy – successful transaction is when ROA has increasing trend however the industry average is not met.

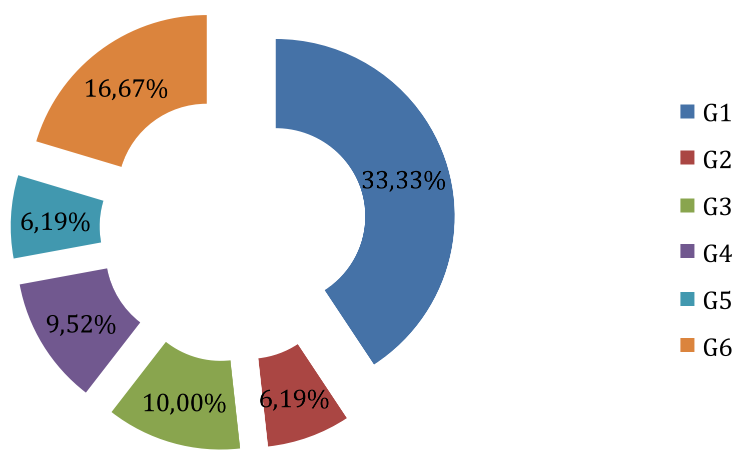
Following previous steps – the last sample distribution is as following:

Tab. 25 Step 3 sample analysis

	2007	2008	2009	2010	Total	Share of total amount
No. of companies	57	55	53	45	210	**100,00%**
Bankruptcy or liquidation	2	1	3	1	7	**3,33%**
Fullfiling step 1	55	54	50	44	203	
Profit/Loss	11	11	7	2	31	**14,76%**
Fullfiling step 1 and 2	44	43	43	42	172	
ROA Group 1	19	14	16	21	70	**33,33%**
ROA Group 2	5	1	3	4	13	**6,19%**
ROA Group 3	1	8	4	8	21	**10,00%**
ROA Group 4	1	7	8	4	20	**9,52%**
ROA Group 5	7	3	2	1	13	**6,19%**
ROA Group 6	11	10	10	4	35	**16,67%**

Source: Author's own calculation, financial statements of selected companies

Graph 13 Step 3 sample distribution



Source: Author's calculation, financial statements of selected companies

In most cases companies encountered either ever-increasing ROA or vice versa where ROA felt below pre-merger value. The least representatives have groups 2 and 5. Exact third of the sample are companies that immediately encountered increase in ROA and achieved the synergy effect.

Sample distribution – the whole picture

Finally we can evaluate and divide all the companies within the sample into successful and unsuccessful category. The distribution function divides the sample almost into two halves with slight dominance of unsuccessful mergers in the ratio 50,47 % to 49,53 %. Important to notice is the fact that sample division according to the 3rd step has been motivated by the literature research where ROA plays an important role in evaluating M&A performance and this is also author's belief. It cannot be stated that this is standardized guideline for M&A success measurement. Considering possible mistakes in author's judgment the sample distribution solely on steps 1 and 2 would be 18,09 % of unsuccessful mergers.

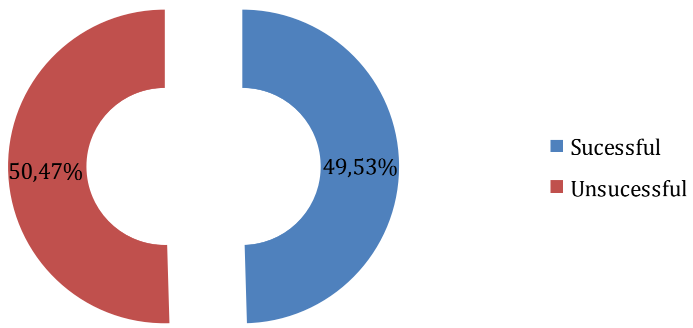
The table below summarizes overall performance of mergers conducted from 2007 to 2010. Noteworthy is a rapid increase of successful mergers in 2010 comparing to period from 2007-2009. The highest number of unsuccessfully merged companies can be observed in 2008.

Tab. 26 Sample distribution across observed years

	2007	2008	2009	2010	Total
No. of companies	57	55	53	45	210
Sucessful	25	23	23	33	104
Unsucessful	32	32	30	12	106
Share of sucessful	43,86%	41,82%	43,40%	73,33%	49,53%
Share of unsucessful	56,14%	58,18%	56,60%	26,67%	50,47%

Source: Author's own calculation

Graph 14 Overall sample distribution from 2007 to 2010



Source: Author's calculation, financial statements of selected companies

Confrontation of merger timing and GDP development

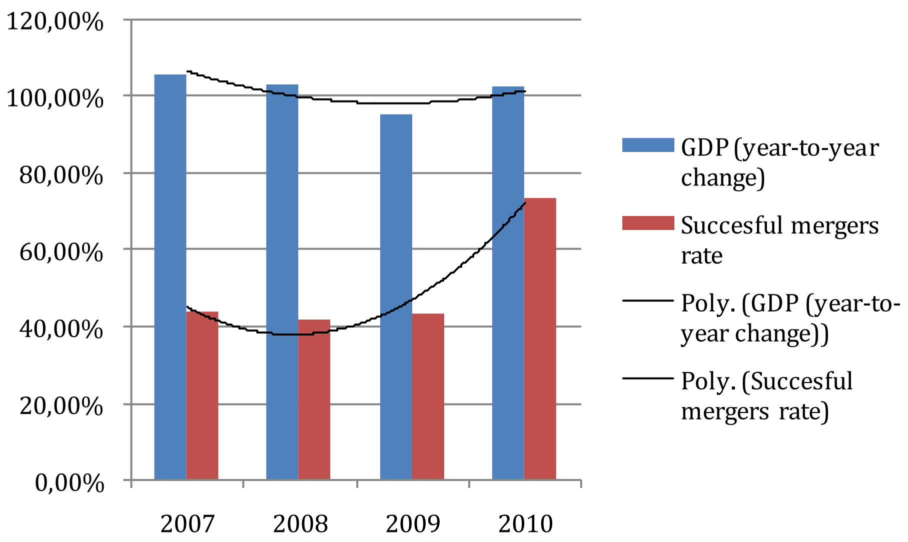
Not only KPMG's report (Positive economic development boosts the Swiss M&A market, 2014) but also several others indicate that economic development nourishes M&A activity. Let us now compare the GDP development together with mergers outcome in respective years. The hypothesis suggests that these two variables are correlated. The GDP is calculated by production approach.

Tab. 27 Comparison of GDP and mergers success development

	2007	2008	2009	2010
GDP (year-to-year change)	5,7	3,1	-4,7	2,7
Succesful mergers rate	43,86%	41,82%	43,40%	73,33%

Source: CZSO, author's own calculation

Graph 15 Comparison of GDP and mergers success development



Source: CZSO, author's own calculation

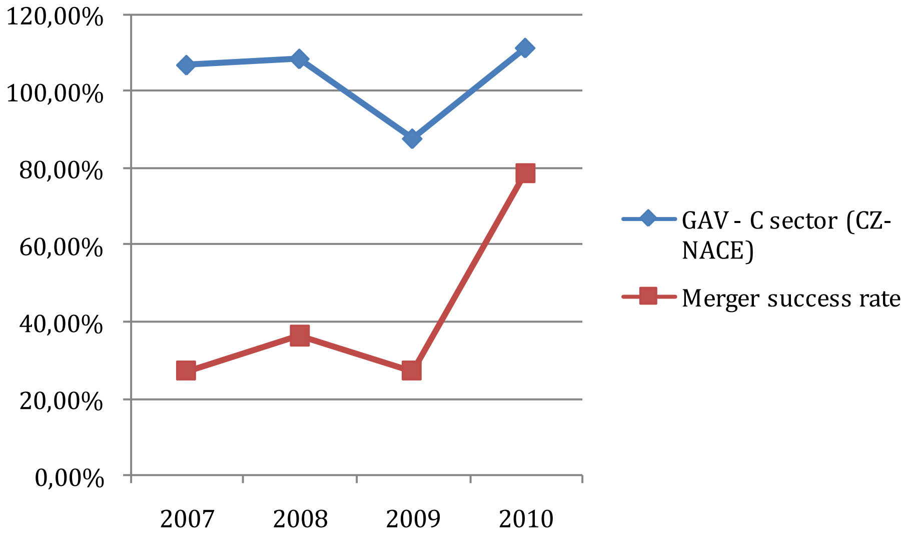
We can observe similar trend of two metrics however one additional adjustment has to be made. Industry sectors showed different gross added values were different during the years of observation. The following graph depicts relationship only between industry that have major representation within the sample namely C – manufacturing (47 companies), G – wholesale and retail trade (46 companies).

