M&A Failure Factors

Master thesis Financial Management

"Our business is really simple. When you look at a deal and its structure looks like an octopus or spider, just don't do it"
– Timothy Sloan

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Abstract

Purpose: *The aim of this master thesis is to analyse the relationship between M&A failure factors found in the literature and M&A failure factors identified at the CORPORATE BANK case studies.*

Methodology: *This research employs a combination of quantitative research and qualitative research. Literature is searched on the base of secondary research on M&A failure factors, published by experts. Key search terms, various synonyms and related terms are applied in the literature search in order to identify generalizable M&A failure factors. The qualitative research concerns ## case studies at CORPORATE BANK. Semi-structured interviews are conducted in order to refine and extend on the case-related information retrieved from CORPORATE BANK's applications.*

Theoretical Implications: *In the literature, there is little consensus regarding the reasons for acquisition failure. The results of the literature review supports this matter of contention as the literature review results in an extensive list of M&A failure factors. This research contributes to theory by creating clarity in the available M&A failure factors in the literature. Literature is inventoried, and by doing so, clarity is created through an overview displaying M&A failure factors found in the literature. This is of added value since even though there is no single recipe for M&A failure, the most remarkable finding of the literature review is that failure factors associated to management have been indicated most often. Yet, the substantial challenge is to extend the overview displaying the M&A failure factors, e.g. by adjusting the failure factors related to unforeseen events such as the Economic Crisis. Yet, one should be cautious with theorizing that the number of times a failure factor is mentioned is a criterion regarding the determinativeness of that failure factor.*

Practical Implications: *The findings of the CORPORATE BANK case studies indicate that 95% of the defaulted acquisition credit loans can be explained by only two failure factor categories (i.e. managerial problems and economic crisis). Therefore, the results of the CORPORATE BANK cases are controversial regarding the little consensus of the M&A failure factors identified in the literature. The intended contribution to practice is a report for CORPORATE BANK which not only contains an overview of the defaulted acquisition credit loans issued by CORPORATE BANK, but also contains an overview with the factors that contributed to the defaulted acquisition credit loans. This report is advantageous for CORPORATE BANK as it allows CORPORATE BANK to anticipate on the failure factors and to mitigate the M&A transaction risk for the future. The substantial challenge for CORPORATE BANK is to decide whether or not additional procedures should be launched e.g. regarding cyclical businesses or businesses involving multiple shareholders.*

Keywords: Mergers & Acquisitions, Takeovers, Failure Factors, CORPORATE BANK

Preface

This Master Thesis is written as a completion of the Financial Management master at the University of Twente.

The subject M&A failure factors has been chosen as a continuation of my interest in Corporate Finance. Even though the master Financial Management is already interrelated with Corporate Finance, I saw this research as an opportunity to gain further knowledge and experience in the world of Corporate Finance. In order to gain practical experience, I applied for an internship at CORPORATE BANK. Condition of the internship was that I showed my commitment through assisting with organizing a client event. As it concerned an event regarding the valuation of businesses, I was very happy to be of assistance as I could not only develop my organizational skills, but at the same time I could also learn more about the valuation (issues) of businesses. Moreover, during the internship, I gained experience in several applications and in conducted interviews. Furthermore, I developed myself through realizing that it is not always efficient do all the work yourself. Sometimes, it is more efficient to ask colleagues for help, or just for their insights. Even though it was sometimes difficult to find a balance between "what does CORPORATE BANK wants" and "what does the University of Twente wants", my experience of the internship at CORPORATE BANK is positive.

Several persons have contributed academically, practically and with support to this master thesis. Therefore, I would firstly like to thank my supervisor of the University of Twente, ir. H. Kroon, for his time and guidance throughout the entire master period. Furthermore, I would like to thank my supervisor of CORPORATE BANK, Elroy Witzand, for his time, constructive comments and valuable input regarding the research. Accordingly, I would like to thank CORPORATE BANK as organization for providing me with the opportunity for doing research, introducing me to numerous people and for making it possible to develop myself on several areas. Finally, I would like to thank my family and friends for their moral support during my time studying at the University of Twente.

I hope you will enjoy reading this thesis.

Enschede, August 25th 2016

Renée Houwers

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1. Introduction

This first chapter focusses on M&A background information, the research goal and research questions. In addition, the scope and intended contribution of the research will be covered.

1.1 Background Information

Mergers and acquisitions represent a complex phenomenon exemplifying an interesting paradox. On one side, growing M&A activity and volume can be observed while on the other side, a high failure rate of M&A is recognized. Fortunately, many academics from several disciplines are interested in the world of M&A (Birkinshaw et al., 2000), including the financial, strategic, behavioural, operational and cross-cultural aspects of this challenging activity (Cartwright & Schoenberg, 2006). Therefore, voluminous research data, both quantitative and qualitative, is available. Research indicates that approximately 40%-60% of all acquisitions fail to achieve their desired outcomes (Uzelac et al., 2015). Yet, some research even present a higher M&A failure rate of 60%-80% (Angwin, 2007, Groen & McCarthy, 2011; Johnson, 2006). Nevertheless, if more than half of M&A transactions are doomed to fail, the transaction risk is significant.

Despite the enormous availability of M&A research, there seems to be little consensus as to the reasons for acquisition failure (Hitt et al., 2009). Having an understanding of factors contributing to acquisition failure can be beneficial, not only for the companies engaged in a M&A transaction, but also for the external financer(s) of the transaction. After all, if an acquisition fails, it does not only influence the business owner(s) or employees, but also the external financer(s). When management or bankers have a decent understanding of the factors causing M&A's to fail, one can anticipate on these failure factors and mitigate the risk of a negative acquisition outcome.

As a debt provider for the acquiring company, CORPORATE BANK Bank (hereafter referred to as CORPORATE BANK, unless specified) engages in the M&A transaction risk. If the acquisition fails, CORPORATE BANK has the risk of not gathering back the invested amount of money nor the interest payments. The financial loss of a defaulted acquisition credit loan is high as there barely is a cover for the credit loan as opposed to a regular credit loan to a company. Thus, ideally, it would be the best if CORPORATE BANK only grants credit loans to these M&A's which are not doomed to fail. In order to mitigate the risk of an unfavourable acquisition outcome, a list containing acquisition failure factors can be valuable.

1.2 Research Goal

The goal of this research is to investigate which factors caused acquisitions, financed by CORPORATE BANK, to fail and how this is related to M&A failure factors found in the literature. This research helps to gain deeper understanding about why acquisition credit loans, issued by CORPORATE BANK, become in default. Literature is researched and analysed in order to find M&A failure factors. In addition, case studies are conducted at CORPORATE BANK in order to find specific failure factors concerned to the CORPORATE BANK cases. By reviewing literature, a comparison can be made with failure factors found in the literature and failure factors found by the acquisitions financed by CORPORATE BANK. This is interesting because these results give new insights for both practice and literature. The results of this research are beneficial for CORPORATE BANK as these will help prevent an undesirable action, issuing an acquisition loan to a company with high risk of becoming in default, from occurring.

1.3 Research Question

The goal of this research is to uncover which factors causes acquisitions to fail. Therefore, the central research question of this thesis is:

"How do the M&A failure factors found in literature relate to the failure factors identified in the M&A practice of the CORPORATE BANK Bank?"

The aim of this research is to present failure factors discovered at unsuccessful acquisitions financed by CORPORATE BANK and to compare these failure factors with failure factors discovered in the literature. The results of this research are valuable for CORPORATE BANK as these allow CORPORATE BANK to anticipate on particular failure factors and, by doing so, mitigate the M&A transaction risk. Down the road this will lead to less issued acquisition credit loans becoming in default and a better financial position for CORPORATE BANK.

The central research question implies two parts, a literature part and a multiple case studies part. Therefore, the research questions that will help answer the central question are:

1. What are the M&A failure factors found in the literature?
2. What are the M&A failure factors of acquisitions financed by the CORPORATE BANK Bank?

These research questions are answered through reviewing literature and through conducting case studies. The answers to these research questions will be used to answer the central research question.

1.4 Scope

The foundation of this research is a literature study in combination with case studies at CORPORATE BANK, which means that this research consists of two main parts.

The scope of the first part, the literature review, is the overall M&A market. Relevant literature is analysed and selected based on the article title and abstract. Condition during this literature search is that the articles should be generalizable to the overall M&A market. Even though the scope of the case studies at CORPORATE BANK is on the Dutch market, literature on acquisition failure factors on the Dutch market is too restricted. Consequently, we decided to broaden the literature part to the overall M&A market. In addition, this literature review starts broad and ultimately ends specifically focusing on the M&A failure factors.

The case studies at CORPORATE BANK refer to acquisitions financed by CORPORATE BANK which needed assistance from Financial Restructuring & Recovery (FR&R). FR&R is a department being of assistance to companies with financial difficulties, thus when acquisition credit loans are in default or when there is an increased credit risk. The geographical scope of the case studies is the North East Region of The Netherlands. The North East region of the Netherlands refers to the provinces Groningen, Friesland, Drenthe, Overijssel, and Flevoland. Furthermore, the case studies are limited to small medium sized enterprises (SME). SME's refer to companies with a revenue turnover between 1 and 30 million. In addition, the time scope of the case studies is six years, namely; 2010 – 2015. Note that this time scope is out of the ordinary as it covers (part of) the economic crisis (i.e. the economic crisis approximately started December 2007). A scope of six years is chosen because an acquisition credit loan issued by CORPORATE BANK should be repaid in six years. Thus, the first six years after the acquisition credit loan is issued are most critical from an CORPORATE BANK perspective.

1.5 Intended contribution of the Research

The intended contribution to practice is a report for CORPORATE BANK in which not only an overview can be found containing the defaulted acquisition credit loans issued by CORPORATE BANK (i.e. region North East between 2010-2015), but also an overview with the factors which contributed to the defaulted acquisition credit loans. This report is advantageous for CORPORATE BANK as it allows CORPORATE BANK to anticipate on the failure factors and to mitigate the M&A transaction risk for the future. With the result that in the future, no or less acquisition credit loans are issued with a high risk of becoming in default. Accordingly, CORPORATE BANK will lose less money as the result of defaulted acquisition credit loans. Thus, the results of this research will help improve CORPORATE BANK's M&A portfolio and financial position.

