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Mergers and Acquisitions as a Growth Strategy

Success Factors and Pitfalls

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TIIVISTELMÄ:

Tämän tutkielman tarkoitus on tutkia yritysostoja ja yritysjärjestelyjä kasvustrategiana sekä selvittää, mitkä tekijät vaikuttavat niiden onnistumiseen. Eryteisesti tarkastellaan, millaiset strategiset, taloudelliset ja organisatoriset tekijät erottavat onnistuneet yritysostot epäonnistuneista ja mitkä haasteet voivat estää odotettujen synergiaetujen saavuttamisen.

Yritysostojen tehokkuutta on käsitelty laajasti aiemmassa kirjallisuudessa. Perinteisen talousteorian mukaan yritysostot luovat arvoa yhdistämällä resursseja ja parantamalla tehokkuutta. Toisaalta kriittisemmissä tarkasteluissa on nostettu esiin integraatioon ja yrityskulttuurien yhteensovittamiseen liittyvät haasteet, jotka voivat häiritä yrityskauppojen onnistumista.

Aiemmat tutkimukset osoittavat, että strateginen yhteensopivuus, huolellinen due diligence -prosessi ja tehokas integraatio ovat keskeisiä edellytyksiä yrityskauppojen onnistumiselle. Kuitenkin monet yritysostot epäonnistuvat synergioiden yliarvioinnin, kulttuurierojen ja johtamiseen liittyvien haasteiden vuoksi. Vaikka yritysostot voivat parhaimmillaan tarjota merkittäviä kasvumahdollisuuksia, ne sisältävät huomattavia riskejä ja epäonnistunut yritysjärjestely voi joutaa taloudellisiin tappioihin ja heikentyneeseen kilpailukykyyn.

AVAINSANAT: Mergers and acquisitions, Growth strategy, Success factors, Synergy, Growth

Table of Contents

1	Introduction	5
1.1	Purpose of the study	5
1.2	Structure of the study	7
2	Theoretical framework	8
2.1	Overview of financial theories related to M&A	8
2.1.1	Efficient market hypothesis	8
2.1.2	Agency theory	9
2.1.3	Pecking order theory	9
2.2	Economic theories related to growth strategies	10
2.3	Previous research on M&A success factors	11
2.3.1	Strategic success factors	11
2.3.2	Financial success factors	12
2.3.3	Operational success factors	14
2.3.4	Organizational and cultural success factors	16
3	Mergers and acquisitions as a growth strategy	19
3.1	Motives behind M&A transactions	20
3.2	Types of mergers and acquisitions	21
3.3	Strategic benefits and risks	23
4	Key success factors in mergers and acquisitions	25
4.1	Financial due diligence and valuation discipline	25
4.2	Strategic and organizational compatibility	27
4.3	Cultural integration and organizational identity	28
4.4	Post-merger integration as a driver of success	29
5	Pitfalls and challenges in mergers and acquisitions	31
5.1	Overvaluation and synergy miscalculations	31
5.2	Managerial conflicts and cultural clashes	32
5.3	Regulatory and trust issues	34
6	Conclusions	35
	References	38

List of Figures

Figure 1. Strategic and organizational dimensions of successful M&As	25
Figure 2. Post-merger integration process and value creation	30

1 Introduction

Mergers and acquisitions (M&A) are a key strategic tool for many companies to grow, quickly gain market share, acquire new areas of expertise and realize economies of scale. As globalization and technological advancements continue to reshape the industries, companies are increasingly turning to M&As as means of ensuring competitive advantages (Hitt et al., 2009). Yet many of the deals fail to achieve the financial or strategic goals set for them (Junni & Teerikangas, 2019). For example, a study carried out by McKinsey & Company found that only 23% of the M&As examined were successful, and up to 60% failed (Vazirani, 2012, p. 39). Furthermore, a survey provided by the corporate leadership council revealed that 77% of M&As do not achieve their original purpose and 50-80% of M&As never produce anticipated benefits (Vazirani, 2012, p. 39).

These statistics highlight how challenging it is to succeed in mergers and acquisitions. The key is to identify and manage the factors that influence the outcome – whether it is strategic fit, cultural alignment or financial considerations. Although extensive amount of research has been done on the subject, there is no consensus on which factors determine success. This is partly because different industries, deal structures and integration processes differ significantly from each other (Hitt et al., 2009; Junni & Teerikangas, 2019). Understanding these complexities is more important than ever as companies strive to build long-term growth through mergers and acquisitions.

1.1 Purpose of the study

This thesis investigates the factors that influence whether or not mergers and acquisitions are successful as growth strategies. Previous studies have often yielded conflicting results, so this study focuses mainly on two key aspects: strategic fit and post-merger integration.

If companies that engage in M&As have compatible strategic objectives and complementary resources, their likelihood of success is expected to increase. This strategic fit

enables the effective use of complementary resources, allowing companies to strengthen their competitive advantages and operational efficiency. Based on this, the first hypothesis is as follows:

H1: Clearly defined and compatible strategic goals and complementary resources between acquiring and target firms lead to a higher likelihood of successful M&As.

Secondly, post-merger or acquisition integration is crucial to whether the desired synergies are achieved in practice. Previous studies have shown that careful management of the integration process, such as effective communication and operational alignment significantly affect M&A outcomes. Thus, the second hypothesis of the study is:

H2: Synergy benefits in M&As are primarily driven by effective post-merger integration management.

In addition, this study addresses common pitfalls often cited in the literature, such as overestimation of synergies, inaccurate valuation and cultural differences between companies. These issues often constitute significant obstacles to the success of mergers and acquisitions. Therefore, the third hypothesis of the study is presented as follows:

H3: Pitfalls such as synergy overestimation, valuation inaccuracies and cultural conflicts significantly reduce the success rate of mergers and acquisitions.

These hypotheses are based on previous studies that have extensively addressed the challenges of mergers and acquisitions. The aim of this study is to explore in more depth the core factors that influence the outcomes of mergers and acquisitions, and to provide business managers with practical insights that they can use in their decision-making when implementing mergers and acquisitions to their strategic growth plans.

1.2 Structure of the study

This thesis is structured as follows. After introduction, chapter two presents the theoretical foundation by discussing economic and financial theories related to the use of M&As as growth strategy, as well as previous research on the factors affecting the success of mergers and acquisitions. Chapter three examines mergers and acquisitions as a growth strategy by analyzing the motives behind mergers and acquisitions, different types of mergers and acquisitions and strategic benefits and risks. The purpose of chapter four is to identify key factors for the success of M&As, including the financial due diligence process, strategic and organizational fit, cultural integration and post-merger integration strategies. Chapter five discusses common pitfalls in M&As, such as overvaluation, misjudgment of synergies, conflicts between management, cultural clashes and regulatory risks that may jeopardize the achievement of the objectives set for the merger. Finally, last chapter presents the conclusions and summarizes the key findings of the study.