Tab. 28 GAV in C sector and merger success rate development

	2007	2008	2009	2010
GAV - C sector (CZ-NACE)	106,80%	108,40%	87,90%	111,20%
Merger success rate	27,27%	36,36%	27,27%	78,57%

Source: CZSO, author's own calculation

Graph 16 GAV in C sector and merger success rate development



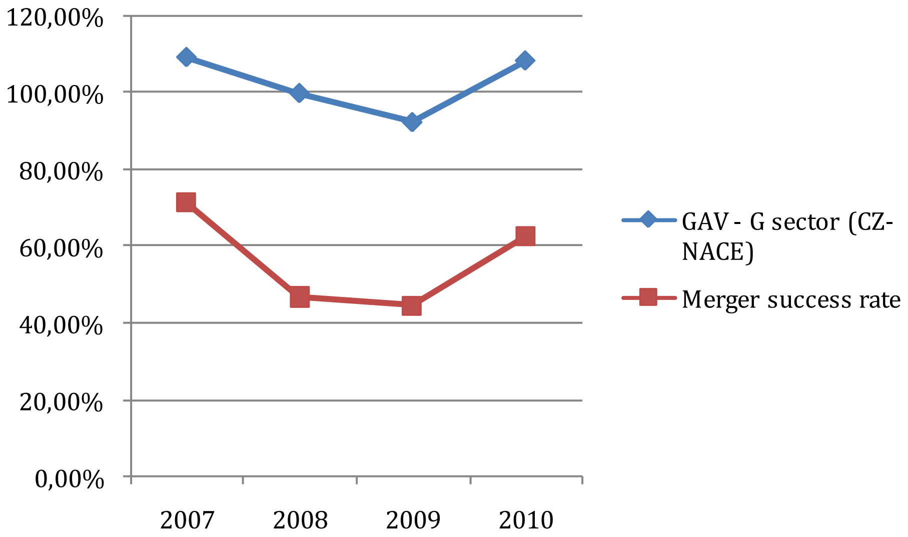
Source: CZSO, author's own calculation

Tab. 29 GAV in G sector and merger success rate development

	2007	2008	2009	2010
GAV - G sector (CZ-NACE)	109,40%	100,00%	92,40%	108,50%
Merger success rate	71,43%	46,67%	44,44%	62,50%

Source: CZSO, author's own calculation

Graph 17 GAV in G sector and merger success rate development



Source: CZSO, author's own calculation

The correlation can be seen from the scatter plot – even though the rate velocity is not always identical the trend has the same movement in both sector C and sector G. We can confirm the hypothesis – merger success rate and economic development is correlated.

The economic development does not only influence financials of the companies it has also psychological effect where impetus to merger activity is given by positive economic development and vice versa.

Confrontation of transaction value and merger success

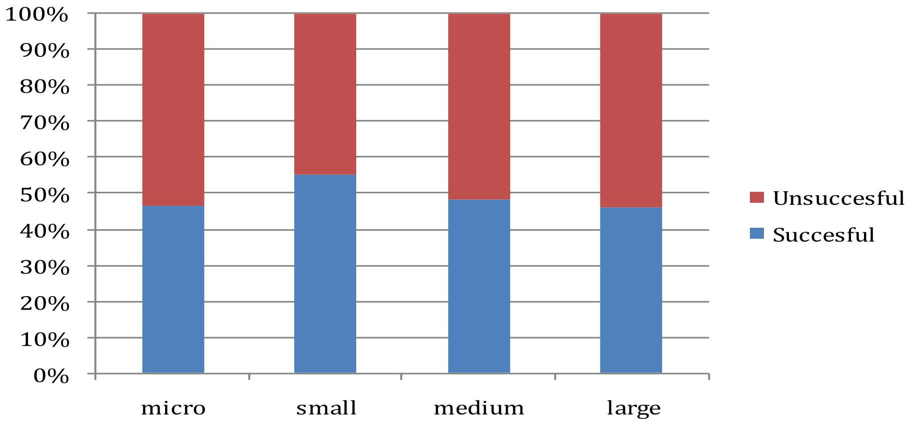
The sample distribution will be now compared according to the absolute company size (micro, small, medium, large). The rate of success is very similar in case of small, medium and large. The most successful are transaction within category small. Put that aside (micro companies represent the smallest group within the sample both in volume and transaction value) we can observe increasing rate of unsuccessful events with increasing transaction volume. This is against the theoretical standpoint where larger companies should provide more stability than smaller ones and are much more capable of absorbing transaction costs connected with the merger. On the other hand history thought us that this does not always apply. Perfect examples are provided in the Brunner's study (2009) „Deals from hell" summarizing the most disastrous examples of large merger failures (to name a few we can mention Time Warner and AOL, Columbia Pictures and Sony Corporation or Pennsylvania / New York Central Railroads).

Tab. 30 Failure rate and company absolute size (ths CZK)

Company size	Companies no.	Average trans value	Amount		Share	
			Succesful	Unsuccesful	Succesful	Unsuccesful
micro	30	95 427 Kč	14	16	46,67%	53,33%
small	58	172 620 Kč	32	26	55,17%	44,83%
medium	85	658 923 Kč	41	44	48,24%	51,76%
large	37	5 872 618 Kč	17	20	45,95%	54,05%

Source: Author's own calculation, financial statements of selected companies

Graph 18 Failure rate and company absolute size



Source: Author's own calculation, financial statements of selected companies

Confrontation of transaction relative value and merger success

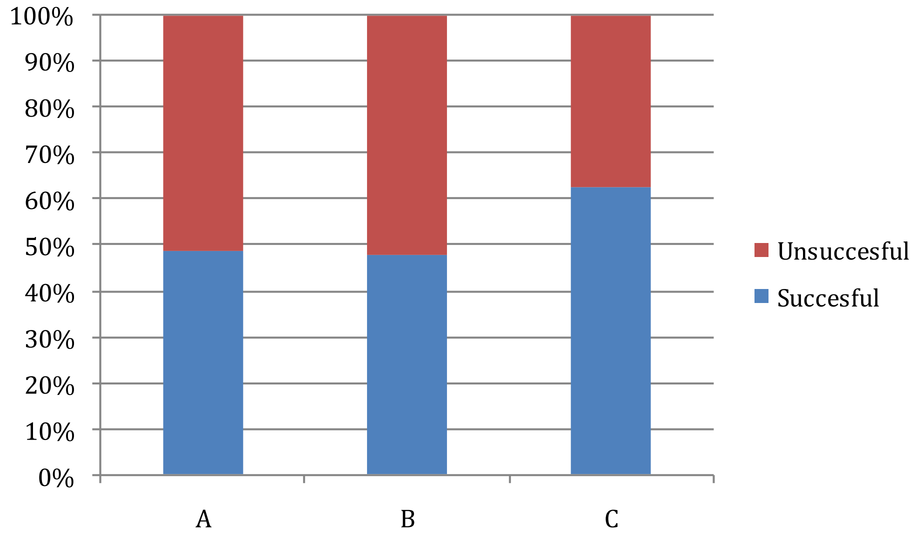
The relative size depicts the relationship of merging companies in the terms of their relative size to each other. The deeper explanation of this classification can be found in section 5.1 – Sample analysis. The most successful were mergers where companies had approximately the same balance sheets – the rate of success 62,50 % is also above the overall success rate by 12,3 %. On the other hand this group represents the least amount from the sample quite significantly and lowest average transaction value and reliability of this metrics with such distribution can be questioned. One or two transactions could easily create bias of the outcome.