This research contributes to theory by creating clarity in the available M&A failure factors in the literature. Literature is inventoried and by doing so, clarity is created through an overview displaying M&A failure factors found in the literature. The discovered M&A failure factors are combined in a table, displaying the individual failure factors observed in the literature and, additionally, which article mentioned which failure factor. A table that integrates and combines the different individual failure factors observed in the literature presents a comprehensive picture of M&A failure factors. An overview containing all the individual M&A failure factors found in the literature is of use as, apparently, M&A failure factors are of a broad range. Most research only focusses on a part of this range, e.g. cultural differences within companies, while this research covers a broader range of M&A failure factors.

2. Methodology

This chapter covers the design of the research, including an abstract description of my empirical approach to data collection and analysis.

As this master thesis is conducted to assess the failure factors of acquisitions financed by CORPORATE BANK and to compare these failure factors to the generalizable failure factors of M&A found in the literature, the foundation of this thesis will be a literature review in combination with case studies. This research design fits in the category "academic problem solving", since there is a problem within CORPORATE BANK related to the performance of CORPORATE BANK for which a solution is sought. As there are two parts in this master thesis, this chapter is divided into two sections, namely; "Data Collection Literature Review" and "Data Collection Case Studies".

2.1 Data Collection Literature Review

This section describes the search strategy and the selection criteria adopted for the literature review. The literature review is conducted based on secondary research. Desk research has been performed on papers published by experts on the field of M&A failure. The literature on mergers and acquisitions is extensive, thus it is of essence to specify search terms in order to find literature that is of added value for answering the research question. The search terms employed in this research include various synonyms or related terms in order to find enough and appropriate information on the concept. Given my problem statement, I decided to use the following main sources of information for the literature part of this research:

- Google Scholar, a simple way to search for scholarly literature.
- Scopus, the largest abstract and citation database of peer-reviewed literature. This database includes collections of scientific journals, books and conference proceedings.
- Web of Science, a comprehensive and versatile research platform providing access to data, journals, proceedings and patents.
- EBSCOHost, which offers a broad range of full text and bibliographic databases designed for research.
- Books. An example of a book used is "Corporate Finance, European Edition“ by Hillier et al., (2010).

These sources of information are of high academic quality.Throughout the literature search keywords as "Mergers & Acquisitions", "M&A", "failure, unsuccessful", "pitfalls", "takeovers" and "challenges" are, among others, employed. This resulted in an extensive list covering 50 articles which indicate factors regarding M&A failure. A table containing the titles and the authors of articles found can be looked at in Appendix I. Appendix I also displays the search terms used in which database and the total number of results. Note that not all identified articles are displayed in Appendix I as also other methods are used to obtain data.

Further, the literature search methods characterizes no constraint in date published, since M&A failure factors is not a novel concept. Results are judged based on the article title and abstract and based on their level of generalizability. Results which are only focusing on a specific industry and/or a particular country are not touched upon because these results are less generalizable. Though, there can be a rare number of exceptions if the result did appear to be generalizable. Furthermore, in some cases, subject areas are selected in order to refine the results. Scopus, for example, offers the possibility to refine the results to specific search areas. The areas this paper will employ while using Scopus are Business, Management and Accounting (BUSI). This provided me with more relevant results for this thesis, since only the suitable articles are exemplified. Another technique that helped me assessing the great availability of the literature is the snowball method. This method helped me to continue to search through the reference list of main sources.

After literature and knowledge is collected, the goal is to have a clear overview presenting the failure factors of mergers and acquisitions identified in the literature (i.e. see also Figure 1 and Appendix VIII). This overview is needed in order to assess the relationship with the failure factors discovered at "failed" acquisitions financed by CORPORATE BANK.

In short, the methodology of the literature review can be summarized as follows:

- Unit of Analysis: Failed Acquisitions.
- Selection Procedure: Selection based on title and abstract. The unit of analysis should be generalizable to the overall M&A market.
- Constructing measurement instruments: Interpreting 50 articles regarding M&A failure factors and combine the identified M&A failure factors in a table.
- Method of collecting data: Using key terms and synonyms in multiple, and of high academic quality, databases.
- Analysing the data: M&A failure factors are analysed based on the number of times an article mentions a specific M&A failure factor.

2.2 Data Collection Case Studies

This section describes the data collection and analysis of the CORPORATE BANK case studies. The case studies at CORPORATE BANK is considered qualitative research. The purpose of qualitative research is not to generalize findings, but to form an interpretation of a phenomena (Myers, 2000).

The case studies at CORPORATE BANK refer to the acquisitions financed by CORPORATE BANK which needed assistance from Financial Restructuring & Recovery (FR&R) within six years. Therefore, the unit of analysis are businesses to whom CORPORATE BANK granted an acquisition credit loan during the time frame of 2010 - 2015 and which became in default (i.e. transfer to the FR&R department) within 6 years (i.e. until mid – 2016). The data regarding a case study analysis is obtained in 7 steps. These 7 steps are presented below.

<u>Step 1:</u> The first step concerns the selection procedure. An overview of all issued acquisition credit loans by CORPORATE BANK during the time frame of 2010 -2015 is composed. This data was stored on Excel files, separated by the name of Specialist of Acquisition.

<u>Step 2:</u> The second step is to evaluate which of the issued acquisition credit loans during the time frame 2010 – 2015 "failed". During the case studies, "fails" implies issued acquisition credit loans which became in default within six years (i.e. see also Appendix XIV). The application that is used to evaluate whether the issued acquisition credit loan became in default, thus whether or not assistance from FR&R was necessary, is "Klantbeeld". This is an application in which data of clients (businesses) can be accessed through the business's name or account number. When there is an FR&R code displayed at "approval authority", it means that the credit loan of that particular company is in default. In total,#acquisition credit loans issued between 2010 – 2015 became in default before mid-2016.

<u>Step 3:</u> The third step concerns the collection of data procedure. Data needed to be collected to determine why the selected companies became in default. This data is collected through a combination of interpreting application data and semi-structured interviews.

The applications used to discover why a company became in default are KEM and EKD. KEM is an intranet-application that approves credit loans on the basis of several other client data systems. In addition, commentary is added in KEM about whether or not a fiat is approved, or if a credit loan should be transferred to FR&R. This commentary comes from different sources, under which from Risk Management and the credit approver, which improves the internal validity. EKD (i.e. Electronic Customer Dossier) is a system in which all relevant documents of a "customer" are stored. Therefore, EKD provides access to, among other documents, the “acquisition plan” written by the specialist Acquisitions and the “transfer to FR&R” document, written by the FR&R advisor. The “acquisition plan” describes the story behind the acquisition, the impression of the entrepreneur(s), the outlook of the corresponding sector as well as comments on ratios and the valuation of the shares. The “transfer to FR&R” document gives insights into the reasons why transfer to the FR&R department is necessary. As the information provided by KEM and EKD are of use for this research, these two applications are essential. The information retrieved from the documents (i.e. KEM and EKD) will be compared with the information retrieved from the interview.

Step 4: The fourth step concerns the identification of the respondents. The FR&R advisor has been chosen as a respondent of the interview as the FR&R advisor is considered to be an unbiased person regarding the businesses of the case studies. The FR&R advisor does not have a relationship with the corresponding business prior to the transfer to FR&R. Therefore, the FR&R advisor is not influenced by a goodwill factor regarding the entrepreneur. Additionally, the FR&R advisor is not being judged on the business being transferred to FR&R whereas an account manager (i.e. who also possesses information regarding a particular business of the case) does not only have a relationship with the business and entrepreneur(s), but might also be judged on the business being transferred to FR&R and therefore can be biased. The FR&R advisor of the business of the case is considered to be the most appropriate respondent as the FR&R advisor does possess the information regarding transfer to FR&R and is also considered to be the least biased person, which improves the validity of the information. The respondents (i.e. FR&R advisors) could be identified through the FR&R code displayed by “Approval Authority” in Klantbeeld. The code signifies a name and through the application “Zoek Collega” the name of the corresponding FR&R could be retrieved.

Step 5. The fifth step concerns conducting the interview (i.e. data collection method). The information retrieved from the interview with the FR&R advisor concerns semi-structured interviews. Interviews have been conducted as the information retrieved from the documents usually was insufficient in order to draw conclusions and interviews imply a value on personal language as opposed to data retrieved from documents. Interviews are appropriate as a data collection method in this research as the research is primarily focused on gaining more insights. Semi-structured interviews are chosen as a data collection method as similar questions can be asked to the FR&R advisors, although supplementary questions can be asked as well, if appropriate.

The semi-structured interview is designed with open-ending key questions which are grouped thematically. These key questions are based on non-biased information and designed in such a way that all possible factors behind the “failure” of the acquisition would be retrieved. The key questions are grouped in themes in order to more easily switch from theme during the interview. In general, the key questions were non-leading questions as the answers should be the least biased as possible. The approach and structure of the interviews and a template of key questions grouped into themes can be discovered in Appendix XIX. In short, the interviews were prepared with an analysis of the available data in the documents. By analysing the data regarding a specific case as a preparation before the interview, the researcher not only prevented to ask redundant questions, but could also ask additional appropriate questions concerning a particular case. This approach improved the quality of the information retrieved from the interview.

In general, although the themes of the key questions of the semi-structured interviews are similar to the M&A failure categories of the literature review, I attempted to not be blind-sided (i.e. biased) by the M&A failure factor categories of the literature review as it would also be possible to discover M&A failure factors which are not identified in the literature (yet). In order to be sure that I had covered all the possible factors contributing to the defaulted acquisition credit loan, I always asked the question whether or not a possible other factor could have contributed to the defaulted acquisition credit loan, and in what degree.

