

Analysis of the Key Factors for the Success or Failure of Enterprise Mergers and Acquisitions

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Abstract: Mergers and acquisitions (M&A), as a means of optimizing resource allocation, have a history of over 100 years in the West and have sparked five major waves of M&A activity with global impact. Since China's reform and opening-up, there have been over 20 years of M&A practices in the country, resulting in a substantial body of research. However, there remains a lack of systematic studies summarizing the factors influencing the success or failure of M&As. Additionally, there is relatively limited research on how to achieve the intended strategic goals of M&A through effective post-merger integration strategies and how to avoid failure. Further in-depth research is needed to address these gaps. This paper aims to analyze the core factors influencing the success or failure of M&A by drawing upon relevant literature. It identifies that M&A outcomes are affected by a range of factors, including post-merger integration measures, organizational and personnel issues, information asymmetry, business philosophies, management systems, organizational culture, government and corporate behaviors, financing conditions, and regulatory policies. The study also finds that both subjective and objective factors—such as strategic planning, cultural integration, organizational restructuring, human resource management, market conditions, and legal risks—play a role in determining the success of M&As.

Keywords: Corporate mergers and acquisitions (M&A), Corporate development, Business decision-making, Cross-border mergers and acquisitions (cross-border M&A).

1. Introduction

In the context of globalization and increasingly intense market competition, mergers and acquisitions (M&A) have become a critical means for companies to achieve rapid expansion, acquire new technologies, enter new markets, and enhance their market competitiveness. However, decades of M&A practice and empirical research suggest that the likelihood of failure in M&A is greater than that of success. The value creation from M&A stems from post-merger integration, which is the key factor determining the success or failure of a merger[1]. Many companies have suffered significant losses due to their inability to properly address the challenges and risks inherent in the M&A process. Therefore, this study reviews the existing literature to conduct an in-depth analysis of the key factors influencing the success or failure of M&A. It aims to highlight the importance of pre-merger strategic planning and goal setting, the challenges of cultural integration, organizational restructuring, and human resource management during the M&A process, and the practical issues encountered during post-merger integration. Additionally, it examines the impact of relevant laws and regulations,

market environments, and macroeconomic factors on M&A outcomes. Through this review, the article seeks to improve the success rate of M&A transactions and provide clearer and more comprehensive theoretical foundations for corporate decision-makers.

2. Mergers and Acquisitions Background and Market Environment

2.1. Post-COVID Global M&A Trends and the Chinese Market Environment

Since the outbreak of the COVID-19 pandemic, global M&A activity has experienced significant fluctuations, which can be divided into three stages: first, a sharp decline in early 2020, followed by a gradual recovery by the end of the year; second, an explosive growth in 2021. According to Refinitiv data, the number and value of global M&A transactions in 2021 reached historical highs, with 62,000 deals totaling \$5.8 trillion, representing year-over-year increases of 24% and 64%, respectively, compared to 2020. The third stage saw a volatile decline in 2022, as PwC's latest data shows a decrease in M&A activity during the first half of 2022 compared to the previous six months, driven by unfavorable macroeconomic factors, the ongoing pandemic, and high inflation. In particular, the Asia-Pacific region saw transaction volume and value drop by over 30%, while the Americas experienced declines of 22% in deal volume and 11% in deal value[2]. However, this phenomenon is not unusual but reflects a return to the new characteristics and trends of global M&A restructuring seen before the pandemic. In the first half of 2022, four mega-deals with single transaction values exceeding \$50 billion were disclosed globally, compared to just one such deal in all of 2021. Overall, the number of large deals exceeding \$5 billion decreased by one-third[2].

As of the first three quarters of 2023, China's M&A market (including cross-border M&A by Chinese companies) saw a total of 6,101 disclosed transactions, with a transaction volume of approximately ¥1.31 trillion. The third quarter showed a significant improvement compared to the first two quarters, with 2,319 transactions, representing a quarter-over-quarter increase of 13.29%, and a transaction value of ¥514.8 billion, a 36.45% increase from the previous quarter. The moderate recovery of China's domestic M&A market has created a favorable environment for building a strong financial system. In this wave of M&A activity, state-owned and central enterprises have emerged as the primary driving forces[3].