Tab. 31 Failure rate and companies' relative size (ths CZK)

Relative value	Companies no.	Average trans value	Amount		Share	
			Succesful	Unsuccesful	Succesful	Unsuccesful
A	129	1 263 538 Kč	63	66	48,84%	51,16%
B	65	1 891 942 Kč	31	34	47,69%	52,31%
C	16	1 189 071 Kč	10	6	62,50%	37,50%

Source: Author's own calculation, financial statements of selected companies

Graph 19 Failure rate and companies' relative size



Source: Author's own calculation, financial statements of selected companies

5.3 Structured survey

The following chapter describes results of primary data collection by survey conducted in the companies involved in merger activity from 2007 to 2010 that are also part of our data sample – in overall 210 companies. The method of data collection is thoroughly described in the Chapter 3 – Methodology. The goal of this section is to explain reasons for frequent failures in mergers by cross-referencing survey outcomes and distribution of successful and unsuccessful transactions (see Chapter 5.2 – Sample distribution).

5.3.1 Structured survey information

The survey has been distributed to all the companies within the sample regardless the fact whether they are ranked as successful and unsuccessful. This approach is chosen due to the small amount of companies within the sample but also as an interesting indicator of merger success definition from different standpoints – this may occur especially in cases where merger was not primarily motivated from financial standpoint. The survey is the same for both groups of companies from the following reasons – standardization, accusation of transaction being failure might bias the respondent causing „choosing the role" effect where respondent answers in the way it is best for him.

The survey consists of 12 questions where the last one was an open question for additional information. The critical part is to ask only relevant questions that are going to be beneficial to explain the topic. The basis for question is in the theoretical part where each step in the merger process is represented and failure to deliver these steps may cause merger as unsuccessful. The questions are further reviewed based on the interviews with experts in the field (see Chapter 5.4 – Semi-structured interview).

5.3.2 Survey response rate analysis

Quite problematic part of each survey is low response rate. Several studies indicate an average response rate 10 – 15 % that is considered to be good. However general practice (especially within direct marketing experience) is much more tragic. The open rate is approximately 20 % whereas response rate only 3 %. Considering our particular results - the open rate 41,90 % and response rate 14,76 % can be considered as superb.

Tab. 32 Structured survey response analysis

		Number	%
Companies in the sample		210	100,00%
Surveys distributed		196	93,33%
Displayed		88	41,90%
Responses		**31**	**14,76%**
Group	succesful	15	48,39% out of responsed
	unsuccesful	16	51,61% out of responsed
Time range of responses		4.11. - 28.11.2014	
Average time of response		0:04:10	

Source: Structured survey responses

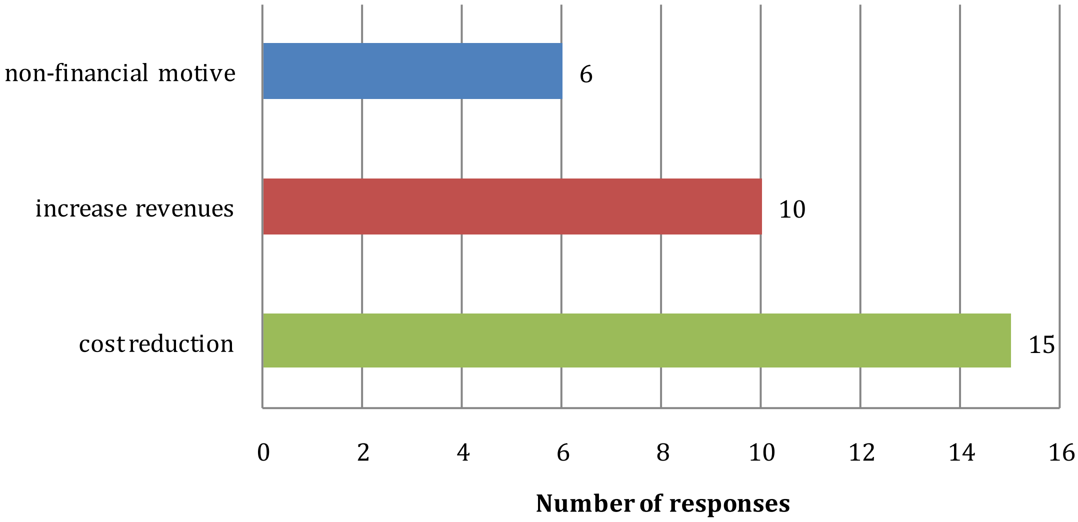
5.3.3 Survey response analysis

The questions are listed exactly as they were in the survey (see complete survey in Appendix). The first set of question analyzes general info about merger (questions 1-3) – the second part is aimed to CSF analysis (questions 4-11). If one or more questions are answered negatively we can state that the step may have caused problems. In case of failed mergers such step/activity probably caused the failure whereas in case of successful merger the step/activity caused problems that were solved before, during or after the transaction.

Question 1 – Merger motivation

In almost 50 % of cases the rationale behind merger is to reduce costs with an even distribution across successful and failed mergers. In most cases firms are motivated to such action in cases when an acquisition took place or the company is owned by the same subject. A clear prove of this hypothesis can be seen in question 5 where almost 50 % of the companies did not have to select the company for the transaction. The costs are reduced by several ways for example decreasing staff for administration, reducing superabundant activities, value added control or more flexible production capacity.

Graph 20 Summary of Q1 responses

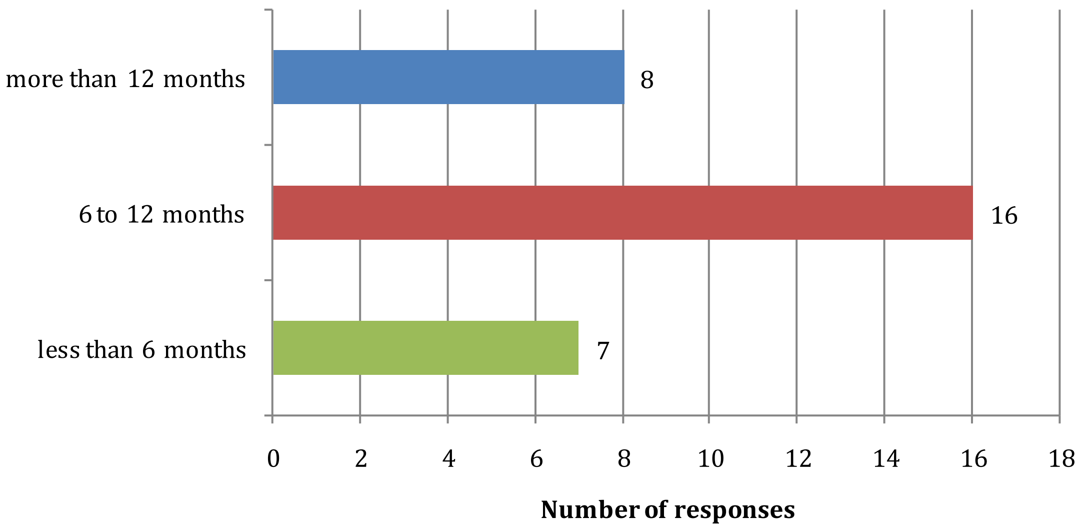


Source: Structured survey

Question 2 – Preparation of the merger (time range)

Preparation is a key for success as identified not only in literature research but also during the expert's interviews. The responses are evenly distributed across successful and failed mergers. We can expect less time for preparation of companies where the acquisition took place or is owned by the same subject. More than 50 % of companies needed from 6 months up to 1 year to prepare the transaction.

