Strategy and business economics

Investigating the deal making failure in M&A: deal makers’ perspective in Brazil

Investigando o fracassoso em negociações de F&A: a perspectiva de negociadores no Brasil

Una investigación sobre el fracaso en negociaciones de fusiones y adquisiciones: la perspectiva de negociadores en Brasil

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Abstract

Why do merger talks collapse? – an exploratory study about the contributing factors behind ‘wedding cold feet’ and deal making failures in Mergers and Acquisitions according to the perspective of active deal making professionals in Brazil. One basic question has encouraged the present study: after all the effort, expectations and money often invested in deal making, why are M&A transactions simply abandoned, even when the benefits to the business, shareholders, customers and employees seem to be clear?
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Keywords: Mergers and acquisitions; Due diligence; Deal breakers; M&A failure

Resumo

Por que as negociações de fusão entram em colapso – um estudo exploratório sobre os fatores por trás dos “pés frios de casamento” e fracassos nas negociações em fusões e aquisições a partir da perspectiva dos profissionais atuantes no negócio no Brasil. Uma pergunta básica incentivou este estudo: Após todo o esforço, expectativas e dinheiro normalmente investidos em dealmaking, porque tantas transações são simplesmente abandonadas, mesmo quando os benefícios são claros para a empresa, acionistas, clientes e funcionários?
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Resumen

Por qué las negociaciones de fusión colapsan – un estudio exploratorio sobre los factores que llevan al fracaso en fusiones y adquisiciones desde la perspectiva de profesionales que actúan en Brasil. Una pregunta básica ha estimulado este estudio: después de todo el esfuerzo, expectativas...

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Introduction

Mergers and Acquisitions represent a ‘marriage’ between two partners that are not often equal (Caldas & Tonelli, 2002; Coffey, Garrow, & Holbeche, 2002). In fact, the path that leads to this ‘marriage’ between two companies well resembles the typical sequence of events that brings a couple together. It all starts with some sort of flirting, then the relationship starts to evolve and gets a bit more serious, which leads to a commitment level that eventually ends up in marriage. Like any other marriage, M&A also has a day after, a honeymoon and, then, life goes on (or not). If a merger can be illustrated through a marriage scene, then the aim of the current study is to understand why “brides” are left at the altar, and which factors are behind the ‘wedding cold feet’ in mergers and acquisitions.

The M&A activity phenomenon is relatively well-studied by academics and practitioners within management environments. These studies have helped shedding light on issues such as the alignment between deal making and strategy, critical success factors in mergers and acquisitions, acquisition process management, due diligence conduction, as well as on valuations and post-deal integrations (Gomes, Angwin, Weber, & Yadid Taba, 2013).

Other interesting topics include cultural impacts on M&A deals and CEO’s overconfidence in M&A processes, besides matters about why transactions fail to create value. However, very few attempts to study the “No-deal” phenomenon or the reasons why merger talks fail to reach the completion phase have been made, i.e., the eventual signing of the sales and purchase agreement, which is often referred to as “SPA”.

One basic question has encouraged the conduction of the present study: why are M&A transactions simply abandoned after all the efforts, expectations and money invested in deal making, even when the benefits to the business, shareholders, customers and employees (acquisition of resources or supplies, vertical integration, market entry, tax incentives, knowledge about other companies, technological expertise, among others) seem to be clear? Overall, stakeholders have different points of view and that is why the current exploratory study was focused on assessing the factors contributing to deal making failures according to the perspective of active deal making professionals in Brazil.

Thus, the aims of the present study were to identify what makes transactions fail midway, to better understand why companies analyze M&A transactions, get involved in negative actions and give up the negotiation afterwards, as well as to identify the causes for such failures and their undelaying motives.

The current study was structured as follows: first, the theoretical background is presented and discussed along with the M&A process and its phases; the second section refers to the adopted research method. The third section concerns data analysis and discussions about the herein found results. Finally, the last section presents the main conclusions.

Literature review

Mergers and acquisitions are corporate strategies that have been helping to foster corporate growth; moreover, productivity and operational excellence also represent important profit drivers. However, other actions are necessary to maintain competitive advantage in environments where executives are pressured to generate increasing revenues (Porter, 1985). Organic activities (internal development) tend to offer limited growth opportunities, fact that forces companies to seek inorganic growth strategies, mainly mergers, acquisitions and joint ventures, i.e., growth resulting from mergers or takeovers, rather than from increased business activity in the company (Carnevali Filho, 2000).

In order to meet the aims of the current study, the terms “Mergers and Acquisitions”, “M&A”, “Transaction”, “Deal” or “Merger” will be used in an interchangeable manner to denote any combination between two or more companies in order to absorb, merge and combine the assets and liabilities of a company into those of a buying firm or new entity. In addition, it is necessary knowing the M&A motives and processes as a way to further understand the No-deal phenomenon in order to possibly identify the reasons why merger talks collapse, even when they present the potential to significantly create value and seem to be theoretically logical.

There are numerous reasons to pursue a transaction since acquisitions are often at the center of any debate about expansion strategies. Mergers and acquisitions are justified by several reasons and they should comply with the companies’ strategic plans on a case-to-case basis.

The different reasons to chase acquisition targets were explained by Hubbard (2013), who listed analogous or complementary reasons to start M&A talks, namely: resource acquisition, vertical integration, market entry, client’s follow up, gain with economies of scale, market share enhancement, tax incentives, and competitive differentiation. Vermeulen and Barkema (2001) found that ongoing acquisitions might broaden
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