Step 6: The sixth step concerns the interpretation of the data. While the data retrieved from the documents can be easily interpreted in the context, the information retrieved from the interview with the FR&R advisor can less easily be interpreted as it concerns self-reported data (i.e. probability of being biased by the FR&R advisor). It is remarkable that in general, the documents provided relative little information while the information retrieved from the interviews provided a significant part of the total information.

First, the information retrieved from the documents is interpreted. A distinction is made regarding M&A failure factors which directly contributed to the transfer to FR&R and M&A failure factors that indirectly contributed to the transfer to FR&R. Subsequently, through the interview with the FR&R advisor, the information retrieved from the documents is either agreed upon, extended or (partly) replaced. In general, I considered the information retrieved from the interview as more determinative than the information retrieved from the documents since the documents either provided really little information, or the FR&R advisor provided me with strong arguments.

The case studies are analysed the same matter (i.e. see Appendix XVII). First some general information regarding the business of the case is presented. General information of the business is of use in order to understand what business is being analysed, which sector the business is operating in, the story behind the acquisition (i.e. intention of the acquisition) and so on. Thereafter, the information retrieved from the documents regarding transfer to the FR&R department is discussed. Subsequently, the information retrieved from the interview with the FR&R advisor is presented. Concluding, the information retrieved from the documents and the information retrieved from the interview is compared. Thereupon the contributing factors regarding transfer to FR&R are determined, while a distinction is made between direct factors having contributed to the defaulted acquisition credit loan and indirect factors having contributed to the defaulted acquisition credit loan. This distinction is made as, in general, a defaulted acquisition credit loan is due to a combination of factors. Though, these factors usually do not weigh the same regarding the defaulted acquisition credit loan. In order to analyse the determinative factor regarding the defaulted acquisition credit loan, it is appropriate to distinguish between direct (i.e. determinative) factors and indirect factors.

The interviews with the FR&R advisors have been recorded. Having a recording of the interview increases the quality of the analysis of the information retrieved from the documents. By recording the interview, I not only had full attention regarding processing the answers of the FR&R advisor and correspondingly, full attention regarding the most suitable question to ask next (i.e. as I did not have to write everything down), but I was also able to verify the analysis of the interview by listening to the recording and ensuring that I encompassed all the relevant information. Unfortunately, due to anonymity and sensitivity of the information, the recorded interviews are not included in this research.

In the context of anonymity, the case studies are described in such a way that anonymity of the entrepreneurs and the businesses is guaranteed. Therefore, the names of the entrepreneur and shareholder are replaced with “entrepreneur”, and “shareholder” respectively. While some information regarding the business is presented (i.e. sector the business is operating in), I made sure that none of the information could be traced back to a business or entrepreneur in order to guarantee the anonymity.

Step 7: After elaborating the ## case studies, a further analysis regarding the identified failure factors had to be made. In the context of interpreting the information regarding the defaulted acquisition credit loans, I developed a table presenting the failure factors of the defaulted acquisition credit loans (i.e. Appendix XVI). Since the conclusion of each individual case analysis discusses the direct and indirect factors regarding the transfer to the FR&R advisor, the information employed in the table (i.e. Appendix XVI) could be retrieved from the conclusion section of the case studies. Appendix XVI also displays the distinction between direct and indirect factors. In general, the rule of a direct factor is that that factor was the determinative factor regarding the transfer to FR&R, while an indirect factor also had a finger in the pie regarding the transfer to FR&R. Appendix XVI displays the distinction between a direct and an indirect factor through different colours (i.e. red for direct factors and yellow for indirect factors). Through the use of different colours, it is more easy to interpret the data since by just looking at the table, a pattern can be discovered by graphical representation.

However, Appendix XVI is still extensive and displays numerous individual failure factors. In order to have a more convenient overview, the individual failure factors have been categorized. Categorization of the individual failure factors was possible since multiple failure factors are similar and can be grouped into one overarching category. Thereupon, five failure factor categories derived (i.e. see also table 4).

Yet, one should note that a bias limitation is present regarding the data interpretation of the case studies. The researcher has to assume that the information retrieved from the FR&R advisor is valid. Additionally, the researcher combined the individual failure factors into categories, which can be considered self-reported data. Self-reported data can rarely be independently verified, which might be a threat to the internal validity of the data. Though, I do not consider this limitation as a constraint, as the categories were solely employed to draw broader conclusions. The individual failure factors within the categories are also discussed, which diminishes the threat of internal validity.

In short, the methodology of the case studies can be summarized as follows:

- Unit of Analysis: Businesses to whom CORPORATE BANK granted an acquisition credit loan in the time frame 2010 - 2015 and which became in default (i.e. transfer to the FR&R department) within 6 years (i.e. until mid – 2016)
- Selection Procedure: Analysing an overview of all issued acquisition credit loans by CORPORATE BANK during the time frame 2010 – 2015. When employing the Klantbeeld application, select

these acquisition credit loans with an FR&R code displayed at “approval authority”. As a result, ## cases are selected.

- Method of collecting data: A combination of interpreting application data and through conducting semi-structured interviews.
- Analysing the data: A distinction is made between direct factors and indirect factors regarding the contribution of the defaulted acquisition credit loan. Subsequently, the direct and indirect failure factors are combined in a table in order to draw conclusions.

3. Theoretical Framework

In order to answer the central question, it is necessary to study all relevant literature in advance and to integrate it into a theoretical framework. The theoretical framework first gives an introduction in the world of M&A. In this part, not only the term "M&A" is touched upon, but also the background of M&A activity. By providing some general information about the term "M&A" and the background of M&A activity, more insights can be given to the several concepts and the current M&A market. Further, different types of M&A are described as well as motives for M&A. Having an understanding of the different types of M&A provides one with a broader picture of the world of M&A. Given that more than half of M&A transactions are doomed to fail, an impression on why companies engage in M&A in the first place can be valuable. Therefore, rather than only focusing on the M&A failure factors, a section dedicated on describing motives for M&A is included as well. In addition, in line with the high failure rate, M&A imposes several challenges. These challenges are also discussed. On top of the challenges, M&A failure factors are presented. The section portraying the M&A failure factors will be the central concept of this research. The objective of that section is to provide categories of failure factors found in the literature. In addition, this section will provide insights in which failure factors are mentioned more often, or less, than other failure factors. However, if a failure factor is mentioned more often than another failure factor, it does not necessarily indicate that that specific failure factor is more determinative.

3.1 The term "M&A"

In order to understand the answers to the research question, one should have a basic understanding of the concept of M&A. The purpose of this section is to exemplify several definitions to the concepts of mergers and acquisitions. Even though mergers and acquisitions are not the same, I consider these concepts, mergers and acquisitions, as synonyms. Mergers and acquisitions can be considered synonyms during this research since the aspects being examined are equivalent for both a merger and an acquisition.

Mergers and Acquisitions are commonly referred to as "M&A" in the literature since the two terms are grouped in the same area of interest (Ionescu, 2015). Despite the broad interest on the topic of M&A, it is hard to find one clear definition of "M&A" in the scientific literature. While looking at non-scientific literature, definitions of M&A appear to be similar. Further information regarding the term M&A and several definitions can be discovered in appendix II.

In short, even though mergers and acquisition have slightly different definitions. These variances will be inessential in this research since the focus in this research is on the failure factors. The failure factors of acquisitions will be close to equal to the failure factors of mergers as both comprise a change of shareholders (i.e. control). This combination is the overall aspect which embraces challenges and thus yield failure factors. Therefore, unless otherwise stated, the terms "M&A", "merger", "takeover" and "acquisition" shall be referred to synonymously.

3.2 Background on Mergers & Acquisitions

The aim of this section is to provide some historical information on M&A activity. This historical information purposes as a guide towards the current M&A market and its activities. The case studies at CORPORATE BANK (i.e. chapter 5) investigate the causal factors of relatively recent failed acquisitions. Since the examined failed acquisitions financed by CORPORATE BANK eventuated during 2010 – 2015, I thought it is interesting to read some basic background information on M&A activity in order to better understand the current M&A market.

It has been observed that the M&A market exhibits a cyclical wave pattern. These so called "takeover waves" are characterized by the number and total value of takeover deals over time (Martynova & Renneboog, 2008; Mueller, 1989; Fauli-Oller, 2000). In the scientific literature, six takeover waves can be identified. These takeover waves are illuminated in Appendix II as a base to understand the current M&A market. The current M&A market is discussed in section 3.3.

In short, this section touches upon six takeover waves. The interesting take-away of this section is that each takeover wave possesses its own characteristics and despite this diversity, all waves do have similarities. Each takeover wave preceded by technological or industrial shocks and occurred in a positive economic environment. While, at the end of a takeover wave, non-rational, self-interested managerial decision-making can be observed (Martynova & Renneboog, 2008). This is relevant as this might express something about the current M&A market and the time scope in which the case studies at CORPORATE BANK are researched.

3.3 Current Mergers & Acquisitions Market

With this brief history on the takeover waves as a background, more attention will be given to the current M&A market. This section answers the following two questions: How is the current M&A market as well as its outlook? Which trends in the M&A market are expected for the near future? Even though these questions are not necessarily of essence in order to answer the main research question of this study, the answers are still relevant as ultimately a recommendation report will be written for CORPORATE BANK for the future and thus insights on the current and future M&A market is applicable.

Information regarding the current M&A market as well as its outlook and the expected trends regarding the M&A market can be discovered in Appendix IV. In short, the outlook for the M&A market is positive (Primack, 2015; Reuters, 2015; Hammond, 2015; Deloitte, 2014; Flynn & Noto, 2015). Moreover, specialization across industries, an active healthcare industry as well as an active Technology/Media/Telecom industry and cross-border M&A activity are trends we can expect in the M&A market (Caiazza & Volpe, 2015).

3.4 Different Types of M&A's

After having touched upon the current M&A market, including its future outlook and major recognizable trends, more focus will be given to different types of M&A. I will present a numeration of several types of M&A due to two reasons. First, mergers and acquisitions are complex, involve multiple steps and several parties (Bruner, 2009; Caiazza & Volpe, 2015; Achim, 2015). This results in confusion when it comes to the term "M&A". Therefore, it might be easier to understand M&A better in general, and the motives behind M&A, when M&A are categorized in several types. Second, I consider the several types of M&A as fascinated and I would like to share this and by doing so providing a broader picture of the world of M&A. However, the several types of M&A are not of essence for the outcome of this research. So, after this section, the several types of M&A's will not be treated any further.