Graph 21 Summary of Q2 responses

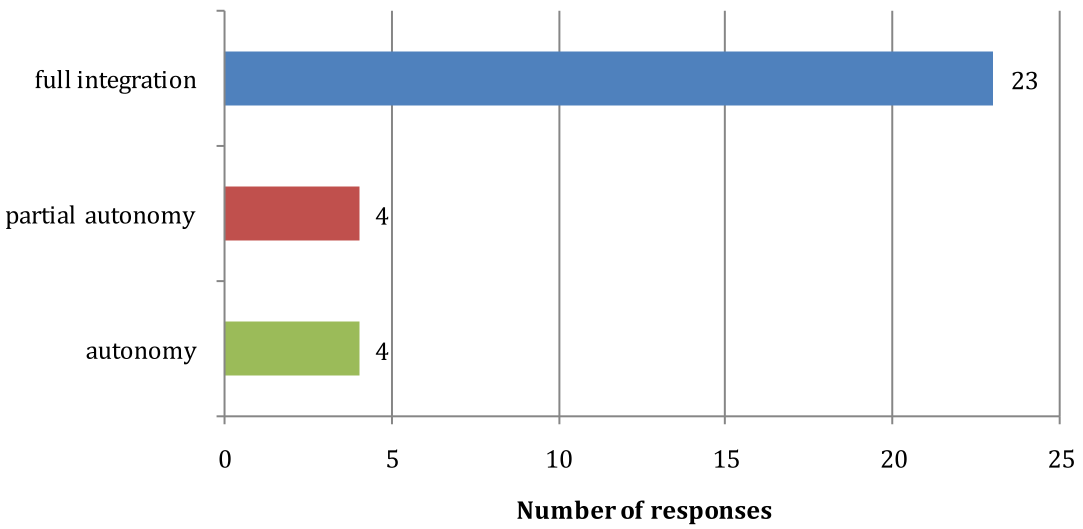


Source: Structured survey

Question 3 – To what extent the target company has been integrated

Literature suggest that deeper the integration the higher probability of failure. More activities have to be done and risk of any mistake increases. Almost 75 % of the companies fully integrated the companies. The results backup this theory as both companies that answered „partial autonomy“ and „autonomy“ belong to the group of successful mergers. Almost 70 % of companies that answered „full integration“ belong to the failed transactions.

Graph 22 Summary of Q3 responses

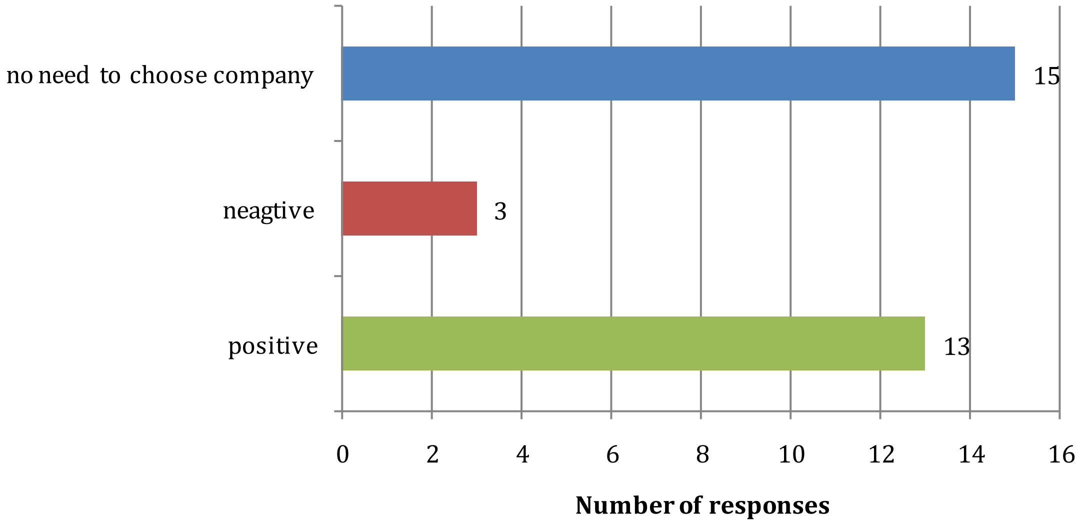


Source: Structured survey

Question 4 –Outcome and selected company

Most companies did not have to solve the question of company selection. The step of choosing the right company is ranked as very important in literature on the other hand it applies usually to acquisitions. As for the rest - most of the companies have positive experience with company selection (even distribution across successful and failed mergers). All the companies with answer „negative" belong to the category of failed mergers which indicates one of the probable reasons for transaction failure in their case.

Graph 23 Summary of Q4

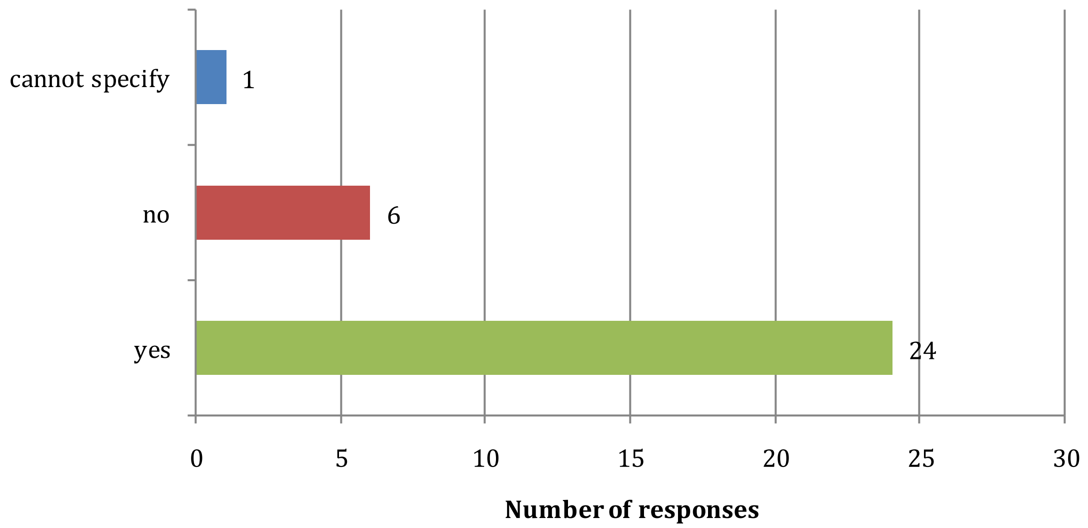


Source: Structured survey

Question 5 – Due diligence

Almost 20 % regard the due diligence as unsatisfactory or lacking deepness. Interesting is that these companies belong from 84 % to failed mergers category. This suggests that due diligence is an important part not only for acquisitions but for mergers as well.

Graph 24 Summary of Q5

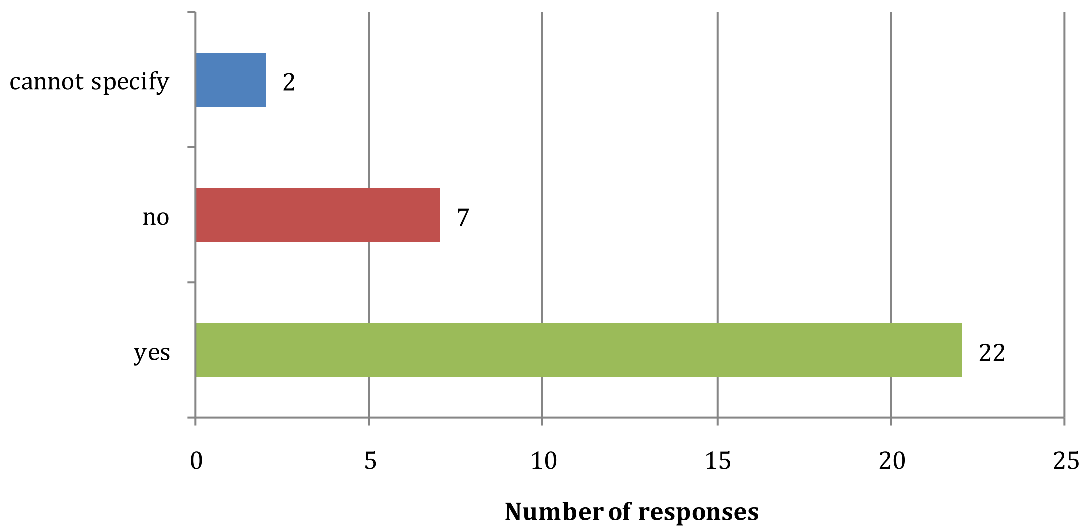


Source: Structured survey

Question 6 –Outcome and company strategy

More than 70 % of companies regard the strategy to be formulated right. Only 2 respondents did not have to cope with the strategy while they both belong to failed merger category. Over 71 % of companies that criticised the corporate strategy belonged to failed merger category. This suggests that corporate strategy plays a key role within merger transactions and wrong specification can be the cause transaction failure.