2 Theoretical framework

The aim of the theoretical framework is to provide a basis for examining mergers and acquisitions as a strategic approach to achieving growth. This section discusses different theoretical perspectives that shed light on the reasons behind mergers and acquisitions, their valuation and financing aspects and how these factors affect a company's performance and shareholder value. By combining different perspectives from economics and finance theory, the factors and circumstances that have a decisive impact on how successfully mergers and acquisitions achieve their strategic goals are highlighted.

2.1 Overview of financial theories related to M&A

Financial theories related to M&As provide insights on how market operations, management decisions and different financing solutions affect the success of corporate acquisitions and their strategic effectiveness. Theories, such as the efficient market hypothesis, agency theory and the pecking order theory, help to understand market reactions, internal conflicts within the company and issues related to financing selection. All of which are relevant when determining whether an M&A will contribute positively to corporate growth.

2.1.1 Efficient market hypothesis

According to the efficient market hypothesis, financial markets efficiently price all publicly available information, including the potential effects of acquisitions on stock prices. According to Fama (1970), stock prices reflect all available information immediately and accurately, so that investors cannot consistently achieve abnormal returns through acquisitions unless they have access to inside information or are somehow better able to predict market reactions than other market participants. For this reason, markets tend to react quickly to acquisition announcements, reflecting investors' collective expectations of the value that can be achieved through the deal.

These immediate price reactions provide a valuable first insight into how high-quality the acquisition is perceived to be. From a strategic perspective, companies can use these market reactions as an indication of investor confidence and thus assess the use of acquisitions in implementing their growth strategy.

2.1.2 Agency theory

Agency theory, introduced by Jensen and Meckling (1976), addresses the potential conflicts of interest between a firm's management and its shareholders. These problems are accentuated in the context of corporate acquisitions as management decisions on acquisitions may be driven by personal interests, such as increased influence, rewards or recognition, rather than by maximizing shareholder value. As a result, acquisitions driven by personal interests rarely lead to the best possible outcomes for the firm in terms of growth or profitability. They can therefore undermine the strategic utility of acquisitions as a growth tool.

2.1.3 Pecking order theory

From the financing perspective of mergers and acquisitions, the pecking order theory presented by Myers and Majluf (1984) is considered central. According to this theory, companies prefer to choose their financing form based on a certain order of preference: first, the company's own cash resources are preferred, then they resort to the use of debt capital and only as a last resort is equity financing considered. When examining M&As, this theory suggests that companies primarily seek to finance their acquisitions with internal financing or debt. Companies often shy away from using equity issuance as a financing method, and the reason for this is quite understandable: the company's management usually knows more about the company's real situation than outside investors. This imbalance in the amount of information, the so-called information asymmetry can easily lead to misunderstandings. For example, investors may interpret a new equity issuance as a sign that the company is doing badly, even if the real reason is something else entirely. Therefore, the way a company decides to finance, for example, an

acquisition can significantly affect the reception of the arrangement in the market. At the same time, the chosen form of financing acts as a kind of signal: it tells investors how confident the company's management and owners are about future growth and profitability.

2.2 Economic theories related to growth strategies

Companies do not choose their growth strategies by chance, there are often well-considered reasons behind them, which several economic theories try to explain. Mergers and acquisitions in particular are popular avenues for growth, and they are examined from many different angles. One of the key theoretical perspectives is the Resource-Based View (RBV), introduced by Wernerfelt (1984) and later developed by Barney (1991). The idea behind this theory is quite straightforward, but still powerful: companies grow and succeed when they are able to control resources that are valuable, rare, difficult to copy and unique to them. Acquisitions are often aimed at acquiring precisely this kind of special expertise or technology that complements their own work. When this hits the mark, synergy is created and at best, one plus one is more than two.

Another perspective that provides more insight into corporate restructuring is Transaction Cost Economics (TCE), which is based on the classic thinking of Coase (1937). Its core is actually common sense: sometimes it is economically smarter to do things yourself than to buy services from the market. Acquisitions can reduce the need to negotiate, make agreements or monitor external partners, in other words, they can simplify and make operations cheaper. This is not just about investments in the millions, but sometimes simply about the fact that things run more smoothly when they are under the same roof.

An interesting addition is the perspective of evolutionary economics, which has been brought forward by Nelson (2008). It emphasizes the idea that companies not only grow quantitatively but also develop qualitatively, often precisely through acquisitions. When the world is changing rapidly and technology is leaping forward, the fastest way to keep

up may be to buy an already agile and pioneering company. In this case, a corporate restructuring serves not only as a means of growth, but also as a means of renewal.

2.3 Previous research on M&A success factors

The factors that influence the success of mergers and acquisitions have been extensively studied for several decades, both empirically and theoretically. As the popularity of M&A strategies has grown, so has interest in why some mergers succeed and others fail. This question has become one of the most important research areas in the field of corporate finance. Previous studies have sought to identify and analyze the strategic, financial and organizational factors that distinguish successful arrangements from unsuccessful ones – in particular, how and why expected synergy benefits are either realized or not.

Although the topic has been extensively studied, the research literature has not been able to provide an unambiguous and universally valid answer as to which factors ultimately determine the outcome of the M&A process. The results vary greatly from study to study. This variation reflects the multidimensional nature of acquisitions and mergers and highlights how the combined effect of several interrelated factors ultimately determines whether an arrangement is successful or not.

2.3.1 Strategic success factors

The importance of strategic fit in the success of mergers and acquisitions has been widely discussed in academic literature – and for good reason. Several empirical studies have shown that strategic alignment is often the factor that distinguishes successful mergers from those that fall short of their goals. It has been particularly emphasized that clearly defined and mutually supportive strategic goals and compatible organizational structures can significantly increase the likelihood that synergies and value creation will not remain on paper. Simply put: if companies are aiming in the same direction, the journey there is likely to be smoother.

Bauer and Matzler (2014) bring up the same idea. According to them, strategic complementarity plays an important role when a merger progresses in practice. When goals and value bases are compatible, energy is not wasted on unnecessary conflicts or misunderstandings. This creates better conditions for the benefits of a merger to actually be achieved. Ultimately, it is much easier to build something new if the foundations are already at the same level.

King et al. (2004) also reached similar conclusions. Their extensive meta-analysis showed that mergers of strategically similar or complementary firms consistently produce better outcomes than arrangements in which the firms' strategies conflict.