In the literature, several types of M&A's can be observed (Häkkinen et al., 2004; Cole & Vu, 2006; Lubatkin, 1983). However, since the goal of this research is not to provide an extensive list of different types of M&A, the simple classification scheme of Hillier et al., (2010) is chosen. The classification scheme of Hillier et al., (2010), including clarifications on the types of M&A can be discovered in Appendix V.

In short, three categories of acquisitions are discussed, namely; horizontal acquisitions, vertical acquisitions and conglomerate acquisitions. However, in the literature other categories can be discovered. An example of another category found in the literature is "concentric mergers" (Lubatkin, 1983). Though, for the sake of simplicity, this research withstands with a straightforward classification into three categories.

3.5 Motives for M&A's.

The purpose of this section is to examine why companies engage in M&A transactions. Even though the main question of this research is about the failure factors of M&A, I thought it would be interesting to also touch upon the motives behind M&A. This way, there will not only be focus on "what goes wrong in M&A" but also on "why engage in M&A in the first place" and thus the overall picture of M&A will be broadened. In addition, the motive behind an acquisition can be used as an indicator of transaction risk (Groen & McCarthy, 2011). When non-rational motives are behind an acquisition, the acquisition has a higher chance of failing. Appendix VI treats four rational motives for M&A and subsequently two non-rational motives for M&A.

In short, the rational motive for M&A is to create synergy. Rational motives for M&A consists of revenue enhancement, cost reduction, tax gains and reduced capital requirements. While the non-rational motives for M&A consists of earnings growth and diversification. The take-away of this section is that there is no sole motive behind M&A and a motive is not necessarily always a rational motive. In addition, the merger motive can be used as an indicator of the M&A transaction risk. If the motive behind the acquisition is focused on product expansion, geographic expansion or earnings growth, the transaction is more risky and more likely to fail (Groen & McCarthy, 2011). This is relevant to understand for the case studies at CORPORATE BANK.

3.6 M&A Challenges

Previous section discussed several motives for mergers and acquisitions. Unfortunately, extracting the maximum potential benefits from an acquisition is not easy (Caiazza & Volpe, 2015; Bruner, 2009). Even if the motive behind an acquisition is rational (i.e. with the intention to create synergy), synergies are rarely realized (Groen & McCarthy, 2011). Mergers and acquisitions imposes several challenges (Uzelac et al., 2015). The aim of this section is to discuss challenges of M&A found in the literature. Discussing M&A challenges is of use for the sake of this research since M&A challenges serve as a bridge towards M&A failure factors. M&A challenges are roughly divided into "Integration Challenges", "Managerial Challenges", "Target Valuation Challenges", and "Synergy Realization Challenges" and will be discussed below.

3.6.1 Integration Challenges

The integration process refers to the process after the merger deal is closed, when the combined company should co-operate and work as one company. Though, the integration process should already start before the deal is closed. As integration is a complex process (Caiazza & Volpe, 2015), integration difficulties which are often encountered by a combined company can be of multiple forms. Roughly, integration can collapse into two dimensions namely; task integration and human integration (Risberg, 2013; Epstein, 2004; Caiazza & Volpe, 2015; Birkinshaw et al., 2000). Task integration focusses on linking different financial and control systems, while human integration focusses on building effective work relationships, managerial integration, employee satisfaction and company culture integration (Risberg, 2013; Birkinshaw et al., 2000). Task integration and human integration are conceptually distinct processes, but not independent of one another (Birkinshaw et al., 2000; Uzelac et al., 2015).

Task integration after a merger imposes difficulties as two separate companies' systems need to fit together. This process is sophisticated and requires a demanding approach (Epstein, 2004). The two companies might use different systems which not easily work together. Maybe one system has to be replaced to make integration work. In addition, duplicate functions might have to be removed, while technology, capabilities and intellectual capital might have to be increased (Caiazza & Volpe, 2015). These are just a few challenges a company might face regarding task integration after merging with another company.

Even a bigger integration challenge might be human integration (Caiazza & Volpe, 2015). Human integration emphasizes human satisfaction in both companies and the creation of an atmosphere of mutual respect and trust (Birkinshaw et al., 2000). When two companies are combined, the combined company might consist of two different company cultures, different management views and unsatisfied employees. This can deliver tension in the combined company and ultimately it will hurt the value of the company (Meglio et al., 2015; Uzelac et al., 2015). In addition, Bouwman (2013) suggests that cultural differences are a significant causal factor regarding merger failures. This is in line with the article of Schraeder & Self (2003), which analyses how organizational culture differences can contribute to the failure of mergers or acquisitions. Moreover, Galpin & Herndon (2000) claim that 47% of key employees leave within the first year following an M&A transaction and 75% of key employees leave within the first three years following a transaction (2000). These high percentages indicate that cultural differences do enforce a challenge.

Even though task integration and human integration processes are distinct, task integration and human integration are interrelated and both necessary for M&A success (Birkinshaw et al., 2000; Uzelac et al., 2015; Meglio et al., 2015). Emphasis should be on both task integration and human integration simultaneously. When employees are satisfied, a transfer of capabilities and resource sharing will be easier than when employees are unsatisfied. At the same time, task integration is likely to foster employee satisfaction (Birkinshaw et al., 2000; Uzelac et al., 2015). If task integration and human integration diverges, it can have a negative impact on the value of the acquisition. An example would be if task integration is achieved at the expense of human integration. This will result in unmotivated employees who are not committed to the organization. Unmotivated employees, even if they not resign, hurt the value of the company (Birkinshaw et al., 2000; Patterson & west, 2004). Therefore, an emphasis on both task integration and human integration is desirable for the overall outcome of the acquisition.

3.6.2 Managerial Challenges

Managerial challenges refer to the challenges managers face when they are coping with a merger. These difficulties include the managerial motives for the merger, time demanded by the merger and company culture differences (Marks & Howard, 2015).

As stated earlier, if the sole intention of the acquisition is to create an appearance of growth, shareholders will not benefit from the acquisition as this intention has more to do with glory-seeking than with business strategy (Hillier et al., 2000). On the other hand, acquisitions can also be driven by the idea that only big players will survive in the competitive world of nowadays. These acquisitions can be driven by generalized fear. New technological development, increasing competition, globalization or the fast changing economy are possible factors driving acquisitions from fear (Investopedia, n.d.). A challenge for the managers is to make sure that the right intention for an acquisition is pursued. A right intention is essential in order to make an acquisition successful. Acquisitions driven by the ego of managers who want to seek glory are doomed to fail (Sudarsanam, 2003).

Managers coping with a merger face the challenge of spreading their time between their core business and the merger. Managers need to be intimately involved during the negotiation phase of the acquisition (Nguyen & Kleiner, 2003), while managers also have to run the core business of the acquirer. Even when the deal is closed, managers should stay focused on the transaction (Simpson, 2000). This imposes a time management challenge. Yet, during the integration phase, management has to focus on the identification and capture of value which demands time as well. Management is responsible that human integration takes place as smoothly as possible (Nguyen & Kleiner, 2003). Further, there is a time pressure regarding “a fast start”. Roughly, the first three months after a major change are essential in order to make a change successful. Managers should be aware of this and time should be set aside to focus on a good start of the combined company (DiGeorgio, 2002). Time demanded for human integration and a good start should not be underestimated and imposes a challenge for management (Nguyen & Kleiner, 2003; DiGeorgio, 2002).

When company cultures differ significantly, it imposes a challenge for management (Birkinshaw et al., 2000). Not only might management have to deal with other management views of the target company, they also have to attempt to make or keep employees satisfied. Employees of the target company might feel invaded by the acquisition. Management has the responsibility to create a respectful working environment in which the employees won't feel invaded anymore and are committed to the company. In addition, if, for example, the employees of the target company are used to a very open company culture in which access to top management and flexible working hours are normal, management should be careful in changing this suddenly (Investopedia, n.d.). Dealing with another company culture is complex and should be handled carefully, which can be a challenge for management.

3.6.3 Target Valuation Challenges

Setting the right price for the target is another challenge of an acquisition (Pablo & Javidan, 2009; Recardo & Toterhi, 2015). Usually, the price paid for an acquisition is higher than the intrinsic value of the target. A premium is paid for e.g. the expected synergy (Shusta, 1999; Hitt et al., 2009). The price of the target should be in accordance with both the acquirer and the target. Challenges for target valuation comprises the choice of the valuation method, information asymmetry between the buyer and seller, and the valuation of assets.

In order to come to an estimation of the price of the target, a valuation method can be used. There are several valuation techniques available nowadays. However, there is not just one method that is best suited for every situation. Which technique to use depends not only on the company's industry sector, but also on its characteristics and the preference of the analyst (Hillier et al., 2010; Petit & Ferris, 2013). The Dividend Discount Model (DDM), the Discounted Cash Flow Model (DCF) and the Comparables Method are three examples of widely used valuation methods (Hillier et al., 2010; Fernandez, 2002). Though, some argue that there is not just one single correct price for an acquisition (Shusta, 1999; Eccles & Cfa, 1999). Price (2013) suggests that there are fundamental problems which lie at the heart of the valuation methods themselves. Price further argues that a significant proportion of acquisitions fail due to these problems in valuation methods. Which valuation method to use imposes the first challenge regarding target valuation.