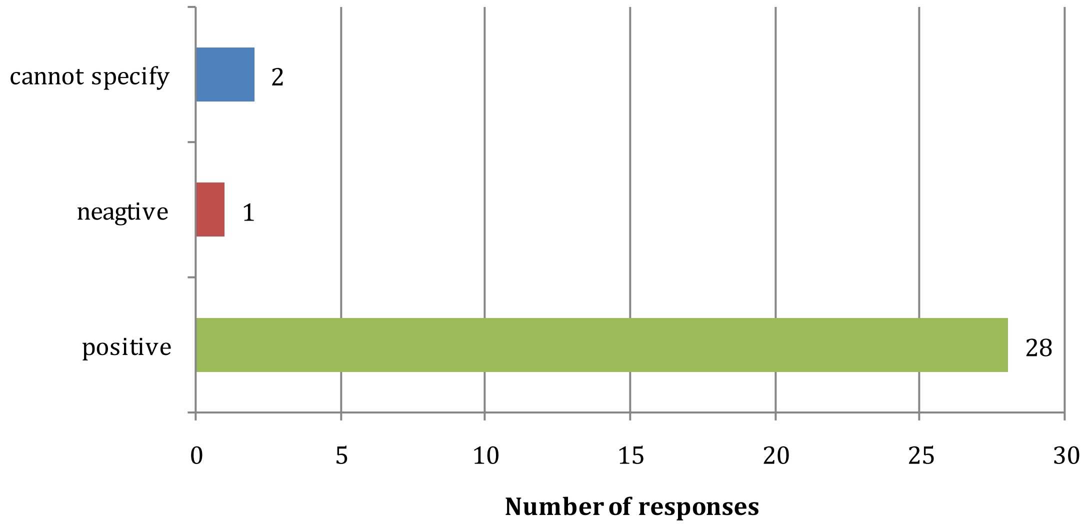
Graph 25 Summary of Q6



Source: Structured survey

Question 7 – Outcome and management skills and experience
Closer analysis of the responses suggests that there might be bias problem as over 90 % has positive evaluation of the management in the transactions regardless of the category they belong to (success/failure). This can occur if the responses were provided by the person that directly participated in the merger and subjectivity about itself can distort the credibility. The „negative“ response was chosen by company from failed category.

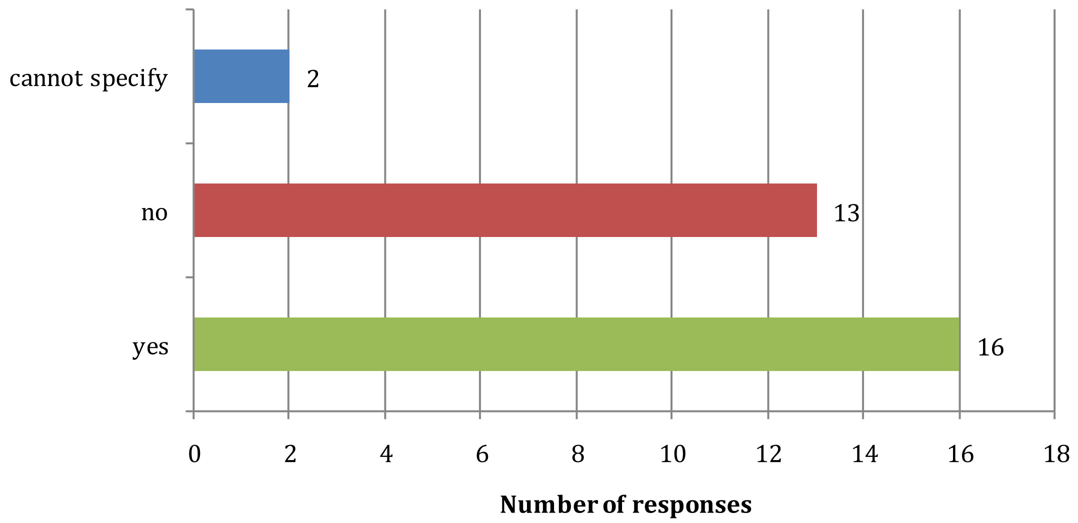
Graph 26 Summary of Q7



Source: Structured survey

Question 8 – Employees post-merger integration
Motivation of employees that belong to post-merger integration shows as a very problematic issue. Almost 42 % of companies experienced bad integration. Over 62% belong to the failed mergers category. This leads to assumption that sudden loss of key employees might caused significant problems in the post-merger phase.

Graph 27 Summary of Q8

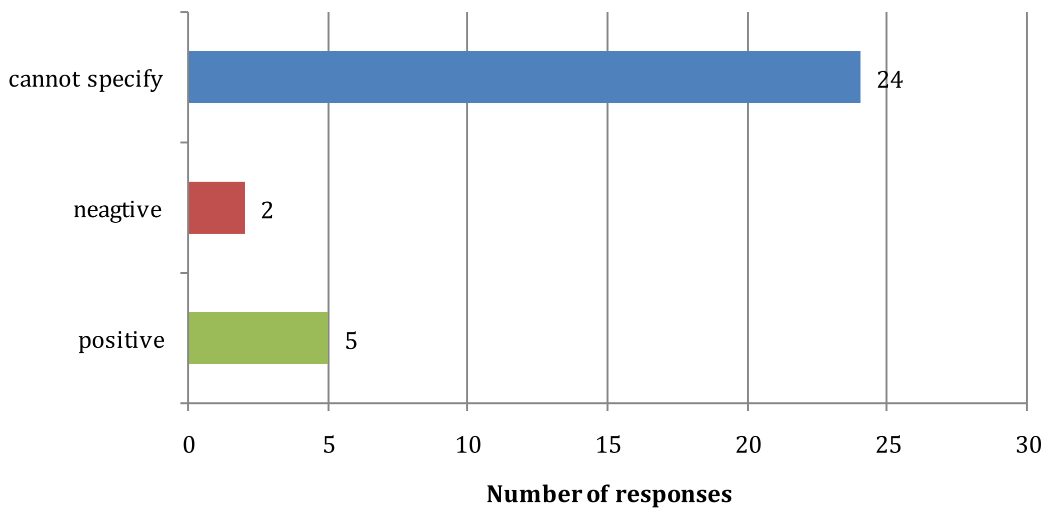


Source: Structured survey

Q9 – Outcome and legal problems

Only 6 % of the companies have encountered problems with the law and regulations in the merger. One company belonged to the failed category – this may suggest significance of the legal view on mergers while second one belonged to the successful category – this may suggest problems that have been solved in the right manner. In general we can state that legal problems were not considered as important by our respondents. Other explanation is that respondents were not involved in this part of the process.

Graph 28 Summary of Q9

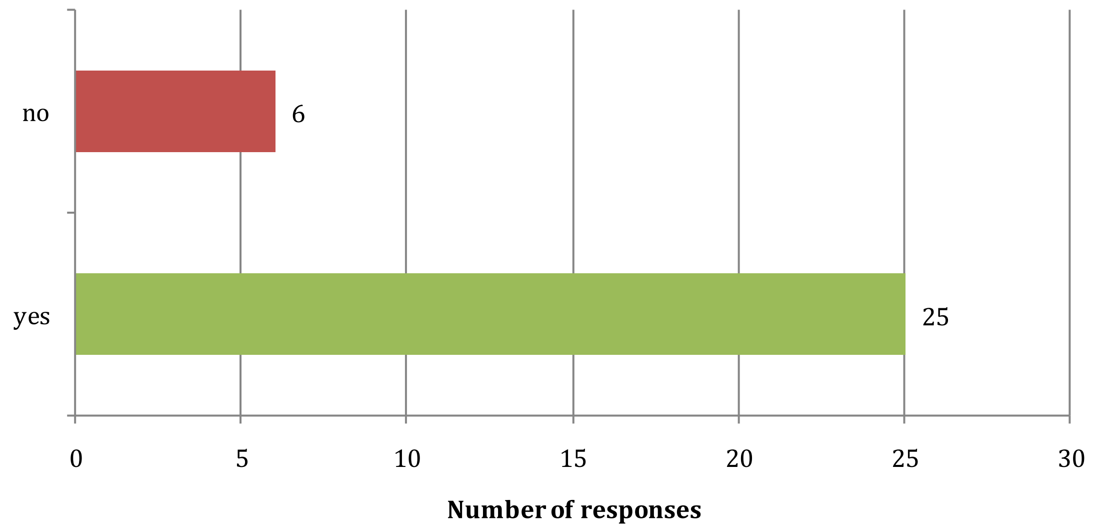


Source: Structured survey

Question 10 – Outcome and merger timing (in terms of economy development)

The time period of the analysis is quite problematic as it many corporations and states suffered from financial and debt crisis. The development of the merger activity worldwide goes hand in hand with this hypothesis as there is severe drop in transaction value both worldwide and in the European region in 2007 and further. Most companies (namely 80 %) in our sample do not observe the timing as a problem as only 6 respondents suggested otherwise. The distribution of the negative answers is even in both successful and failed categories so no outcomes can be derived in this case. The distribution of the responses would make sense in cross-border transaction where financial crisis caused that penetrating other markets, company growth or selling business became (in some cases) the only option of company preservation or gaining the best possible – in such a case the timing could go in favour of those willing to undertake the risks. Further study of the relationship would be necessary to confirm this hypothesis.