On the other hand, Datta (1991, p. 282) refers to several empirical studies (Chatterjee, 1986; Lubatkin, 1987; Seth, 1990; Shelton, 1988; Singh & Montgomery, 1987) that have attempted to determine whether strategic fit positively affects value creation in mergers and the results of these studies were not as expected. This dispersion supports Jemison and Sitkin's (1986, cited in Datta, 1991, p. 283) view that although strategic fit is considered an important factor in the success of corporate mergers, it alone is not sufficient to guarantee a better outcome. As Datta (1991, p. 283) states: "In other words, while relatedness indicates that potential synergistic benefits may be present, it will result in superior acquisition performance only if synergies can eventually be realized through effective post-acquisition integration."

2.3.2 Financial success factors

2.3.2.1 Accurate valuation and realistic expectations

One of the most common mistakes in M&A is overpricing. At worst, it can weaken the chances of the entire deal's success, if the price of the deal is justified by unrealistic synergy expectations (Okafor, 2019). Simply put: if you pay too much, you easily start to hope for too much. Brealey et al. (2023, Chapter 32) also emphasize the importance of careful valuation and warn against over-optimism concerning synergies. When

expectations are set too high at the outset, the risk of disappointment is high, and their effects can be seen for a long time. Das and Kapil (2012) also highlight another important perspective: unrealistic performance expectations can cause strong reactions at the moment of the announcement of the M&A. In this case, the market may draw quick conclusions that do not always correspond to reality, and this can affect how successful the deal is later seen.

On the other hand, a realistic and thorough valuation that assesses the realizable synergies supports strategic planning and smooth integration after the transaction. Financial due diligence, or careful financial review, is an established part of the preparation of a corporate acquisition. It includes, among other things, the analysis of balance sheets and income statements, the examination of operational indicators and the preparation of cash flow forecasts. According to Das and Kapil (2012), indicators such as profitability, return on investment, growth rates and cash flow analyses are commonly used to assess the success of corporate acquisitions in both research and practical business. However, it is worth noting that relying solely on accounting indicators can limit the accuracy of the assessment, especially when trying to predict future developments. Precise valuation methods and clearly defined synergy targets therefore form a key foundation for the financial success of acquisitions.

2.3.2.2 Significance of financing structure

The financing method of M&As plays a key role. As mentioned earlier, according to the financing hierarchy theory presented by Myers and Majluf (1984), companies organize their financing sources in order of priority: internal funds are used first, then debt financing and only lastly equity issuance. This order largely reflects market reactions, information asymmetries and communication effects. The use of both internal financing and debt financing usually sends a message to the market about management's confidence in future developments, while equity issuance may be interpreted as signaling uncertainty or informational conflicts.

Das and Kapil (2012) highlight that financing decisions have a direct impact on both the initial market reaction and the long-term success of a corporate merger. For example, changes in the share price in connection with the announcement of a corporate merger reflect investors' assessment of how certain management is that the deal will be successful. Debt financing is often welcomed because it demonstrates disciplined use of capital and sufficient stable cash flow to cover interest payments. However, the extensive use of equity issuance may raise doubts about the realistic valuation of the company or management's uncertainty about the estimated synergies.

Therefore, it is important to understand the implications of the chosen financing structure, as suggested by the financing hierarchy theory. Internal funds and debt financing can strengthen investor confidence, but if a share issue is used, it should be approached with caution and communicated openly to dispel any doubts. Overall, careful selection of the financing form and its management have a significant impact on the financial outcomes of M&As.

2.3.3 Operational success factors

When assessing the success of a merger, the importance of operational integration cannot be ignored. While strategic fit and financial due diligence are certainly key elements, practical implementation factors such as combining personnel and functions often play a decisive role in whether the desired synergies are ultimately achieved or not.

According to Graebner et al. (2017), operational integration means, above all, getting the processes and systems of the merging companies to work together. The goal is to have the transition phase as smooth as possible, without causing unnecessary disruption to everyday operations. Their research clearly highlights how complex and volatile the process is and how essential it is that functions, structures and routines are carefully aligned. However, successful integration is not limited to simply harmonizing structures but also requires the reorganization of tasks and the adaptation of networks. The authors particularly emphasize the importance of careful guidance of decision-making and clear

communication and smooth cooperation. Without these, conflicts easily arise that can jeopardize the goals of the entire merger (Graebner et al., 2017, pp. 2–3).

In a similar vein, Bauer, King, and Matzler (2016) divide operational integration into two dimensions: people and task integration. Their research shows that personnel integration, which involves managing corporate cultures, practices and employee attitudes to promote joint operations – is positively associated with acquisition outcomes. Rapid personnel integration reduces uncertainty, helps maintain organizational stability and employee motivation, which in turn enhances collaboration and operational efficiency. On the other hand, the authors note that accelerating task integration, for example integrating marketing, production or support functions can reduce performance because it increases coordination requirements and disrupts established practices. The study also suggests that cultural compatibility or “cultural fit” can facilitate task integration because shared values and customs promote information flow and reduce the risk of conflict (Bauer et al., 2016, p. 153).

Weber, Tarba, and Reichel’s (2011) study adds depth to our understanding of the factors that influence the success of operational integration. They examine in particular how national and corporate cultures influence the approaches companies take in the merger process. The results show that cultural differences can have a significant impact on both the depth of integration and the way it is implemented. They argue that it is important for companies to make informed and strategic choices about the integration model and that this choice is based on how well the cultures of the merging organizations fit together. If cultural differences are significant, it may be wise to proceed with caution and use more cautious approaches, such as a conservation integration model that seeks to avoid conflict and preserve the valuable skills of both parties. Instead, if cultures are initially well-compatible, broader and deeper integration strategies for example, absorption models or symbiotic mergers can be successfully implemented, which can facilitate the coordination of everyday practices and enhance the achievement of synergy benefits (Weber et al., 2011).

In summary, the key to successful operational integration in a merger is to balance the speed and scope of combining personnel and tasks, ensure effective communication and be thoughtful about cultural compatibility. Taking these factors into account helps minimize practical disruption, ensure the preservation of tacit knowledge and ultimately enable the realization of planned synergies.

2.3.4 Organizational and cultural success factors

Although mergers and acquisitions are often driven by financial, strategic or operational objectives, long-term success is surprisingly often determined by completely different factors, namely organizational culture and human interaction. Studies have repeatedly shown that, for example, leadership practices, shared values and social structures can determine whether companies merge or remain half-way through the integration process (Teerikangas & Very, 2006; Stahl & Voigt, 2008).

A particularly challenging aspect is how different organizational cultures interact. Sarala and Vaara (2010) point out that cultural differences, both national and company-specific, have a decisive impact on how well knowledge and skills are transferred between merging organizations. Initially, these differences can create distrust and reinforce an “us and them” mentality, but if handled correctly, they can also act as an asset, bringing together complementary perspectives and encouraging innovation. The key is whether the process creates a common value base (convergence) or a completely new kind of hybrid (cross-convergence). In either case, a situation can be reached where information flows and collaboration works.