2.2. The Impact of Chinese and International Market Environments on Corporate Mergers and Acquisitions

The influence of Chinese and international market environments on corporate mergers and acquisitions (M&A) exhibits significant differences, which can be observed in areas such as regulatory policies, market competition, cultural and managerial integration, and financing environments.

First, in terms of regulatory policies, the Chinese government conducts stringent reviews of corporate M&A, particularly large-scale mergers, to prevent market monopolies and unfair competition. While such policies help maintain market fairness, they can also increase the complexity and duration of the M&A process. In contrast, antitrust review mechanisms in Western countries, particularly in Europe and North America, are more mature, with clearer standards and procedures. This allows companies to better understand regulatory requirements during M&A, reducing the risks associated with policy uncertainty.

Regarding market competition, competition in China is particularly fierce, especially in rapidly growing industries. Companies often rely on M&A to quickly expand market share. However, this intense competition also increases the challenges of post-merger integration, as companies must navigate cultural differences and management issues. In contrast, competition in developed markets tends to be more stable, with M&A activities focused primarily on optimizing resource allocation and

achieving strategic integration. Yet, these markets also face more complex challenges due to globalization.

Cultural and managerial factors also play a crucial role in M&A. Chinese companies must pay particular attention to cultural integration during mergers. Due to differences in culture and management styles, post-merger integration may encounter more difficulties, which can significantly impact the success of the M&A. In cross-border mergers, the challenges posed by cultural differences are substantial, as companies face not only organizational cultural conflicts but also national cultural disparities[4].

Finally, the differences in financing environments also affect the success of M&A. In China, financing channels are diversified; however, financing costs and financial policies are highly influenced by economic conditions. In comparison, the financing environment in developed markets is more mature, supported by advanced capital markets, allowing companies to access funding through various channels, although they must also contend with financial risks in different markets.

2.3. Analysis of M&A Motivations

With the continuous development of China's market economy, corporate behavior is becoming increasingly standardized, particularly in the area of mergers and acquisitions (M&A), where more companies are now considering strategic issues related to their long-term growth. The multiple waves of M&A that China has experienced reveal that the primary motivations for M&A often stem from passive responses driven by government initiatives. The motivations include acquiring different resources such as land, proprietary, and scarce resources. This could involve forming corporate groups to expand production capacity, securing favorable policies and tax advantages, and considering long-term strategic factors such as pursuing economies of scale or scope. Compared to the motivations behind M&As in Western countries, where market-driven and competitive factors play a more prominent role, Chinese M&As are still largely influenced by policy-driven and other non-economic factors. However, in China's increasingly competitive market environment, some leading companies have begun to adopt M&A strategies based on strategic motivations, such as improving economies of scale, expanding market influence, and achieving low-cost expansion[5].

3. Factors Influencing the Success or Failure of Mergers and Acquisitions

3.1. Objective Factors

3.1.1. Legal Risks in the M&A Process

Mergers and acquisitions (M&A) involve various legal regulations and requirements related to corporate strategic positioning, the re-establishment of corporate governance structures, and the financial and funding needs arising from the merger. The risks associated with M&A include strategic, financial, and legal risks. Strategic risks stem from the company's motives and management decisions, while financial risks are related to the evaluation of the company's financial capabilities during the M&A process. Legal risks are particularly significant in M&A activities. During the M&A process, shareholder rights may be affected by changes in the company's articles of association, especially concerning limitations or redistribution of shareholder rights. Asset values may decrease due to legal disputes, third-party claims, or land use issues. Risks related to asset commingling, including the confusion of personal and company assets, can lead to property disputes. Issues concerning the target company's legal status may impact the feasibility of the acquisition. Employee placement risks involve protecting employee rights, with skill mismatches potentially damaging the company's social image. Tax risks include accounting errors that could result in legal penalties. Risks related to the legality of M&A agreements and procedures may lead to the invalidation of agreements

or litigation. Confidentiality risks involve the leakage of M&A strategy information, which could increase costs or lead to failure[6].