Information asymmetry between buyers and sellers can increase the level of difficulty of the target valuation (Pablo & Javidan, 2009; Chemmanur et al., 2009; Capron & Shen, 2007). Information asymmetry occurs when one party in a transaction has access to more, or superior information than another party (Badbeh et al., 2013). When the acquirer suspects that the target company did not share all the available information, the acquirer might feel that the value of the target company should be lower than the price proposed by the target. This indicates how information asymmetry can have an influence on the valuation of a target. Information asymmetry has been observed more by relatively young firms rather than by established firms (Pablo & Javidan, 2009; Drobetz et al., 2010). This is partly due to resource and institutional constraints. In addition, young firms might lack reliability and accountability in their organizational routines and performance (Hannan & Freeman, 1989). The lack of reliability and accountability in organizational routines and performance in combination with institutional constraints suggests greater uncertainties and credibility problems for a young target company when convincing potential acquirers of the value of the company (Pablo & Javidan, 2009). Nevertheless, information asymmetry can also occur at mature companies (Chen, 2008). However, a study by Badbeh et al., (2013) argues that information asymmetry actually has no effect on firm value. Therefore, it is not only difficult to estimate whether or not there is information asymmetry and in what degree, but it is also difficult to decide how the information asymmetry should or should not influence the target's price, information asymmetry imposes a challenge regarding target valuation.

Further, there is the challenge of pricing particular intangible assets (Pablo & Javidan, 2009). Since intangible assets are of essence in the current business world, there is a difficulty when it comes to quantify the economic and monetary value (Penny & Torgby, 2003; Matolcsy et al., 2002). There are several approaches for the valuation of intangible assets. These approaches include thoughts about the useful life of the asset, the portion of the operation income generated by the asset, and the buyer's willingness to pay for the asset (Trugman, 2012). In addition, it should be noted that intangible assets are associated with more uncertainty than tangible assets. This uncertainty is related to the amount and the timing of the future economic benefits of the intangible assets (Choi et al., 2000). The lack of physical substance, multiple approaches to value an intangible asset and the associated uncertainty makes it difficult to determine a value for the intangible assets and therefore imposes a challenge regarding target valuation.

3.6.4 Synergy Realization Challenges

The challenge of achieving the expected synergies is another challenge faced when coping with a merger. Achieving the expected synergies after a merger is essential as synergies are the key rational reason behind a merger. Synergy is the ingredient that adds value to the combined company that makes the combined company worth more than the two individual companies. Anticipated synergies are often not realized (Stahl & Voigt, 2008; Recardo & Toterhi, 2015). Therefore, it is important to have the challenges in mind regarding realizing the expected synergies. Challenges regarding the realization of the anticipated synergies overlap with previously discussed challenges (Larsson & Finkelstein, 1999). Though, it is still useful to roughly approach the challenges associated with the realization of synergies. These challenges range from the estimation of the total available synergies, to integration difficulties, to expected costs and time needed.

In order to realize the anticipated synergies, first an estimation of the anticipated synergies has to be made. When the estimation of the anticipated synergies is incorrect, it will be harder to achieve the expected synergies. The challenge of pricing the target right, discussed in previous section, overlaps with the challenge of estimating the synergies. When a right price for the target has to be set, the value of anticipated challenges will be incorporated in the price of the target. Therefore, the challenges regarding pricing the target are comparable with the challenge of estimating the synergies. Recall that revenues from synergies are subdivided into, among others, revenue enhancement and cost reduction. Especially synergies from revenue enhancement are hard to accurately estimate (McLetchie & West, 2010). In order to estimate revenue synergies, a detailed assessment and an adequate team is required. Due diligence conducted before a merger is often incapable of providing an accurate estimate of the anticipated challenges (Connerty & Lavoie, 2013). This signifies that estimating expected synergies does already provide a challenge.

A more straightforward challenge regarding the realization of anticipated synergies comes with the challenges of task and human integration. Birkinshaw et al., (2000) even used the term “task integration” as a synonym for synergy realization. This is in line with the ideas of Larsson and Finkelstein (1999), who argue that task and human integration is basically a prerequisite for the realization of synergies. If the combined organization lacks a positive attitude and satisfied employees, synergies are less likely to be realized (Meglio et al., 2015; Uzelac et al., 2015). When human integration has not been successful, there still might be a negative atmosphere and a cultural difference within the organization. Cultural differences can affect the extent to which synergies can be realized, as argued by Larsson and Finkelstein (1999). This indicates the link between integration challenges and challenges regarding the realization of anticipated synergies. Challenges discussed in the integration challenges are also of essence in this section.

Furthermore, the costs and time needed to achieve the synergies are often underestimated. When the costs and times needed are underestimated, it will be more difficult to realize the anticipated synergies (Connerty & Lavoie, 2013; Straub et al., 2012). In addition, an advanced preparation is critical in order to realize the synergies as soon as possible. When, for example, the acquirer is able to absorb the new products fast and get it into the market before a competitor can do something similar, an advanced preparation can be essential for the competitive position. The Human Resources can contribute in this phase as well by retaining key talent in the company, maintaining productivity, and by minimizing disruption (Sacek, 2012; Price, 2013). Key talent in the company is needed for estimating the time and costs neededto realize the synergies. When costs are underestimated, the total added value through s ynergies will be lower than expected. When time is underestimated, synergies will be realized later than expected and thus lowers the total value of the synergies.

In short, just task integration and human integration will not be sufficient in order to realize the potential synergies (Pablo & Javidan, 2009). Rather, it is a combination of challenges which has to be overcome in favour of achieving potential synergies.

Note that aforementioned challenges are not independent of each other. For example, realizing synergies, depends partly on the degree of integration achieved (Larsson & Finkelstein, 1999). Another example would be if management is incapable of managing a company culture difference (managerial challenge), it will also have a negative effect on the human integration (integration challenge). This indicates that above mentioned challenges are interrelated and overlap with each other.

3.7 M&A Failure Factors.

Previous section provided some insights in the most noticeable challenges imposed by mergers and acquisitions. Considering the range of challenges, it is already more understandable why the bigger halve of the M&A transactions are doomed to fail. Yet, the discussed challenges do not sufficiently explain why a significant number of M&A fail. Therefore, I decided to search further in the literature and consider which specific failure factors can be found. The objective of this section is to provide categories of failure factors found in the literature. In addition, this section provides insights in which failure factors are mentioned more often, or less, than other failure factors. However, one should note that the number of times a failure factor is mentioned should not be the criterion regarding the determinativeness of that M&A failure factor.

Literature is researched and analysed, which resulted in an extensive list of factors negatively influencing M&A performance outcomes. The articles naming M&A failure factors can be discovered in appendix VII. Appendix VII consists of a list with a total of 50 articles with the according author(s). These articles are numbered and can correspondingly be found in appendix VIII. Appendix VIII horizontally displays the numbers corresponding to the articles while the failure factors are displayed vertically. An "X" can be discovered when a certain article names a particular failure factor. Since Appendix VIII is an extensive list including over forty failure factors, it is not easy to quickly draw conclusions from Appendix VIII. Thereupon, I decided to group similar failure factors into four categories. Once the discovered failure factors are grouped, it is more manageable to identify which categories are named in the literature.

After grouping together the comprehensive list of failure factors found in the literature, four categories derived (i.e. "Human Aspects", "Valuation Problems", "Managerial Problems" and "Integration Problems"). These categories are established based on the main focus of each failure factor. A complete writing of which failure factors are included in which category can be found in appendix IX. The four categories are presented in table 1, including the number of times an article mentioned an individual failure factor fitting that category. The failure factor categories and the corresponding percentages of being mentioned in the literature is displayed in figure 1. Under the table, a short description can be found of what is intended by each category.

Categories	Number of times mentioned in my literature review
Failure due to Human Aspects	73
Failure due to Valuation Problems	30
Failure due to Managerial Problems	137
Failure due to Integration Problems	36

Table 1. Failure Factor Categories indicated by the Literature Review.

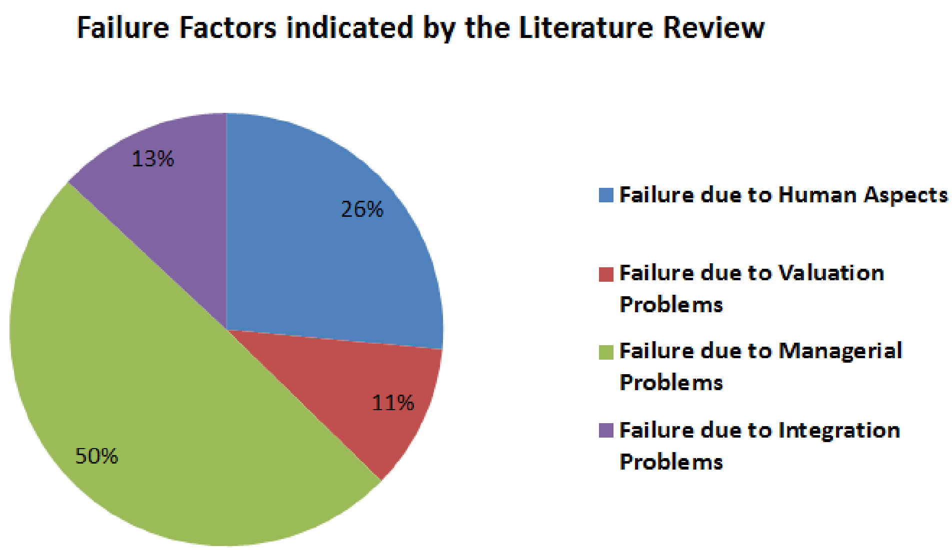


Figure 1. Failure Factor Categories indicated by the Literature Review.

3.7.1 Failure due to Human Aspects

This category reaches from a poor cultural fit to employee resistance to psychological issues. In short, every failure factor which is related to not sufficiently addressing human aspects during or after an acquisition, can be placed in this category.

Outstanding in this category is poor human integration including a poor cultural fit. Human integration, as discussed in section 3.6.1, accentuates human satisfaction in the combined company. This includes the creation of an atmosphere of mutual respect and trust and thus a cultural fit (Birkinshaw et al., 2000). Human integration is essential in order to achieve potential synergies as it directly affects employee's work-related outcomes (Gunkel et al., 2014). Employee resistance, as a failure factor included in this category, is also part of human integration. This is true because employee resistance influences employee's work-related outcomes as well. The same arguments goes for "employee and customer dissatisfaction". When employees are dissatisfied, it can lead to employee resistance (Wu & Wu, 2011) and so to a poor human integration. When customers are dissatisfied, it leads to a decline in profitability (Epstein, 2004). A decline in profitability has a negative effect on the overall outcome of the acquisition. Larsson and Finkelstein (1999) link psychological issues to negative employee reactions on the individual level. In addition, Sacek (2012) argues that the phase of cultural integration, or human integration, leads to high stress levels and psychological effects.