One could argue that if employees share similar national backgrounds but have very different corporate cultures, creating shared values may be easier than building a new culture. Conversely, if working practices and operating cultures are already aligned but there are large national differences, a hybrid solution may prove more effective.

How corporate management finds common ground after a merger or acquisition often has more impact than one might initially think. Weber et al. (2011) point out that the compatibility of leadership styles and decision-making methods is not a side issue as it can determine whether cooperation will take shape or whether it will falter from the very beginning. For example, a situation where one company is accustomed to a strong hierarchy and the other operates more openly can quickly create ambiguity. Who decides what? Which line is the right one? If there is no common direction, decisions will start to be delayed, and management may drift into different camps. At this stage, it is no longer just about style but about practice, which is reflected in everything we do.

However, such contradictions are not always a bad thing. Stahl and Voigt (2008) point out that cultural differences can be as much a challenge as an opportunity. If the operating cultures of companies differ too much, clashes can easily arise. This is especially evident when people from different organizations try to work together and expect different things from each other. But on the other hand, different backgrounds and perspectives can also complement each other. If they are used wisely, new ways of thinking and learning can emerge. It is not about one being right and the other wrong – it is about what can be built together if both are given space. Ultimately the matter is what you want to achieve with the merger. If the goal is rapid efficiency and the smoothest possible start, cultural differences can be a surprisingly big obstacle. When you can't find a common rhythm, synergy benefits can easily remain just the hopes of PowerPoint slides. But if the goal is the longer term, developing something new, growing, expanding the market – diversity can be exactly what makes both stronger than either would have been on its own.

Trust is a key building block in all of this. According to Birkinshaw, Bresman and Håkanson (2000), successful mergers often proceed in two phases: first focusing on human cooperation and building trust, and only then moving on to technical and operational integration. If the human connection is not built, an otherwise logically planned merger can remain a shambles.

Teerikangas and Very (2006) criticize the oversimplification that often occurs in the cultural debate. They propose a multi-level approach that takes into account, in addition to national and corporate cultures, subcultures related to professional groups. The question is not whether culture matters, but how it affects and under what circumstances. Culture is not a single, unified entity, but rather intersects at many levels that can affect each other in surprising ways. Therefore, drawing general conclusions is difficult, if not impossible.

Organizational culture and interpersonal dynamics can act as both enablers and obstacles in corporate restructuring. It all depends on the context on how management operates, how personnel experience change and what means are used to build coexistence between cultures. The research does not call for eliminating cultural differences, but rather for learning to live with them and to utilize them wisely.

3 Mergers and acquisitions as a growth strategy

Mergers and acquisitions have become an increasingly common path for companies seeking growth beyond their existing capabilities or markets. Instead of relying only on internal development, the firms rather often choose to grow through acquisition when they aim to accelerate expansion, gain access to new technologies or enter markets that are unfamiliar beforehand. M&A can offer a faster and also more effective way to scale up operations, especially in industries where time and adaptability are critical. A widely used metaphor that describes the growth and synergy benefits created by successful acquisitions is the equation $1+1=3$. This illustrates how by combining, companies can achieve more together than either of them could on their own.

In recent years, a growing number of research has emphasized the importance of understanding M&A not just as a financial or legal transaction, but as a strategic process that reallocates both tangible and intangible assets. Xu (2017), for example, presents M&A as a mechanism through which firms can reallocate capital swiftly by acquiring existing organizations, rather than investing little by little in internal growth. His model shows that M&A can lead to higher productivity and contribute significantly to aggregate economic growth, suggesting that without M&A the overall growth rate of an economy could be meaningfully lower (Xu, 2017, p. 55).

What makes M&A particularly interesting from a strategic perspective is its potential to combine complementary resources between two firms. According to the resource-based view of the firm, these kinds of combinations when well executed can generate competitive advantages that are difficult for rivals to replicate. For instance, a company might acquire a target with advanced technological capabilities or strong distribution networks, gaining access to assets that would be costly and time consuming to build from scratch.

However, as many studies have shown, the potential benefits of M&A do not materialize automatically. Success depends on how well the two firms fit together strategically and organizationally and whether the post-merger integration is effectively managed.

Challenges related to cultural alignment, operational coordination and strategic clarity often emerge after the deal is closed, and these can make or break the expected synergy gains.

The following sections will take a closer look at the motives that typically drive M&A transactions (section 3.1), the different types of mergers and acquisitions (3.2) and the strategic benefits and risks that come with them (3.3). Together, these provide the basis for understanding why companies pursue M&A as a growth strategy and why some succeed while others fall short.

3.1 Motives behind M&A transactions

The motives behind M&As can be very different, some stem from clear strategic goals, while others may be based on personal interests. Broadly speaking, these motives can be divided into four main groups: value creation, management's own interests, the effects of the operating environment and company-specific characteristics (Haleblian, Devers, McNamara, Carpenter & Davison, 2009). Often the goal of M&As is to improve the company's market position or to make operations more efficient. Reducing competition and increasing market power can strengthen the company's position in relation to customers and competitors. In addition, acquisitions can achieve efficiency for example by combining functions or allocating resources more rationally (Haleblian et al., 2009).

On the other hand, not all arrangements are based on purely business logic. Sometimes, the underlying motive may be the management's personal goals, such as increasing their own influence or rewards. In such cases corporate mergers do not necessarily create added value for the owners. It is not uncommon that management, in their arrogance, overestimates the benefits of an acquisition and pays too much of a premium for the target company (Haleblian et al., 2009).

External circumstances and the company's own history also influence why it undertakes a merger. A company may seek security in an uncertain operating environment through

a merger or seek to repeat a strategy that has proven successful in the past. Often, past successes or failures strongly influence the decision-making management makes in the future (Haleblian et al., 2009).

Hassan, Ghauri and Mayrhofer (2018) point out that the goals set before the merger whether they are clearly measurable, such as market share growth, or more intangible, such as technological expertise or brand value, significantly affect the final outcome. They emphasize that the success of mergers is assessed much more accurately when the results are compared to clearly defined starting points. Vague or contradictory goals, on the other hand, easily lead to misleading assessments and unsuccessful outcomes (Hassan et al., 2018).

In summary, there are often overlapping and even conflicting motives involved in M&A. It is therefore particularly important for management to be able to identify both strategic and personal motivations and to assess them accurately. Only in this way we can be sure that the acquisition supports sustainable long-term value creation (Haleblian et al., 2009; Hassan et al., 2018).