Graph 29 Summary of Q10

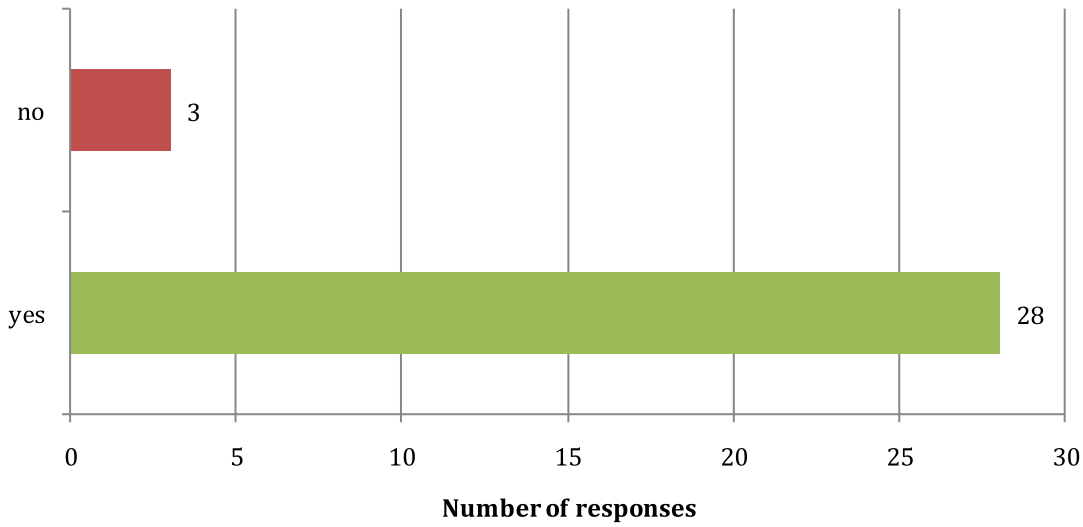


Source: Structured survey

Question 11 – Success of the transaction

Respondents that marked option „no“ belong to failed merger category. That means that in almost 10 % of cases respondents probably evaluate the merger success similarly as framework in the thesis. The rest evaluates merger as success even though they are ranked as failed in context of the thesis. Further explanation of this issue would require much deeper qualitative analysis of each subject. One possible explanation is that respondents observe company financial problems as a cause of economic development and they divide it strictly from merger post-performance. However this clearly contradicts to answers to Question 10 considering the timing as a cause of failure. In author's opinion the most probable explanation is that respondent is not willing to subjectively confess the failure or that the respondent was not well oriented in company's financial results and evaluates merger outcome based on different aspects.

Graph 30 Summary of Q10



Source: Structured survey

5.4 Semi-structured interview

The last method of primary data collection was the semi-structured interview with experts within M&A fields. Even though this way of data collection brings many disadvantages such as getting to the relevant people, motivate them to spend their time over answers and most importantly subjectivity of responses causing "interviewer bias".

On the other hand interview enhances the possibility to closely examine given subject and mainly receive the information that is verified and is coming from person that has superb orientation within the given problem.

This kind of data collection is necessary in this thesis as it serves as a link to the real-world transactions and issues. It does not only provide extension to the literature research but also verification of CSF identified in the structured survey (see Chapter 5.3.2 Survey response analysis).

Tab. 33 Brief profile of interviewees

Interviewee name	Company	Position	Experience with M&A	Interview type
Jan Veškrna	ČEZ Group Romania	CEO (Chief Executive Officer)	25 years	E-mail
Jana Vybíralová	CommScope Czech Republic	CFO (Chief Financial Officer)	20 years	E-mail
Tomáš Kratochvíl	AVG	Business Solution Analyst for M&A	3 years	Face-to-face

Source: Author's own elaboration

Considering the profile of the interviewees we can state that their industry sector is different varying from energy through network infrastructure providing to IT sector. Such diversity can reveal industry specific critical success factors. Two out of three interviewees were very experienced within the field while the third one has not such long experience in M&A however he was able to get hands on lot of transactions in a very small time. The interviews were conducted mostly by email correspondence and in one case face-to-face. The questions were formulated based on the literature review to best suit our analysis. In the first part the open questions tried to identify key success factors and problematic issues within each stage of M&A transaction. The second part consisted of standardized evaluation table giving each CSF (identified in the literature review) specific rank (1 - least important in terms of CSF to 5 – the most important in terms of CSF). The below table summarizes the most important answers from the first part of each interview:

Tab. 34 Simplified summary of interviewees answers

	Jan Veškrna (ČEZ)	Jana Vybíralová (CommScope)	Tomáš Kratochvíl (AVG)
Q1 - Your experience with M&A transactions?	both mergers and acquisitions starting from project assistant to head of M&A, dozens of transactions the most important with Energetika Vítkovice, REAS project, CEZ Bulgaria, CEZ Romania	both mergers and acquistions in the role of acquirer and acquiree, over 10 transactions	7 cross-border acquisitions conducted in France, Germany, Sweden, Canada and USA
Q2 - Motivation for M&A transactions?	revenue increase, cost reduction, market share, increase market value of the company, increase competitivness (synergy effect), base for future investments	market share, purchae power, acquisition of new technology	acquisition of distribution, technology, new market, product - motivation to increase users due to increase of company market value in NYSE
Q3 - What issues are the most problematic in M&A?	organizational changes and corporate governance, additional changes in the M&A project, cultural differences	small transactions: cultural differences and corporate processes, large transactions: management and reporting integration	organizational changes without proper plan, set responsibilities, brain drain, cultural differences
Q4 - How do you eliminate the risks?	understanding the project, proper due diligence and valuation model, nominating expiriences and skiled management for project implementation	proper planning, active seeking and solution of future problems, public information management	process and system analysis - finding key key employees to secure company continuity, proper planning of short and long-term activities, employee motivation
Q5 - How do you evaluate M&A success?	company growth - revenues incerease, market share increase, in general fullfiling objectives in master plan	revenue increase, market share increase, higher profit margin and increased effectiveness	revenue stagnation or increase, cost reduction, new product including acquired technology
Open answers - problematic issues not mentioned in the questionnaire	weak shareholder rights - decrease M&A success - example ČEZ in Albania, Bulgaria and Romania, changing expectations by shareholder	no additional remarks	cultural integration in different regions

Source: Author's own elaboration, semi-structured interview

Even though the interviewees come from different industries and they responded independently without knowing other answers the responds are very similar especially for question 2 and 3. Some responds are company-specific and cannot be included into our analysis as a general rule – example might be respond of Mr. Kratochvíl for question 2 regarding motivation for M&A transaction as increase in users base resulting in increase of company market value in NYSE. Similar is respond of Mr. Veškrna to an open question regarding weakness of shareholder rights in a new environment as this is specific to CEZ market penetration in Albania, Bulgaria and Romania.