Furthermore, “culture risks not sufficiently addressed during due diligence” also fits this category as it is indirectly linked to cultural integration (Bouwman, 2013). Bouwman reasons that “culture risks not sufficiently addressed during due diligence” is among the top three cited reasons for unsuccessful cultural integration. Another failure factor in this category is “incompatible management styles”. This refers to different management views of the two companies getting combined. The management styles have to be integrated as well, which makes it part of the human integration process. As argued by Caiazza & Volpe (2015), incompatible management styles can lead to stress, implementation problems and lower performance. As the above mentioned failure factors have to do with “people issues” or “human aspects”, they can be grouped together.

3.7.2 Failure due to Valuation Problems

This category covers all the failure factors which belong to problems with valuation. Examples of failure factors including in this category are “misvaluation of target”, “problems with valuation methods” and “overestimation of synergy potential”.

Valuation problems can lead to failure as often the result of an incorrect valuation leads to paying an inappropriate price. When an inappropriate price is paid for the target, it will be more difficult to achieve the desired outcome of the acquisition (Fiorentino & Garzella, 2015). An example would be “paying a too high premium for the target”. The premium for the target is partly based on the expected synergies from the combination (Shusta, 1999). Therefore equivalently, when the bidding company pays too high of a premium for the target, an unsuitable price will be paid for the target and consequently it is less manageable to achieve profitable revenues. Paying a too high premium can be the result of a problem with the valuation of the premium. Problems with the valuation methods also fits this category for the same arguments as above. As discussed in section 3.6.3, there are multiple valuation methods with each having its own advantages and disadvantages. These valuation methods comprise fundamental problems and according to Price (2013) this results in a portion of the acquisitions to fail. Another failure factor in this category is “disrupted information flow/information asymmetry”. Information asymmetry can increase the level of difficulty of target valuation, as discussed in section 3.6.3 (Pablo & Javidan, 2009; Chemmanur et al., 2009; Capron & Shen, 2007). In the case of a disrupted information flow or information asymmetry, the acquirer feels that the target company did not share all the relevant information. Therefore, it is more difficult to assess the true value of the target company. This links this failure factor to the category of “valuation problems”.

As all the above mentioned failure factors are overarched with the term “valuation problems”, these can all be grouped together in this category.

3.7.3 Failure due to Managerial Problems

This category is the broadest category of all and includes the most individual failure factors. Examples of failure factors included are “poor management competencies”, “wrong acquisition intentions” and “underestimating time and costs to achieve synergies” among other failure factors. Succinctly, all the failure factors for which management is directly responsible.

As stated in section 3.6.2, managers face numerous challenges when coping with an acquisition. Not only is there the challenge of pursuing the right intention behind an acquisition, there also is a time management challenge as well as a change management challenge among others. If the intention behind the acquisition not has to do with business strategy, but rather with glory-seeking, shareholders will not benefit from the acquisition (Hillier et al., 2000; Sudarsanam, 2003). The time challenge failure factor points to the challenge management is facing when coping with a merger. If insufficient time is set aside for human integration or if time between running the core business and time for the negotiation phase are not well spread, it can have a negative impact on the outcome of the acquisition (Nguyen & Kleiner, 2003). In addition, when two companies are combined, it is a change and thus requires appropriate handling of change management. When management is not competent enough to handle the change challenges in a correct way, the acquisition might fail.

3.7.4 Failure due to Integration Problems

This category includes the failure factors which are related to problems regarding integration. As mentioned in section 3.6.1, integration refers to merging the two separate companies into one company. Integration is complex (Caiazza & Volpe, 2015), and therefore difficulties regarding to integration can be of multiple forms. As mentioned in section 3.6.1 , integration can be roughly divided into two dimensions, namely “task integration” and “human integration” (Risberg, 2013; Birkinshaw et al., 2000). Though, the failure factor “poor human integration” has not been included in this category as I decided to position the human integration problem in the category of “human aspects”, as really the emphasis of “human integration” is on “human aspects” and thus “human integration” better fits that category. Failure factors from the literature included in this category are “poor task integration”, “poor integration speed” and “a poor integration process”.

Acquisition failure due to poor task integration is the result of, for example, two different systems in the companies that do not fit together. While poor integration speed refers to the speed with which integration should take place (Uzelac et al., 2015). Some researchers argue that integration should take place at maximum speed (Gadiesh et al., 2003; Inkpen et al., 2000). While other researchers reason that too fast integration might actually destroy value (Uzelac et al., 2015; Marks & Mirvis, 2010). These different views regarding the speed of integration illustrate the relationship between integration speed and acquisition performance (Uzelac et al., 2015).

In addition, the failure factor "poor integration process" is included in this category. Though, it seems that the term "integration process" is a rather general term. The integration process refers to the whole process of integration, from integration planning to the implementation. This process includes the due diligence process as well as managing the overall transition (Uzelac et al., 2015; Johnson, 2006). Understandably, if the integration process is imperfect, it will have an unfavorable effect on the outcome of the acquisition. As the failure factors "poor task integration", "poor integration speed" and "poor integration process" all have an emphasis on "integration", they are grouped in this category.

3.8 Conclusion Literature Review

M&A's represent a complex phenomenon exemplifying an interesting paradox. On one side, growing M&A activity and volume can be observed while on the other side, a high failure rate of M&A is recognized. Considering the M&A challenges and M&A failure factors, the high failure rate becomes understandable. In the literature, an extensive list (i.e. above forty) of individual M&A failure factors can be discovered. Yet, it is not easy to draw conclusions based on an extensive list of individual failure factors. Therefore, the individual failure factors have been grouped into four categories of interrelated failure factors. The failure categories employed during the literature review consists of "Human Aspects", "Valuation Problems", "Managerial Problems" and "Integration Problems". Even though the M&A failure factors categories should be taken with a grain of salt as several individual failure factors can be placed in multiple categories, some general conclusion can be drawn based on the literature review.

It is striking that "managerial problems" are mentioned most often in the literature review as a factor that causes acquisition failure. Does this mean that most acquisition failures can be blamed to management? Maybe we will find an answer to that question during the case studies at CORPORATE BANK. One should keep in mind that the number of times a M&A failure factor is mentioned, does not necessarily indicate that that specific failure factor is more determinative.

Further, it is remarkable that "valuation problems" as an acquisition failure cause is mentioned the least during my literature review. Though, this does not mean that "valuation problems" are not meaningful.

As for the category “integration problems”, the number of times this category is mentioned in my literature review is not even close to the number of times “managerial problems” is mentioned. Even if we would include the “human integration” problems in the category of “integration problems”, instead of the category “human aspects”, “integration problems” will come to a total of 48 times mentioned in the literature review, which is still not close to the 137 times of “managerial problems”.

Nevertheless, it should be noted that the boundaries of these categories are not thick and clear. There are multiple failure factors which fit multiple categories. Incompatible management styles, for instance, is categorized in the category of “human aspects” while this factor also fits “management problems”. Yet, as the main focus of the problem of incompatible management styles is a poor cultural fit between management, I decided to address the human side of this failure factor and place it into the category of “human aspects”. Another failure factor which was hard to place in a category is “poor human integration”. Obviously, this failure factor is in line with the “human aspects” problem and therefore fits the category. However, poor human integration is also an “integration problem” and could therefore be placed in the category of “integration problems” as well. Poor communication is another failure factor specified in the literature. This failure factor refers to, for instance, a lack of top-down communication (Vaniya et al., 2014), the quality of communication by the acquirer (Stahl et al., 2013), or the necessity of early and frequent communication of a realistic assessment of the facts with employees, customers, partners and investors (Steen et al., 2014). Thus, on one side it can be argued that “poor communication” is the responsibility of management since management can be held accountable for the top-down communication as well as for the level and quality of communication towards stakeholders. On the other side, communication occurs between humans, addressing the “human aspects” of this failure factor. Though, I decided that the management part of this failure factor weighted more and therefore I placed this failure factor in the category of “managerial problems”. This indicates that these categories are interrelated and overlap with each other.

In short, the categories should be taken with a grain of salt. The objective of this literature review is to identify which failure factors are cited in the scientific literature. The purpose of the four categories is solely to provide a manageable table which can be simpler interpreted and to give an idea of how many times a category of failure factors is mentioned in the literature. Though, the result of this master thesis, including the recommendation for CORPORATE BANK, will not be influenced by this table.

4. CORPORATE BANK

The purpose of this chapter is to introduce CORPORATE BANK. As case studies are conducted at CORPORATE BANK, it is of interest to possess some basic knowledge about CORPORATE BANK. First, some general information about CORPORATE BANK is provided. Thereafter, the overarching picture regarding CORPORATE BANK's history is presented. It is interesting that CORPORATE BANK is characterized by multiple M&A deals, while this research touches upon M&A deals financed by CORPORATE BANK. Additionally, the concept of Sector Advisory & Sustainability is introduced. CORPORATE BANK's current focus is to be the "ultimate sector bank". Further, the Financial Restructuring & Recovery (FR&R) department is made familiar with. As FR&R is the department covering the defaulted acquisition loans, it is valuable to understand the purpose of FR&R. Finally, CORPORATE BANK's internal rating system will be touched upon. As the internal rating system is interrelated with the probability of default, it is advantageous to understand CORPORATE BANK's vision regarding applying the internal rating system.

4.1 General Information about CORPORATE BANK

General information about CORPORATE BANK and several groups of clients served by CORPORATE BANK is presented in Appendix X. Additionally, Appendix X provides information regarding CORPORATE BANK's mission statement and core values.