3.2 Types of mergers and acquisitions

M&As can take many forms, and their form is largely determined by what the companies are aiming for and the market situation in which they operate. Rompotis (2015) suggests that one way to structure corporate mergers is to look at how the parties operate in similar industries.

When two players in the same industry join forces, we speak of a horizontal merger. In this case, the underlying motive may be for example, a desire to increase market share, reduce competition or achieve cost savings. If the arrangement is combining companies that are part of the same production or supply chain but at different points, it is called a vertical merger. In these instances, the goal is usually to simplify the processes and enhance the supply chain management. Vertical mergers are further divided into two

subcategories: forward integration aims to get near the customer, while backward integration aims to take over the upstream part of production, such as raw material procurement.

Rompotis (2015) is also highlighting so-called conglomerate mergers. These combine companies that operate in different industries. Such arrangements are often made to spread risks or to utilize management expertise in new areas. However, it's been criticized that such mergers do not always bring real benefits because coordination of operations can be difficult, and synergies may not be achieved.

The nature of mergers and acquisitions can differ depending on whether both parties voluntarily agree to the arrangement. In a friendly acquisition, both companies agree to the terms together. In a hostile takeover, the takeover bid is made against the will of the target company's management, which can cause tension. Especially if there are fears of loss of independence or strategic conflicts arise.

There are also less conventional arrangements, such as reverse mergers and leveraged buyouts, or LBOs. In a reverse merger, the traditional situation is turned on its head: a private or smaller company buys a larger or listed company in order to enter the public markets more quickly and most importantly, without the time-consuming and often cumbersome listing process. In an LBO, on the other hand, the purchase is financed mainly with debt, and the target company's own funds or assets are often used as collateral for the loan. Rompotis (2015) points out that such arrangements involve considerable financial risks. If the expected returns are not achieved, the debt burden can quickly become unsustainable and cause major problems.

Finally, it is good to remember that no two M&A transactions are exactly the same. Each one has its own purpose and background, but also its own challenges and risks. The chosen form of arrangement is not just a technical detail but can significantly affect the outcome of the entire process (Rompotis, 2015).

3.3 Strategic benefits and risks

Mergers and acquisitions are often seen as attractive options for accelerating a company's growth, but their actual effects are rarely clear-cut.

Ahern and Weston (2007) present several objectives to which companies undertake arrangements. For example, economies of scale – i.e. reducing costs as operations expand, are often cited as a key motive. Economies of scale are also sought, as the merging companies can complement each other's product range or expertise which can diversify their offerings and improve customer service. Intangible resources, such as brand or specialized expertise can be strategically valuable acquisitions because developing them within your own organization could be a slow and uncertain process (Ahern & Weston, 2007, p. 8).

From an internationalization perspective, acquisitions can offer a shortcut. Instead of starting from scratch in an unknown market, a company can buy a local player and gain direct access to their networks and customer base. This can be particularly useful if the market is culturally or regulatory challenging. Also, by acquiring a new player a company can gain access to new skills or technologies and that is often crucial in technology or service industries for example.

However, it is worth emphasizing that these arrangements also involve considerable risks. According to Ahern and Weston (2007), many acquisitions fail because the expectations they are loaded with are unrealistic. Excessive optimism or inadequate analysis can lead to underestimating the challenges of the merger. The integration phase is critical. Without a smooth integration, whether it concerns systems, personnel or cultures, the expected benefits may not be realized. A deal that looks good on paper may not necessarily be profitable in practice (Ahern & Weston, 2007, pp. 17-18). Another risk worth mentioning is the purchase price, or acquisition purchase premium (APP). If the acquisition purchase premium (APP) becomes too inflated in relation to the benefits to be achieved,

the rationality of the entire transaction may be called into question. In addition, the strategic direction of the company may be blurred because energy is spent too much on running the integration process instead of focusing on long-term goals or responding to market changes.

In short, although mergers and acquisitions can bring significant benefits the risks must be accounted for. For such an arrangement to be successful, the company must be able to assess both the benefits and the risks realistically and prepare for both. According to Ahern and Weston (2007), the decisive factor is how well the company is able to combine the pursuit of benefits with the management of risks in the concrete implementation.

4 Key success factors in mergers and acquisitions

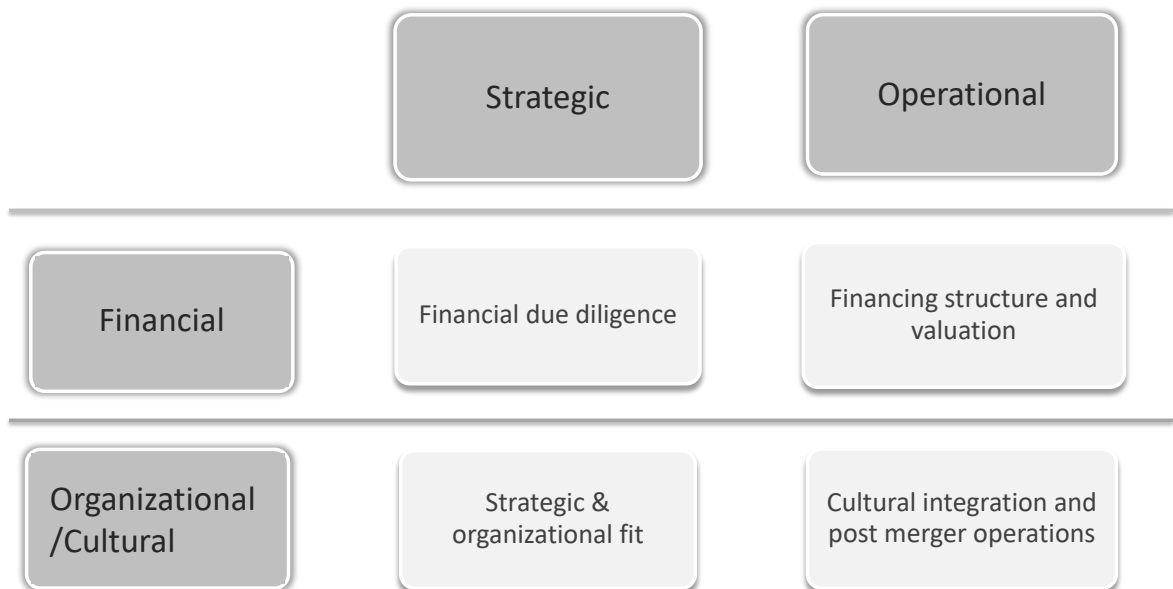


Figure 1. Strategic and organizational dimensions of successful M&As

4.1 Financial due diligence and valuation discipline

A thorough understanding of the financial background is essential for the success of an acquisition. Although a transaction may seem strategically sound on the surface, simply looking at the numbers does not necessarily reveal everything that is essential. It is possible that there are hidden problems or expectations that are not being met and these can, at worst, undermine the entire arrangement. During the due diligence phase, the buyer has a rare opportunity to delve deep into the target company's finances and at the same time map out liabilities, long-term commitments and contractual restrictions that can affect whether or not the transaction creates real value.