The below tables try to assign values to identified CSF, giving an opportunity to write additional CSF that is not mentioned in the questionnaire. This option was used by two interviewees:

Tab. 35 Summary of CSF as viewed by interviewees

Jan Veškrna (ČEZ)

correct strategy formulation	1	2	3	4	**5**
choice of the target company	1	2	3	**4**	5
M&A planning	1	2	3	**4**	5
company valuation	1	2	3	4	**5**
due diligence	1	2	3	4	**5**
M&A timing (economy standpoint)	1	2	**3**	4	5
comapny market power and position	1	2	**3**	4	5
financial performance	1	2	3	**4**	5
expirienced and skilled management	1	2	3	4	**5**
cultural integration	1	2	3	**4**	5
company geographic location	1	**2**	3	4	5
companies similarity	1	**2**	3	4	5
organization structure integration	1	2	3	**4**	5
resources integration (production, financial, human)	1	2	3	**4**	5
shareholder rights in new environment	1	2	3	4	**5**
clear corporate governance	1	2	3	4	**5**
project stability in terms of support by shareholders	1	2	3	4	**5**

Jana Vybíralová (CommScope)

correct strategy formulation	1	2	3	4	**5**
choice of the target company	1	2	3	4	**5**
M&A planning	1	2	3	4	**5**
company valuation	1	2	3	**4**	5
due diligence	1	2	3	**4**	5
M&A timing (economy standpoint)	1	2	**3**	4	5
comapny market power and position	1	2	3	**4**	5
financial performance	1	2	3	**4**	5
expirienced and skilled management	1	2	**3**	4	5
cultural integration	1	2	**3**	4	5
company geographic location	1	2	**3**	4	5
companies similarity	1	**2**	3	4	5
organization structure integration	1	**2**	3	4	5
resources integration (production, financial, human)	1	2	**3**	4	5

Tomáš Kratochvíl (AVG)

correct strategy formulation	1	2	3	4	**5**
choice of the target company	1	2	3	4	**5**
M&A planning	1	2	3	4	**5**
company valuation	1	2	3	**4**	5
due diligence	1	2	3	4	**5**
M&A timing (economy standpoint)	1	2	**3**	4	5
comapny market power and position	1	2	3	**4**	5
financial performance	1	2	**3**	4	5
expirienced and skilled management	1	2	**3**	4	5
cultural integration	1	2	**3**	4	5
company geographic location	1	**2**	3	4	5
companies similarity	1	2	**3**	4	5
organization structure integration	1	2	3	4	**5**
resources integration (production, financial, human)	1	2	3	4	**5**
system integration (platform unification both HW/SW)	1	2	3	4	**5**

Source: Semi-structured interview

The CSF rankings can be observed from two viewpoints. First is the total sum of values assigned by respondents. The higher total sum means that given CSF is considered more important than those with less total sum. The second viewpoint analyzes similarity of ranking across respondents. CSF that are differently ranked by each respondent may suggest that such CSF is industry or position specific. Interpretation of such CSF may be problematic within the scope of our analysis.

The most important factor as identified by respondents is unanimously correct strategy formulation, followed by choice of the target / partner company, plan of M&A transaction, company valuation and due diligence. M&A timing, companies' geographic location and their similarity are considered to have the least weight on M&A success. Interpretation of CSFs such as management experience, organization structure integration and resources integration may be problematic as the rankings vary significantly across respondents.

6 Discussion and Conclusions

The objective of this chapter is to present and discuss the partial and main objectives of this thesis and comparing them to the results obtained from external researches. In order to generate clear and structured results the chapter is divided in between four sub-sections.

6.1 Partial objectives

Five partial objectives have been drawn in the beginning of the thesis. Reaching all goals was necessary in order to reliably reach to main objective of the thesis.

Partial objective 1: Define and describe M&A process and potential hassles
In the theoretical part the M&A overview is drawn based on the literature research. The M&A terminology is described as well as classification of different kind of transactions, M&A process is structured into six parts based on Watson Wyatt Deal Flow Model, legal consideration are taken into account both from perspective of the Czech law regulations as well as European Union legislative.

In the later stage different motivation for M&A are listed in order to understand what stakeholders expect from the transaction and to be able to draw base for success measurement. Risks connected with M&A identify potential problems in reaching the success. Brief history of M&A brings summary of M&A activity in more than 100 years of its existence.

It has been identified that M&A is important part of company's strategic development. However as Baker and Kiymaz states (2011) it is laden with many potential problems and pitfalls. Perhaps most universal quotation about M&A comes from Jarillo (2003): „M&A are at the core of many business success...and failures". In case of M&A failure the consequences can be fatal for the company. This problematic is popular amongst various researches and their studies where high M&A failure rate is often mentioned.

Partial objective 2: How can we decide that M&A were successful or not?
In order to set the failure rate of the sample the framework for its evaluation was suggested. It is clear from the literature research that M&A performance measurement research is fragmented and inconsistent. The framework is based on extensive research done by Meglio and Risberg (2010) that analyzed 101 influential papers in top-tier M&A outlets. As author of this thesis wanted to bring as reliable results as possible the most common methods of performance measurement for M&A success and failure were used. Namely it is the time span of the analysis and metrics used for the evaluation. As the sample contains 2010 companies that conducted merger from 2007 to 2010 the successful one is that did not bankrupt, does not have permanent loss and ROA shows increasing trend.

Partial objective 3: Examine different approaches and results to a given topic.
In order to come up with list of M&A critical success factors and failure rates the large volume of researches and studies have been summarized. The summary brings 18 different views on M&A failure rate – it can be stated that all of them suggested high failure rate in more than 50 % of cases. The CSF summary brings 7 studies that tried to explain specific reasons that influence such large number of failed cases.

Partial objective 4: Mining and analysis of financial data of selected companies.
The practical part examines financial statements of 210 companies selected from database consisting list of mergers from 2007 to 2010. The financial data itself are gathered from commercial registry of the Czech Republic. The secondary data collection brings necessary information to above mentioned 210 companies allowing us to employ framework for merger success measurement. Based on the framework for merger success measurement the final distribution of successful and failed merger has been proposed. The distribution was slightly in favour of failed cases namely 50,47 % of unsuccessful and 49,53 % of successful. We can state that such result corresponds to most results of external analysis and studies.

Partial objective 5: Interview experts in a given field, employing structured questionnaire
In order to crosscheck the failure rate and CSFs responsible for it the interviews with experts in the given field are conducted. Subsequently structured questionnaire is distributed to the companies within our sample in order to find potential problems within given merger.

The primary data collection brings 3 interviews with experts and 31 responses to questionnaires distributed within analyzed companies (14,76 % response rate). The response rate is qualified as satisfactory with regard to the fact that obtaining such kind of information is often problematic. Finishing of this phase allows us to continue to the last and main objective of the thesis.

6.2 Main objective and recommendations

Cross-checking all of the available information from primary / secondary data collection and from literature research allows us to draw and summarize critical success factors that influence M&A.

1) Slightly more than a half of the mergers fail
Based on the framework for merger success measurement it has been identified that in more than 50 % of cases the merger was unsuccessful. The rate corresponds to most of the studies and researches conducted in this field worldwide. Section 5.2 closely explains potential pitfalls within this interpretation.

2) Merger failure rate correlates to the economic development

Several studies indicated that economic development nourish M&A activity, it was found that there is not a correlation in between GDP in the Czech Republic from 2007 to 2010 and merger success rate in respective years. However closer examination suggested that some industries have larger representation within the sample. From that reason success rates in two most-represented industries have been compared to gross added value within observed years and correlation has been identified. The hypothesis was confirmed – the success rate and economic development are related to each other. Companies are therefore recommended to observe the economic development closely as it may affect the final result.

3) The failure rate increases with transaction value

The increasing rate of failure has been observed with increasing transaction value (size of the company). This is against the theoretical standpoint where larger companies should provide more stability than smaller ones and are much more capable of absorbing transaction costs connected with the merger. On the other hand history thought us that this does not always apply. Perfect examples are provided in the Brunner's study (2009) „Deals from hell" summarizing the most disastrous examples of large merger failures (to name a few we can mention Time Warner and AOL, Columbia Pictures and Sony Corporation or Pennsylvania / New York Central Railroads).

4) Relative size of the company and success may be correlated

The relative size depicts the relationship of merging companies in the terms of their size to each other. Even though the results bring outcome that merger has higher success rate in case when soon to be merged companies have similar size the results can be questioned. This group of companies represents the least amount from the sample, lowest average transaction value. One or two transactions could easily create bias of the outcome.