3.1.2. National Security Review Issues in Cross-Border Mergers and Acquisitions

National security reviews can significantly hinder multinational companies' investments in certain countries. Chinese overseas direct investment is at the beginning of an exponential surge, with Chinese companies projected to accumulate \$2 trillion in assets worldwide by 2020. Despite China being the world's second-largest economy, its investments in the U.S. remain relatively small, comparable to those in New Zealand. This outcome is largely due to failed attempts by major Chinese firms such as CNOOC, Huawei, and Ansteel to invest in the U.S. These failures have served as a negative example for many Chinese enterprises, making them apprehensive about the U.S. market[7]. When national security reviews impose additional barriers, the enthusiasm of multinational companies for investment can be significantly dampened.

3.1.3. The Impact of National Taxation Regulation

Taxation is a significant factor influencing corporate M&A behavior and serves as a crucial tool for national macroeconomic regulation. Tax effects, including both tax and tax incentives, have a direct impact on corporate M&A decisions. There are two primary tax regulation methods: tax increases and tax reductions. Tax increases encompass measures such as introducing new taxes, expanding the scope of taxation, raising tax rates, and reducing tax incentives. Conversely, tax reductions include eliminating certain taxes, increasing the tax threshold, raising exemptions, allowing loss carryforwards, lowering tax rates, and implementing various tax incentives[8]. Scholars have discussed the impact of tax system reforms on Chinese corporate M&A. The tax effect theory posits that tax considerations play a significant role in promoting M&A activities. Some mergers may be motivated by the desire to minimize taxes rather than by operational needs. Even when mergers are pursued for other reasons, companies may adjust transaction structures to maximize tax benefits and minimize tax burdens while complying with tax laws[9].

3.2. Internal Factors of the Enterprise

3.2.1. The Alignment Between Corporate Strategic Positioning and M&A Objectives

The alignment between a company's strategic positioning and its M&A objectives plays a critical role in determining the success of the merger. First, a clear strategic positioning helps a company establish criteria for selecting target companies before the merger, ensuring that the M&A target aligns with the company's long-term development plans and core competencies. Second, when there is a strong alignment between the strategic positioning of both companies, post-merger integration can be more efficient, as similarities in business models, corporate culture, and market positioning reduce friction and conflicts during the integration process. Additionally, when the M&A target closely aligns with the company's strategic positioning, it enables more effective resource utilization, creates synergies, and enhances market competitiveness and profitability. Therefore, when making M&A decisions, companies should thoroughly assess the alignment between the M&A target and their own strategic positioning to achieve optimal outcomes. M&A, as an effective corporate expansion strategy, ultimately aims to create conditions for gaining competitive advantages in the market. Although companies recognize the importance of M&A and develop clear M&A strategies, a misalignment between the target industry and the company's core areas can lead to failure. For example, some companies blindly enter new and unrelated business sectors through conglomerate mergers, driven by

the philosophy of “pursuing whatever is profitable.” This often results in a lack of focus on the core business, weakened competitiveness, and operational difficulties[10].

3.2.2. The Selection and Evaluation Process of M&A Targets

Due to the incompleteness and asymmetry of market information, the acquiring company often becomes an "outsider" with respect to the target company. The lack of sufficient information about the target, or the potential for the target company to exploit its informational advantage through fraud, can result in inaccurate valuations of the target. Some companies, which may appear to align with the acquiring firm's M&A strategy but are in fact unsuitable, may be chosen as M&A targets. Valuation is a critical step in the M&A process, yet in practice, there are various methods and standards for assessing a company's value, with no universally standardized approach. These differing methods may lead to inconsistencies or even significant deviations in valuations, increasing the risk of errors in selecting target companies. Additionally, the combined effects of the winner's curse and the hubris hypothesis can cause the acquiring firm to overpay. The hubris hypothesis, proposed by U.S. economist Richard Roll in 1986, suggests that managers, driven by ambition, arrogance, or excessive pride, are prone to make overly optimistic errors when evaluating M&A opportunities[10].