Okafor (2019) reminds us that financial analysis should not be limited to just reading reports. According to him, a smart buyer does not just look back in example what the company has achieved but also pays attention to how it operates in practice, what agreements it is involved in and how it positions itself in the market. For example, revenue sharing models, partnerships and the quality of customer relationships can tell more about the company's true potential than a single line in the financial statements. Okafor also highlights Sprint's acquisition of Nextel, which cost 35 billion dollars and led to significant goodwill write-offs within a few years. Why? Partly because the buyer did not understand the cultural and operational differences well enough. The merger remained superficial, and the integration was never properly implemented.

But analysis alone is not enough. The attitude with which one approaches the valuation is also important. Gomes et al. (2013) emphasize that the buyer must understand not only the true value of the target company, but also the realism of the synergy benefits. Overly rosy estimates of future benefits especially when there is competition for offers, can lead to overpricing. Experienced buyers therefore often examine cash flow projections in the light of several different scenarios to get an idea of how sustainable the expected benefits really are.

Valuation also emphasizes practical pricing, specifically how much of a premium the buyer is willing to pay over the market value of the asset. A high premium can signal that there is genuine belief in the benefits. But it also means that there is less room for error. Okafor (2019) notes that successful buyers tend to keep the premium moderate, especially when synergies are not easily measurable or take time to materialize. This considered approach not only improves the chances of achieving value but also protects against situations where the buyer is later pressured to explain why the promised results were not achieved.

Overall, it can be said that financial rigor and judgment are not just formal checklists. They are concrete, critical tools in building value. Without proper groundwork, even the best-looking acquisitions can collapse before they even get started.

4.2 Strategic and organizational compatibility

When two companies merge, economic logic alone is not enough. If the actors do not share the same vision of direction, or if their ways of making decisions and leading the organization are contradictory, clashes are almost inevitably expected. Therefore, strategic and organizational compatibility becomes a decisive factor in whether the integration is successful or not. This view also serves as the basis for the first hypothesis of this study, according to which compatibility in key areas especially in strategy and internal structures significantly increases the likelihood of a successful merger.

Bauer and Matzler (2014) emphasize that when the strategic goals, resources and core competencies of the companies support each other, there is room for genuine synergy. In this case, there is no need to forcefully seek benefits. They are found naturally when the companies are looking in the same direction. Their research shows that such strategic complementarity is also reflected in the results: compatibility makes, among other things, market expansion and process efficiency much more likely.

But strategic alignment alone is not enough if the internal logic of the organizations does not meet. Decision-making practices, hierarchies and operating cultures, these can either build bridges or create gaps. According to Bauer and Matzler (2014), mergers in which organizations are accustomed to operating with similar models proceed more smoothly. On the other hand, structural incompatibilities can cause delays, ambiguities and at worst, erode the trust of personnel and stakeholders before anything has a chance to happen.

Such observations are crystallized in exactly what the first hypothesis of this study aims to highlight: the fewer contradictions there are at the core of the strategy or organization,

the smoother and more likely a successful merger is expected. Integration is then not just a combination of structures, but a controlled process of change in which the directions of both organizations merge into a common vision. Strategic and organizational compatibility alone does not guarantee success, but its lack is often the reason why otherwise promising acquisitions fail (Bauer & Matzler, 2014).

4.3 Cultural integration and organizational identity

The success of mergers has traditionally been measured by numbers. Profitability, growth rates and strategic goals. But the more research is done on the subject, the clearer it becomes that one often underestimated factor is culture. When two organizations are combined, it is not just about processes or systems, it is about people, identities and deeply rooted ways of doing things that cannot be forced together by mere planning.

Integration is particularly challenging when you want to closely combine management and operational activities. The more control you try to build, the more likely it is that even small cultural differences will flare up. For example, different attitudes to uncertainty or power can lead to communication stumbling, decision-making being delayed and people starting to withdraw. Often, these frictions are not immediately apparent, but they remain simmering and have a long-term impact.

It is also worth remembering that in highly integrated models, the identity of the acquired company is usually not preserved. The loss of autonomy can be interpreted as a loss of power, not development. Even if the acquisition was initially received positively, cultural exclusion can lead to passive resistance. As Weber et al. (2011) highlight, such cultural clashes can ruin even good synergy expectations. What looks efficient on the organizational chart can seem oppressive and demotivating to employees.

On the other hand, when integration takes into account the specificities of the culture and adapts the strategy accordingly, we are already closer to success. As discussed, the symbiotic model works better in a multicultural environment, while the conservative

approach is suitable for situations where uncertainty is actively avoided. These choices cannot eliminate all friction, but they can build a common direction and mutual understanding, which are absolutely essential after a merger.

In this light, the second hypothesis of the study (H2) gains even more weight: cultural integration is not an add-on, but a decisive factor in whether the value promised by the deal is created in practice. If culture is ignored, it is not just a missed opportunity but a risk that can cause long-term disruption in the entire organization. In short, cultural integration is not about eliminating difference. It is about learning to recognize, respect and manage difference. Not perfectly, but well enough.

4.4 Post-merger integration as a driver of success

While synergy potential often motivates mergers and acquisitions, its realization hinges on how integration is managed after the deal is sealed. Integration is not a monolithic process but consists of multiple, layered interactions between organizations, systems and people. Missteps during this phase may erode not only anticipated value but also organizational trust and morale.

Birkinshaw, Bresman and Håkanson (2000) highlighted this early on in their study, where they followed three Swedish acquisitions over a period of years. They found that simply focusing on the integration of systems or processes was not enough. It was only when the cultures of the organizations began to converge and trust between people grew that the concrete synergy benefits that were originally sought were realized. The connection between people created the basis for the real integration of tasks, systems and skills. Integration, in other words, is not a sprint but a gradual construction process with the human aspect at the heart of it.