In short, CORPORATE BANK employs approximately 20.000 employees, who serve approximately 7.000.000 (i.e. whereof 5.000.000 retail) customers in 28 countries (Management Scope, n.d.). Moreover, CORPORATE BANK possesses approximately 78 bank offices in the Netherlands (i.e. although this number has a tendency to decline), with its headquarters in Amsterdam. Additionally, CORPORATE BANK possesses approximately 400 unmanned ATMs (IBAN NL, n.d.),. Yet, the CORPORATE BANK Bank offers a full range of financial services to multiple groups of clients. The groups of clients served by CORPORATE BANK are retail clients, private banking clients and corporate banking clients. Retail clients consists of private customers possessing assets altogether worth up to €500.000. Private customers possessing assets totalling more than €500.000 are private banking clients. Corporate banking clients is the overall designation for business customers. CORPORATE BANK's mission statement is to exceed customers' expectations with the best professionals who provide the most satisfied customers. Further, CORPORATE BANK mentions three core values. These core values are Trust, Professionalism and Ambitious.

4.2 History of CORPORATE BANK

It is interesting that CORPORATE BANK has a rich history of mergers and acquisitions. Further information regarding the highlights of CORPORATE BANK's history can be discovered in Appendix XI. It should be noted that the history of CORPORATE BANK would not be covered in detail. Yet, the overarching picture regarding CORPORATE BANK's history will be discussed.

4.3 Sector Advisory & Sustainability

After shortly describing CORPORATE BANK's history, this section will go into CORPORATE BANK's current focus (i.e. regarding commercial banking customers). CORPORATE BANK's aim is to be the "Ultimate Sector Bank". According to CORPORATE BANK. Sector knowledge is essential as sector knowledge is relevant from a commercial banking customer's perspective. Appendix XII shortly touches upon the role of Sector Advisory & Sustainability and briefly describes the 15 sectors defined by CORPORATE BANK. The 15 sectors and corresponding branches are presented in table 2. Having a basic knowledge of the separate sectors defined by CORPORATE BANK is interesting as the sector is one of the descriptive factors during the case studies analysis.

Sector	Branches
Agriculture	Agriculture, fisheries, horticulture, livestock breeding, agricultural wholesalers and agricultural auctions.
Industry	Chemistry, basic materials, manufacturing of durable goods, industrial services, aerospace, mechanical engineering and wholesalers of durable goods.
Technology, Media & Telecommunications (TMT)	Communication offices, printing offices, television and radio businesses, IT hardware related businesses, IT service businesses and software, telecom & internet related businesses.
Financial Institutions	Banks, insurance companies, financial services companies, pension funds and asset management companies.
Utilities	Producers or suppliers of electricity, waste and demolition services, and producers or distributers of water or nuclear energy.
Construction	Housing construction, utilities construction, installation, infrastructure and manufacturers or wholesalers of building materials.
Government & Education	Educational institutions, general public administration, local public institutions, local authorities, police departments and fire departments.
Retail	Food retail (i.e. supermarkets) and non-food retail (fashion, shoes, DIY, household goods, sport and camping articles, electronic, drugstores and online retail).
Leisure	Passenger transportation, hospitality, sport clubs, cultural organizations, travel agencies and tour operators.
Business Services	Consulting, accountants, lawyers, agencies, facility management, notaries, bailiffs and debt collection agencies
Healthcare	Health care, medical manufacturing, retail and wholesale of pharmaceutical equipment and medicines, and nursing.
Real Estate	Project development, managing, marketing and leasing of real estate and real estate investment institutions.
Transportation & Logistics (T&L)	Airlines, airports, shipping companies, logistics service providers and other transportation companies.
Food	Manufacturers of food and beverages.
Oil & Gas	Extraction of crude petroleum and natural gas, petroleum refining, wholesalers of fuels, and extraction of oil and gas services.

Table 2. CORPORATE BANK's Sectors and Branches

4.4 CORPORATE BANK's M&A Policy

CORPORATE BANK, as a corporate bank, is a possible debt provider regarding mergers and acquisitions. Financing an acquisition is a specialism within CORPORATE BANK since the transaction risk is relatively high as there barely is a cover for the acquisition credit loan in comparison with a regular credit loan to a company. Therefore, CORPORATE BANK employs specialists regarding M&A transactions. These specialist have to follow CORPORATE BANK's M&A policy for Small – Medium Sized and Corporate companies as starting point when an acquisition credit loan is about to be issued. As CORPORATE BANK's M&A policy is confidential, this research won't go in depth into CORPORATE BANK's M&A policy. Though, some general guidelines of CORPORATE BANK's M&A policy are described in Appendix XIII.

4.5 Financial Restructuring & Recovery

This section describes the aim and structure of Financial Restructuring & Recovery. Financial Restructuring & Recovery (FR&R) is a department within CORPORATE BANK being of assistance to companies with financial difficulties. Companies with financial difficulties are companies with defaulted credit loans or with an increased credit risk. Default refers to the failure to pay interest or principal when due. Credit risk is the risk of a financial loss arising from a borrower's failure to meet a contractual obligation.

Further information regarding FR&R can be retrieved from Appendix XIV. The important take-away of this section is that FR&R has the mission to prevent or limit potential losses from an CORPORATE BANK perspective.

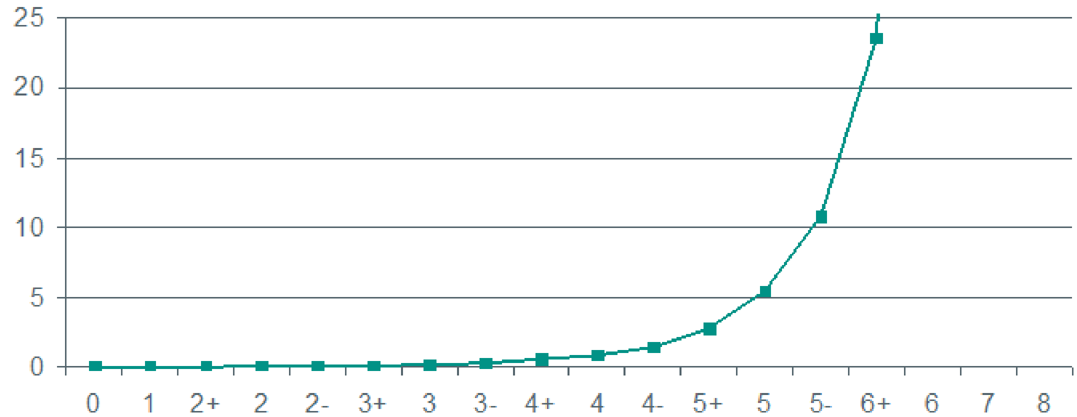
4.6 UCR

In order to assess a business's ability to pay its financial obligations, CORPORATE BANK uses a credit rating. A credit rating indicates how creditworthy a business is. There are multiple credit rating tools available. Examples of credit ratings are Standard & Poor's rating and Moody's and Fitch Ratings. Yet, these are considered external credit ratings. Many financial institutions and banks rate their counterparties using an internal credit rating system (van Boxtel, 2007). CORPORATE BANK also assesses their counterparties through an internal credit rating system. The credit rating system used by CORPORATE BANK is the Uniform Counterparty Rating (UCR).

Information regarding the UCR, how the UCR is determined and how the UCR is related to the probability of default can be retrieved from Appendix XV. In short, CORPORATE BANK assigns an UCR to each individual counterparty to whom CORPORATE BANK grants any type of credit facility. The UCR is characterized by a scale of 1 to 8, whereby UCR 1 is of prime quality while UCR 6-8 is, by definition, "in default" (CORPORATE BANK Bank N.V., 2014).

Table X presents the UCR Golden Scale. The UCR Golden Scale is presented to illustrate the relationship between the UCR and the probability of default (PD). The PD is the probability that the counterparty will go into default within a 1-year time horizon. The possible UCR ratings range from 1 to 8 (i.e. CORPORATE BANK does not have counterparties in the portfolio with an UCR 0). The differences between the UCR ratings are called "notches". For example, if an UCR 5+ is rearranged to an UCR 5, CORPORATE BANK would call that a downgrade with "one notch". As can be derived from table 3, the UCR Golden Scale presents the "Low PD %", "Mid PD %" and the "High PD %" of each UCR rating. Note that a "High PD %" of an UCR is the "Low PD %" of the following downgraded UCR. Yet, during the assessment of the case studies, the "Mid PD %" will be employed. Additionally, CORPORATE BANK's interpretation is indicated by the UCR Golden Scale. A PD equal to zero (UCR 0) would be applicable for the Central Bank or the Central Government. From the UCR Golden Scale can also be derived that the relation between the UCR and the PD is exponential. If the UCR increases, the PD increases more rapidly. The exponential relationship between the UCR and the PD can also be discovered in figure 2. horizontally displays the UCR, while the PD is displayed vertically. Furthermore, an UCR X can be discovered at CORPORATE BANK's UCR Golden Scale. An UCR X is only temporarily assigned to counterparties to which a new application is submitted in the case when the actual UCR is not determined yet. Although, an UCR 6+ is assigned to the UCR X for capital calculation purposes, which explains the 24.00 concerning the "Mid PD %".

Table X. UCR Golden Scale



Legend: *X - axis: UCR (notches)*

Y – axis: PD (%)

Figure 2. The Exponential Relationship between the UCR and the PD.

5. CORPORATE BANK Case Studies

In order to evaluate the M&A failure factors of acquisitions financed by CORPORATE BANK, semi-structured case studies have been conducted. This chapter describes the findings of the case studies. The results regarding the failure factors of the case studies will be discussed first. A distinction is made between categories of failure factors and individual failure factors within the categories. Thereafter, attention is given to nine descriptive factors of the cases. The third section of this chapter looks into the future perspective of the businesses of the cases. Looking into the future perspective gives insights in how many businesses of the cases went bankrupt or will be bankrupt soon (i.e. FR&R failure rate). Finally, an overall conclusion regarding the failure factors, descriptive factors and the future perspective will be provided.