3.2.3. Behavior of Target Companies and Intermediary Organizations

During mergers and acquisitions (M&A), opposition may arise from the target company, including resistance from management and employees. This may lead the target company to adopt countermeasures, such as deliberately spreading rumors, falsifying accounts, manipulating the market, or inflating prices to deceive the acquiring firm and investors, ultimately causing the acquirer to pay a price much higher than the actual value. M&A is a highly specialized process that requires the participation of intermediary organizations such as investment banks, accounting firms, auditing firms, and asset appraisal firms, along with highly qualified professionals to carry out the operations. However, many institutions or individuals involved in M&A may lack experience, clear objectives, or specialized knowledge. In some cases, significant issues such as accounting or legal problems that should have been identified are either overlooked or ignored, only to surface shortly after the transaction is completed, leading to the failure of the M&A.

For example, Ant Financial's acquisition of MoneyGram aimed not only to gain access to its user base but also to acquire MoneyGram's remittance technology. M&A is not merely the simple addition of companies but involves the integration of culture, technology, and employees. In this case, Ant Financial lacked professional M&A managers and technical managers during the due diligence and negotiation processes. Given its limited experience with this type of acquisition, the information it obtained was constrained, and its consideration of MoneyGram's technology was incomplete. Issues such as potential personal data breaches, which MoneyGram may have been involved in, were not accounted for or preemptively addressed. In December 2016, Sanan Optoelectronics, a Chinese chip manufacturer, abandoned its plan to acquire Germany's Osram Lighting due to its inability to transfer technology, stemming from a lack of professional talent. Therefore, the shortage of professional talent and intermediary organizations in China is one of the hidden factors contributing to such M&A failures[11].

3.2.4. Differences in Corporate Culture and Integration Strategies

As a collection of various elements, each enterprise has a unique system of components. In mergers and acquisitions (M&A), these elements undergo integration, bringing together different technological paths, management styles, and cultural backgrounds. When two companies merge, inevitable conflicts arise, such as organizational management conflicts, business process clashes,

corporate culture friction, and human resource issues. If these conflicts are not handled properly, they can easily lead to M&A failure.

From a cultural perspective, companies often differ significantly in values, business philosophies, behavioral norms, work styles, and ways of thinking. When two companies with drastically different corporate cultures merge, incompatibility or opposition may occur, resulting in a clear cultural clash and various forms of conflict. A notable example from the late 1980s occurred during a wave of cross-border M&A, when Japan's Sony and Panasonic sought to leverage their technological advantages by entering the entertainment industry. They made large-scale acquisitions in Hollywood, with Sony acquiring Columbia/Tristar and Panasonic acquiring MCA. However, the Japanese corporate culture of fostering consensus clashed with Hollywood's emphasis on strong individualism, fierce competition, and a highly commercialized environment. Ultimately, the significant differences in corporate culture and business philosophy led to the failure of these acquisitions[10].

3.2.5. Post-Merger Business and Resource Integration Strategies

Existing perspectives generally agree that acquiring external resources and integrating them with a company's own knowledge and assets is a convenient and efficient way to cultivate core competencies[10]. However, during the M&A process, some acquirers overly emphasize diversification and low-cost expansion, engaging in the large-scale acquisition of small and medium-sized enterprises without fully considering how to complement the strengths and resources of both parties. This often results in rapid business expansion post-merger, but the company's core capabilities fail to keep pace with the growth in business scope and scale, ultimately leading to M&A failure. According to a survey, only 13% of mergers identify the development of core competencies as a primary motive[10].

M&A inevitably involves the integration of multiple companies. Complementarity refers to mutual supplementation, which in practice can manifest as the pairing of strengths with weaknesses, weaknesses with weaknesses, or strengths with strengths. However, determining which type of complementarity will truly create a competitive advantage for the merged entity requires careful analysis of the conditions and environment. In practice, people often focus on "strength-strength" complementarity, while overlooking "strength-weakness" or "weakness-weakness" pairings. Overemphasis on combining strengths can, paradoxically, lead to the dilution of these strengths. The "strengths" and "weaknesses" in this context refer to various elements that constitute the existence of an enterprise. Different companies have distinct strengths and weaknesses, and only through careful analysis can the right integration strategy be determined.