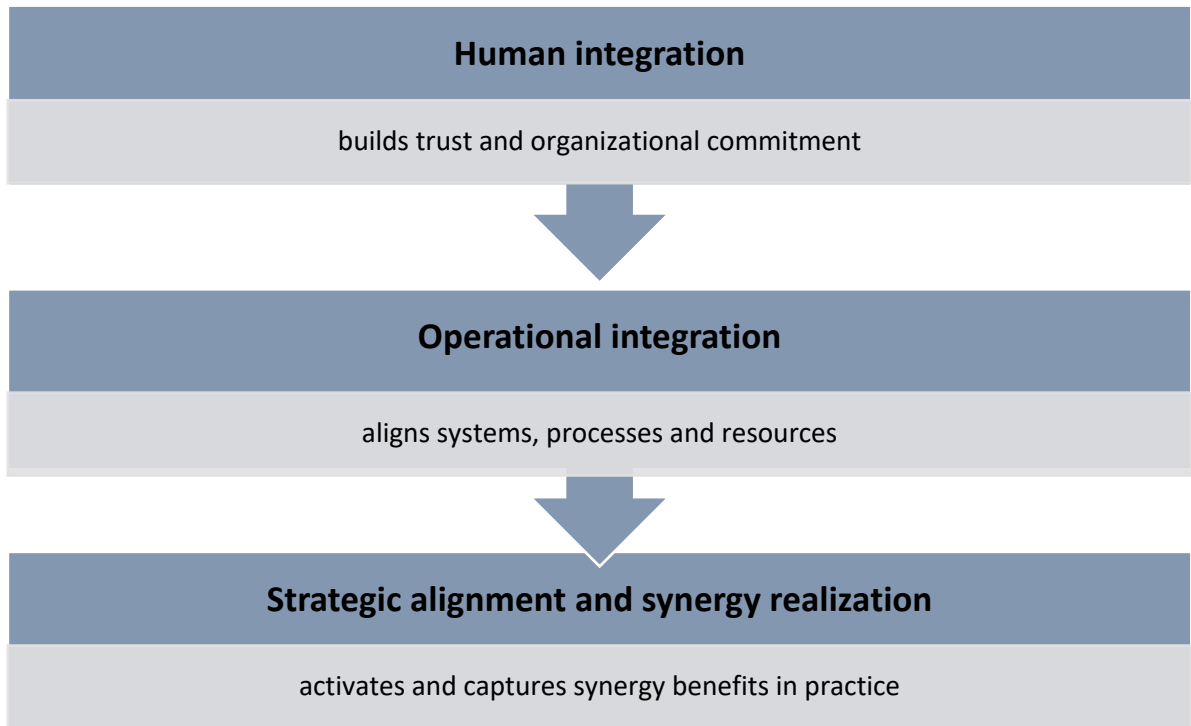


Figure 2. Post-merger integration process and value creation

A large-scale meta-study by Graebner et al. (2017) also supports this view. An analysis of over a hundred studies showed that most of the value of an acquisition is created during the integration process not at the time of the deal. What is essential is how the merger is managed: are the goals clearly communicated, are there sufficient resources and above all, are the people from the acquired organization genuinely involved? When these elements are in place, the realization of synergies becomes significantly more likely.

Based on this, the second hypothesis of the study (H2), that synergy benefits are based primarily on successful integration management is not only logical, but also strongly supported by research. Strategic compatibility alone is not enough if integration is managed carelessly or mechanically. Real value is created when integration is seen as its own area of expertise not just a technical final stage that is handled from the side.

5 Pitfalls and challenges in mergers and acquisitions

5.1 Overvaluation and synergy miscalculations

One of the recurring stumbling blocks in acquisitions is the overvaluation of the target company and the associated misjudgment of synergy benefits. Situations in which the buyer sets future profit expectations too high, often in the belief that the combination of companies in itself will create significant added value are not uncommon. While such optimism is not unfounded in itself, it often leads to a purchase price that no longer withstands critical examination in the light of actual cash flow projections.

In competitive bidding situations, in particular, the pressure to make a “winning offer” can push the buyer to make decisions that are poorly justified. In such cases, the price may increase more due to competition than strategic rationality. At this stage, the due diligence process intended to support the acquisition easily becomes a formality. It is done but not heard. Okafor (2019) points out that successful acquisitions almost invariably rely on a thorough due diligence phase that goes beyond the numbers: customer relationships, contractual structures, and organizational dynamics. If this phase is incomplete or its importance is downplayed, the synergy expectations underlying the purchase price begin to be built on sand.

This is where another, often misunderstood area comes into play: synergies themselves. In theory, they refer to the added value that comes from combining two companies, which can manifest itself in, for example, cost savings, increased sales potential or access to new markets. In practice, however, realizing synergies is anything but simple. Gomes et al. (2012) show that most failures are precisely related to the fact that synergies are assessed too optimistically, sometimes even mechanically. It is easy to draw up a calculation that says that the merger will generate “x million euros in savings”, but in reality, aligning technologies, operating methods and cultures takes more time, resources and nerves than many initially believe.

In such situations, not only does the achievement of synergies fail, but the original justification for the purchase price also begins to falter. This is not only a financial problem, but it affects the confidence, sense of direction and ability of the entire organization to commit to change.

The third hypothesis of the study (H3), that overestimated synergies, and optimistic valuations reduce the probability of a successful acquisition, thus receives strong support. Misjudgments rarely arise from a single mistake, but rather from seeing integration as an overly technical process. In this case, it is easy to overlook that the real added value is not created only in spreadsheets, but in how well people, processes and strategies are made to play together. At the end of the day, it is about the way in which the acquisition is approached. If the focus shifts from strategic compatibility to how the purchase price can be justified in Excel, we risk losing the real purpose of the entire process: creating long-term value.

5.2 Managerial conflicts and cultural clashes

The success of mergers and acquisitions is not only based on financial calculations or strategic compatibility, but also on how corporate cultures and management styles meet and adapt to each other. The conflicts that arise during the integration phase often stem from agency theory, which explains the mechanisms of conflicts of interest between owners and management. As Jensen and Meckling (1976) showed that management decision-making can be based more on strengthening their own influence and position than on maximizing shareholder value. Such conflicts are particularly evident in merger processes, where management plays a central role, and strategic ambiguity allows for opportunistic behavior.

From the perspective of agency theory, acquisition-oriented growth can therefore in some cases stem from management's own motives, not necessarily business-based. In such cases, poorly justified deals and difficulties in integration can result. In these situations, the third hypothesis (H3) of this study also becomes concrete, according to which

cultural conflicts can prevent the realization of synergies, especially when management objectives are not aligned with the company's strategic goals.

Another significant source of conflict is cultural differences. As we now know, corporate cultures can differ significantly from each other, not only in terms of nationality but also in terms of organizational structure and operating methods. As earlier discussed, Sarala and Vaara (2010) emphasized in their study that cultural differences make it difficult to transfer information and weaken trust between companies, which can jeopardize the success of the entire integration. Weber et al. (2011) show that incompatibility of leadership styles and decision-making logics in particular can cause tensions that slow down the merger and adaptation after the transaction.