5) Deeper company integration means bigger problems

Literature suggests that deeper the integration the higher probability of failure. More activities have to be done and risk of any mistake increases. Almost 75 % of the companies fully integrated the companies. The results backup this theory as both companies that answered „partial autonomy" and „autonomy" belong to the group of successful mergers. Almost 70 % of companies that answered „full integration" belong to the failed transactions. This would imply two recommendations the deeper the integration more thorough planning is needed. Often companies put post-merger integration planning aside while it has clear effect to M&A performance.

6) Most companies have positive experience with choosing the target, however choosing the wrong one has negative outcomes

Over 90 % of companies did not have to solve this problem or have positive experience with company selection for the merger. All companies that have negative experience with company selection also belong to the failed mergers category. The importance of these criteria is confirmed also during the interviews where respondents ranked choice of the target company on the 2nd place among others.

7) Due diligence matters
Almost 20 % of companies regard the due diligence as unsatisfactory or lacking deepness. Interesting is that these companies belong from 84 % to failed mergers category. This suggests that due diligence is an important part not only for acquisitions but for mergers as well. Expert's also rank due diligence to the key factors. Improper diligence lacking the deepness will not uncover skeletons in the closet that would drastically change the strategic plan or even decision about M&A if they were known.

8) Wrong or unclear company strategy destroys the M&A value
More than 70 % of companies regard the strategy to be formulated right. Only 2 respondents did not have to cope with the strategy while they both belong to failed merger category. Over 71 % of companies that criticised the corporate strategy belonged to failed merger category. This suggests that corporate strategy plays a key role within merger transactions and wrong specification can be the cause transaction failure. As for the experts opinion this CSF is ranked as the most important among all the others. Wrong strategy that is not able to cope with future problems is not competitive and will probably fail.

9) Problems come with post-merger integration
Motivation of employees that belongs to post-merger integration shows as a very problematic issue. Almost 42 % of companies experienced bad integration. Over 62% belong to the failed mergers category. This leads to assumption that sudden loss of key employees might caused significant problems in the post-merger phase. The hypothesis is confirmed during interviews as well. The brain-drain and loss of key employees may endanger the continuity of the company not only to the extent of know-how but responsibility transfer as well.

6.3 Comparison with other researches in various countries by different authors

This subchapter briefly compares outcomes from researches of other authors across different countries.

Thomas Straub (2007) in his study conducted in United Kingdom, Denmark, Austria, the United States and Switzerland identified several critical success factors showing great significance. The results across 102 companies were the following – management experience and skills, cultural compatibility, similarity of merged companies and especially correct and proper diligence.

Lapumnuaypon, and Hoang (2007) studied CSF from the view of advisory firms in the M&A field in Sweden finding several factors as the most important namely managers and employee competence and commitment, clear strategy of the project, information sharing and target company quality.

In Jack Prouty's study for M&A council (2009) critical success factors are derived from experience of US companies. The most important is clear strategic plan, followed by management competence and skills, corporate governance and cultural integration.

A report from University of California Berkeley by Agarwal et al. observed CSF in 9 large M&As transactions identifying retention of talent, cultural integration, clear and meaningful strategic plan and alignment of technologies and products of merging companies as the most important factors influencing merger outcome.

The abovementioned summary is just a fraction of vast amount of similar researches already conducted in this topic however showing similarities in outcomes and it can be stated that outcomes are similar to our research as well.

6.4 Limitations of research

The outcomes of this research can be used by companies that are preparing for the M&A but also for companies already conducting it. However it is clear that one technique or guideline that would assure smooth transaction does not exist as the M&A is a very complex process with lot of variables that are dependent on economic environment, type of transaction, industry where the companies operate and finally company internal structure and ability of owners, management and employees to cope with such action. As proved in the literature research – each M&A transaction is unique and individual approach has to be applied.

As the limitations of research are concerned it is clear that not all the variables that might affect the M&A performance were included. Capturing the complexity lies way beyond the scope of this thesis and future research in this area is advised by the author. The research should be applied to much larger sample of companies, more techniques of M&A performance shall be confronted. As the most appropriate would be qualitative approach that would lead to more reliable results regarding the critical success factors and their role in M&A success. Another limitation is the division between mergers and acquisitions. Even though the critical success factors are often the same for both transactions (as proved in the literature research and during interviews) the transactions are different and perception of success and importance of different stages of the process (e.g. valuation in acquisitions) vary as well.

Last limitation that author would like to mention is that even literature admits that M&A performance is interdisciplinary and it makes sense to split the construction of the framework according to the specific research field.

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Appendix

A Financial analysis data source

Mergers from 2007 – available on attached CD
Mergers from 2008 – available on attached CD
Mergers from 2009 – available on attached CD
Mergers from 2010 – available on attached CD

B Structured questionnaire

Cover letter

Dear Sirs,

I am conducting a survey on „Critical success factors in mergers and acquisitions" and I would like to ask you to participate within this survey. I get to know your company via Ministry of Justice of the Czech Republic database where all companies that went through merger in the last 7 years are listed.

The survey contains 12 questions and it should take no longer than 5 minutes to complete the questionnaire. The questionnaire is safe and anonymous. Your responds will serve only for the purpose of the thesis. Please respond to this survey only in the case that you have participated in M&A of your company and – feel free to forward this message to the person that had participated.
In case you are interested in having a copy of the thesis - please indicate this information at the end of the questionnaire.

The link to the survey: http://www.click4survey.cz/m/ac0e890a-9dad5872

Thank you for the cooperation!

Yours sincerely,
Radomír Putna

What was the motivation to conduct a merger?
- Cost reduction (e.g. economies of scale)
- Revenues increase (e.g. enhance product portfolio)
- Non-financial character (e.g. technology, market share)

How long took the merger preparation?
- Less than 6 months
- Between 6 to 12 months
- More than 12 months

How deep was the integration of merged companies?
- Autonomy
- Partial autonomy
- Full integration

In what way choice of the target company influenced the outcome of the merger?
- Positive influence
- Negative influence
- No need to consider the target company

Do you consider due diligence done as correct and in the sufficient amount?
- Yes
- No
- Cannot specify

Did the company strategy influenced merger in a positive way?
- Yes
- No
- Cannot specify

How management skills and experience influenced the merger outcome?
- Positively
- Negatively
- Cannot specify

Were employees positively motivated in post-merger integration?
- Yes
- No
- Cannot specify

How legal issues influenced merger outcome?
- Positively
- Negatively
- Cannot specify

Do you consider merger timing as appropriate?
- Yes
- No

Do you consider merger as successful (fulfilling its objectives)?
- Yes
- No

Do you have any other comments that were important and are not mentioned in the questionnaire?

C Semi-structured interview

Critical success factors in mergers and acquisitions (M&A) – interview

Name:

Company / Position:

In how many M&A transactions have you participated?

Answer:

What was the motivation for those M&A transactions? (e.g. revenues increase, cost reduction, non-financial., please name specific motivation for each transaction)

Answer:

What are the most problematic issues in M&A transactions?

Answer:

What steps you undertook to eliminate the risk connected to potential M&A failure?

Answer:

How do measure M&A success?

Answer:

Critical success failure ranking – please mark (1 = least important, 5 = most important):

correct strategy formulation	1	2	3	4	5
choice of the target company	1	2	3	4	5
M&A planning	1	2	3	4	5
company valuation	1	2	3	4	5
due diligence	1	2	3	4	5
M&A timing (economy standpoint)	1	2	3	4	5
comapny market power and position	1	2	3	4	5
financial performance	1	2	3	4	5
expirienced and skilled management	1	2	3	4	5
cultural integration	1	2	3	4	5
company geographic location	1	2	3	4	5
companies similarity	1	2	3	4	5
organization structure integration	1	2	3	4	5
resources integration (production, financial, human)	1	2	3	4	5
other - please consider and comment below	1	2	3	4	5
other - please consider and comment below	1	2	3	4	5
other - please consider and comment below	1	2	3	4	5

Other critical success factors – additional comment:

Do you have any other comments or information that was not included in the questionnaire and it is important?