3.2.6. Employee Attitudes and Post-Merger Organizational Change Management

As corporate mergers proceed, the rapid expansion of the company often results in management struggling to keep pace with this growth. A direct consequence of mergers is a significant increase in the size of the company, but this expansion also brings increased management challenges. These challenges manifest in several ways, such as the addition of organizational layers, which complicates the management hierarchy; the increase in communication channels, making information flow and coordination more difficult; and the complexity of managing employee relations, as there are now more employees with diverse backgrounds and interests to consider. Moreover, changes in goals and responsibilities may render the existing management system and evaluation mechanisms unsuitable. All of these factors together lead to greater managerial difficulty. If a company cannot quickly elevate its management capabilities to meet the demands of its new scale and structure post-merger, failure is almost inevitable[10]. Therefore, during mergers, companies must fully consider the enhancement of management capabilities to ensure the merger's success and the company's sustainable development.

4. Future Recommendations

As summarized above, the reasons for mergers and acquisitions (M&A) failures are diverse. In 1993, Cooper & Lybrand, an accounting and consulting firm, conducted a survey on the factors contributing to the success and failure of M&A transactions. The survey respondents were senior executives from companies involved in M&A activities. The responses provided by the interviewees are presented in Table 1.

Table 1: Reasons for Mergers and Acquisitions Failure and Success [12]

Reasons for Failure(%)	Reasons for Success (%)
Attitudes of the Target Company's Management and Cultural Differences(85)	Detailed Pre-Merger Integration Plan and Rapid Implementation(76)
Lack of Post-Merger Integration Plan (80)	Clear Objectives for the Merger or Acquisition (76)
Lack of Understanding of the Industry or Target Company(45)	Successful Cultural Integration(59)
Poor Management Performance of the Target Company (45)	High Level of Cooperation from the Target Company's Management(47)
Lack of Previous M&A Experience (30)	Thorough Understanding of the Target Company and Its Industry (41)

Note: The numbers in parentheses represent the percentage of respondents who cited these reasons.

From the analysis of the above table, it can be concluded that post-merger integration is the most critical factor in determining the success of a merger or acquisition. M&A expert Bruce Wasserstein (1998) explicitly stated that the success of a merger or acquisition is not solely dependent on the value created by the target company, but rather on the extent of integration post-merger. During future M&A activities, companies should focus closely on their long-term strategic objectives, clearly define the merger objectives and strategic positioning, conduct thorough due diligence and risk assessment of the target company, and reasonably determine the merger price and financing plan. After the merger is completed, a detailed integration plan and communication strategy should be established to ensure effective integration of personnel, technology, products, and markets, while strictly adhering to legal regulations to ensure compliance and risk management. Throughout this process, companies should maintain flexibility, adjust strategies based on actual conditions, and conduct regular performance evaluations to continuously improve and promote healthy business development.

5. Conclusion

This paper, through a review of the literature, finds that the success of corporate mergers and acquisitions (M&A) is influenced by various subjective and objective factors, such as strategic planning, cultural integration, organizational adjustments, human resource management, market environment, legal risks, and more. Before undertaking an M&A, companies must carefully consider differences in the market environment and take measures to avoid potential legal risks, ensuring the entire M&A process complies with legal regulations. During the M&A process, companies need to account for the incompleteness of market information, conduct professional evaluations and due diligence, and avoid reckless diversification or low-cost expansion. Post-merger, companies should effectively integrate resources, improve organizational and managerial capabilities, and ensure the success of the merger. The article aims to provide a theoretical basis for decision-makers, helping to improve M&A success rates. Although this paper has comprehensively summarized the key factors

influencing the success or failure of M&As, it is limited by the number of reviewed sources and the lack of primary data support. Future research should build on this paper by strengthening empirical studies and actively collecting the latest data for deeper and more comprehensive exploration.

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