Although cultural differences often pose challenges in mergers, they are not an unambiguously negative factor. As discussed earlier in my thesis, cultural differences can also be a strength under the right circumstances. They can bring out new perspectives, promote learning and support innovation. What is important is the order in which integration is implemented (see Figure 2). If we focus first on building trust and only then on technical and operational integration, cultural conflicts can be reduced and a foundation for longer-term cooperation can be created. Integration is then not based solely on combining structures, but also on developing a common operating culture. At its best, cultural differences can create new ways of acting and thinking – not as limitations, but as part of a change process that moves the organization forward.

Additionally, if cultural alignment fails, there is a risk that integration will remain superficial, and the expected benefits will not be realized. This clearly reflects the core content of the study's hypothesis H3: cultural tensions can prevent the emergence of synergies. And although synergy is often defined as a financial or strategic benefit, it is very much driven by human factors, values, trust and a shared understanding of direction. If these are missing, the result may be staff resistance, the departure of key people and the blurring of strategic goals.

5.3 Regulatory and trust issues

The success of acquisitions is often limited by complex regulatory environments. Especially when it comes to international mergers or when the competitive situation in the industry is sensitive. The requirements of competition law and the approval procedures for cross-border mergers can prove to be surprisingly burdensome. Ince (2014) highlights that regulatory ambiguity and delays in regulatory approvals not only slow down practical integration but can also weaken the buyer's room for maneuver and at the same time erode the trust of stakeholders in the entire process.

Lack of trust is often a phenomenon that begins to grow unnoticed. Ince (2014) draws attention to the fact that unclear communication, sudden changes in management or an uncertain strategic direction can cause uncertainty among both personnel and investors. People begin to hesitate: what will happen next? Which direction are we going? This can be seen as reduced commitment in the work community or an unwillingness of investors to continue.

In these situations, the importance of good governance and open leadership is highlighted. Ince (2014) emphasizes that clear responsibilities and transparent reporting are not just technical practices, but concrete ways to build trust and involve different stakeholders in implementing change.

Although the factors discussed here may not be directly related to synergy estimates or valuation, they are still closely linked to the third hypothesis (H3) of this study. An unclear regulatory environment and a lack of trust among stakeholders can exacerbate already overoptimistic synergy expectations, for example by slowing down the integration process or complicating decision-making. Uncertain operating environment can stall implementation. From this perspective, it's clear that regulatory challenges and trust or lack of it, are not isolated problems but can enhance the overestimations and misjudgments that H3 addresses.

6 Conclusions

This thesis reviewed mergers and acquisitions (M&A) as a strategy for growth, with a particular focus on the strategic, financial and organizational factors behind success. Prior research has offered empirical as well as theoretical evidence on which factors contribute to M&A processes outcome – either supporting or weakening chances of success. The following is a review of the study's three hypotheses based on the analysis and a brief discussion of recent studies related to the hypotheses.

First hypotheses: *"Clearly defined and compatible strategic goals and complementary resources between acquiring and target firms lead to a higher likelihood of successful M&As."* This hypothesis is strongly supported by the previous literature. Several sources show that strategic fit and complementary resources significantly improve the probability of a successful acquisition. Strategic alignment enables the realization of synergistic benefits more efficiently and organizational fit can reduce disruptions during integration. Additionally, a relatively new study supports the notion that success of M&As do not hinge solely on individual factors such as dynamic capabilities or company size compatibility, but crucial is how well the company's internal capabilities and strategic orientation are compatible with external conditions (Fainshmidt, Wenger, Pezeshkan, & Mallon, 2019). Fainshmidt et al. (2019) emphasize the strategic fit principle according to which competitive advantage only arises when strategic goals and resources are effectively adapted to the demands of the environment. This finding reinforces the first hypothesis of this study that clearly defined and complementary strategic goals and resources add to the likelihood of M&A success. Thus, the first hypothesis can be considered supported.

Second hypothesis: *"Synergy benefits in M&As are primarily driven by effective post-merger integration management."* Based on the analysis of this study, it can be considered that the second hypothesis is supported. Although many factors influence value creation in M&A, the results suggest that successful post-merger integration management is often the decisive factor in achieving the expected synergy benefits. Integration measures

that combine functions, organizational culture and communication appear to be key to achieving long-term benefits. Furthermore, a recent empirical study (Chaturvedi & Weigelt, 2024) suggests that the impact of post-merger integration on the realization of synergy benefits depends on which type of synergy is emphasized in the acquisition: cost synergies or revenue synergies. The study finds that, regarding cost synergies a high level of integration leads to linearly better performance. This supports the second hypothesis. However, it also finds that in the case of revenue synergies, integration has an inverted U-shaped effect (Chaturvedi & Weigelt, 2024, p. 4). Too little or too much integration weakens the results, and the best result is achieved with a moderate level of integration. You could say this weakens the unambiguous validity of the hypothesis but on the other hand, it reinforces the idea that achieved synergy benefits are largely dependent on post-merger integration management, and it doesn't make the factor any less decisive, quite the contrary.

Third hypothesis: *"Pitfalls such as synergy overestimation, valuation inaccuracies and cultural conflicts significantly reduce the success rate of mergers and acquisitions."* The research literature provides ample evidence to support this hypothesis. Several studies reviewed for this study indicate that overoptimistic synergy expectations, inaccurate valuation and cultural conflicts are key factors behind failures. Cultural differences can lead to mistrust, poor information exchange and reduced employee engagement, which reduces the chances of successful integration. In a recently published article Gorton and Zentefis (2024) present a theoretical model that highlights the incompatibility of cultures as a key factor in failed acquisitions. The model explains why even highly likely synergy benefits may not materialize if corporate cultures are incompatible or if the new organizational structure disrupts existing practices. This reinforces the notion that cultural conflicts and other integration pitfalls significantly reduce the likelihood of successful acquisitions. Thus, third hypothesis is supported.

The results of the study show that successful acquisitions require, above all, strategic compatibility and carefully implemented integration. In practical business terms, this

means that the strategic objectives and key resources of the acquiring and target companies should be carefully assessed before making a deal. Company managers should not be satisfied with superficial synergy assumptions but rather test their assumptions through a careful due diligence process. Integration should also not be seen as a mere technical after-effect, but as a key area of management. Successful integration requires foresight, cultural sensitivity and clear leadership. The results also highlight the importance of realistic synergy expectations and the need to consider cultural and management style compatibility. In international acquisitions, it is especially important to invest in identifying cultural differences and planning the alignment carefully. When these issues are taken seriously, the company has a significantly better chance of achieving the benefits that are sought through the acquisition. At the same time, we avoid the pitfalls that according to the research, often lead to failure.

For further research, this thesis suggests that future studies should explore how the success factors identified in the literature manifest in specific industries and deal contexts through empirical analysis.

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