As can be recalled from section 1.4, the time frame of the cases is 2010 – 2015. A time frame of six years is chosen because a regular acquisition credit loan has a term of six years. After six years, the acquisition credit loan should be repaid including the repayment obligations. Therefore, after six years, the M&A transaction risk should be omitted or limited from an CORPORATE BANK perspective. The cases are selected based on whether or not involvement from FR&R has been necessary. Even though involvement from FR&R does not necessarily mean that the acquisition has “failed” (i.e. see Appendix XIV) , involvement from FR&R does indicate an increased credit risk or a defaulted acquisition credit loan. Therefore, “failed” in this research implies involvement from FR&R.

In total, CORPORATE BANK issued XXXX acquisition credit loans in the North East region of the Netherlands during the time frame of 2010 – 2015. Approximately 13.6% were transferred to FR&R (i.e. became in default) before mid - 2016. It should be noted that this percentage can increase as it is possible that issued acquisition credit loans between 2011 -2015 can still be transferred to FR&R during 2016-2021. Nevertheless, 13.6% is a significant number and CORPORATE BANK should aim to decrease this percentage in the future. The results of this research can help CORPORATE BANK to decrease the percentage of defaulted acquisition credit loans. This stresses the importance of the results of this research.

5.1 Failure Factors of the Defaulted Acquisition Credit Loans

The failure factors of the case studies are presented in Appendix XVI. Appendix XVI also provides further clarification on the table of the failure factors of the case studies. Further and more extensive information on all the case studies can be found in Appendix XVII.

In short, the table encompassing the failure factors of the identified failure factors (i.e. Appendix XVI) makes a distinction between factors with a direct contribution regarding transfer to FR&R and factors with an indirect contribution regarding transfer to FR&R. Individual failure factors of the defaulted acquisition credit loans are grouped into categories in order to more easily draw conclusions. When cells of individual failure factors fitting the same category are predominantly filled with direct failure factors, the corresponding cell of the category is filled with black. Therefore, a black filled cell in the row of a category indicates that, for that specific case, the determining factor regarding the defaulted acquisition credit loan lies at heart of the corresponding category. In order to have a clearer overview of the determining factor regarding the defaulted acquisition credit loan, table 4 is presented. Table 4 only presents the M&A failure factors categories of the defaulted acquisition credit loans.

Table 4. Failure Factor Categories of the Defaulted Acquisition Credit Loans.

5.1.1 Categories of Failure Factors

This section describes the most significant findings considering the categories of individual failure factors of the case studies (i.e. Appendix XVI). Altogether, 95% of the defaulted acquisition credit loans can be explained by either Managerial Problems or by the Economic Crisis.

From table 4 can be derived that Managerial Problems can be mostly held accountable for the defaulted acquisition credit loans of the case studies. # out of # case studies indicate that managerial problems are responsible for the defaulted acquisition credit loan, which is 60% of the case studies. Another main conclusion which can be drawn from table 4 is that the Economic Crisis is held mainly accountable for the transfer to FR&R (i.e. defaulted acquisition credit loan) for # out of # cases, which is 35%.

Note that case # indicates that two categories are mainly responsible for the defaulted acquisition credit loan (i.e. Managerial Problems and Human Aspects). Yet, the individual failure factor of case # is a conflict between the shareholders (i.e. managers), and therefore fits the category Human Aspects. However, in this case, a conflict between the shareholders also indicates Managerial Problems. Therefore, both the categories of Managerial Problems and Human Aspects are filled with black. In general, it is remarkable that the category Human Aspects (i.e. cultural differences, communication issues) is barely held directly accountable for the defaulted acquisition credit loans of the case studies. Yet, this can be explained by the similarities between the categories Human Aspects and Managerial Problems. These two categories might overlay sometimes, i.e. as is the case by case #. Further, the category “Other Factors” (i.e. dependency on the demand side, weather conditions and so on) is only two times held accountable for the defaulted acquisition credit loan. While case ## also indicates that Managerial Problems is mainly held accountable for the defaulted acquisition credit loan, which possibly diminishes the contribution of “Other Factors” regarding the defaulted acquisition credit loan.

In conclusion, 60% of the defaulted acquisition credit loans of the case studies can be explained by Managerial Problems. While 35% of the defaulted acquisition credit loans of the case studies can be explained by the Economic Crisis. These percentages are significant, and together they explain 95% of the defaulted acquisition credit loans. The remaining defaulted acquisition credit loans can be explained by other factors than Managerial Problems and the Economic Crisis.

5.1.2 Individual Failure Factors

While the previous section draws basic conclusions based on a category of individual failure factors, this section aims to take a closer look at the individual failure factors within a category. As 95% of the defaulted acquisition credit loans can be explained by Managerial Problems or the Economic Crisis, these two categories can be considered the most determinative categories. This section intends to draw conclusions regarding the individual failure factors of a category.

5.1.2.1 Managerial Problems

The category “Managerial Problems” consists of “lack of managerial key competences”, “lack of entrepreneurial experience”, “self-enrichment”, “lack of internal focus & control”, “inadequate Management Information”, “unadjusted costs”, “improper use of an issued credit loan”, “not sufficiently anticipating on the market conditions”, “lack of knowledge of Target company and/or market”, “overestimated synergies/synergies not achieved”, and “no or insufficient due diligence conducted”. The category “Managerial Problems” can be considered the most determinative category regarding the defaulted acquisition credit loans as 60% of the cases indicated that the defaulted acquisition credit loan was due to managerial problems. The most significant (i.e. mostly indicated) individual failure factors will be shortly touched upon below.

From Appendix XVI can be derived that, within the category “Managerial Problems”, the individual failure factor “lack of managerial key competences” is mostly indicated as being the determinate individual factor. By # out of # cases (i.e. 75%) the failure factor “lack of managerial key competences” is, directly or indirectly, indicated as being a determinative failure factor. The entrepreneur lacking numerical understanding, the entrepreneur not being able of making difficult decisions, and the entrepreneur making “odd” or “wrong” decisions are examples which indicate a lack of managerial key competences. As 75% of the cases with “Managerial” problems” as their determinative factor indicated that part of the problem is a result of the entrepreneur lacking key managerial competences, this individual failure factor is considered of significant contribution.

One could also argue that the failure factor “Not sufficiently anticipated on the current market conditions” also indicate a lack of managerial key competences. Yet, this individual failure factor is distinguished from “lack of managerial key competences” as “not sufficiently anticipated on the market conditions” was often indicated as a failure factor itself. Nevertheless, it is remarkable that from the cases that have “Managerial Problems” as their determinative factor, # of them have, directly or indirectly, indicated the individual failure factor “Not sufficiently anticipated on the market conditions”. As halve of the cases with “Managerial Problems” as their determinative factor indicate that part of the problem is a results of not sufficiently having anticipated on the current market conditions (i.e. cutting costs), this individual failure factor is considered of significant contribution.

The failure factor “Lack of Internal Focus & Control” has also been indicated by # out of the # cases having “Managerial Problems” as their determinative factor. While “Lack of Internal Focus & Control” might also be interrelated to “Lack of managerial key competences” as if one lacks internal focus &

control, one could argue that essential key competences are missing as well. Nevertheless, the factor "Lack of Internal Focus & Control" is considered an individual failure factor in this research. Since halve of the cases with "Managerial Problems" as their determinative factor indicate that part of the problem is a result of a lack of internal focus and control, this individual failure factor is considered of significant contribution.

Further, it is remarkable that 25% of the case studies indicate that the defaulted acquisition credit loan is, directly or indirectly, due to a lack of knowledge of the Target company or lack of knowledge of the target market (i.e. sector). Note that the risk that an entrepreneur does not have sufficient knowledge about the target company and/or business is likely to be higher when it concerns a MBI transaction rather than a MBO or a strategic transaction. Yet, one could expect that CORPORATE BANK is able to test whether or not an entrepreneur possesses sufficient knowledge about the Target company and the corresponding sector. As 25% indicates a significant risk regarding defaulted acquisition credit loans, CORPORATE BANK should be able to anticipate on this failure factor in the future by ensuring that the entrepreneur possesses sufficient knowledge about the Target and the sector.

Moreover, 25% of the case studies indicate that the defaulted acquisition credit loan is indirectly due to not or insufficient due diligence conducted. Even though this does not mean that if sufficient due diligence was conducted, the acquisition credit loans would not have been in default, the risk (or probability of default) would have been lower is sufficient due diligence had been conducted. Maybe CORPORATE BANK underestimates the effect and importance of sufficient due diligence. CORPORATE BANK could anticipate on these findings by being more stricter with requesting due diligence and by better analysing the due diligences. By doing so, CORPORATE BANK can possibly improve its M&A portfolio.

In conclusion, within the category of "Managerial Problems", the individual failure factors "Lack of managerial key competences", "Lack of Internal Focus & Control" and "Not sufficiently anticipated on the market conditions" have been indicated most often as individual failure factors. Yet, these individual failure factors are all somewhat related to "lack of managerial key competences". Though, from an CORPORATE BANK perspective, it might be difficult to assess whether or not an entrepreneur possesses managerial key competences. Nevertheless, CORPORATE BANK can more easily improve its M&A portfolio through assessing whether or not an entrepreneur possesses knowledge of the Target company and corresponding target sector, and through ensuring that sufficient due diligence has been conducted.

5.2.1.1 Human Aspects

The category "Human Aspects" consists of the individual failure factors "Conflict between the shareholders", "cultural differences between prior and current entrepreneur(s)", "cultural differences between entrepreneur and employees", "cultural differences between entrepreneur and stakeholders", and "communication issues with stakeholders". # of # case studies (i.e. 40%) indicated that "Human Aspects" directly or indirectly contributed to the defaulted acquisition credit loan. The most significant (i.e. mostly indicated) individual failure factors will be shortly touched upon below.

Since the individual failure factor "conflict between the shareholders" has been indicated two times as directly having contributed to the defaulted acquisition credit loan and one time as indirectly having contributed to the defaulted acquisition credit loan, this individual failure factor can be considered most significant within the category of "Human Aspect". When shareholders are in conflict with each other, it apparently has such a negative effect on the business' performance that an acquisition credit loan might become in default. While it is difficult from the position of CORPORATE BANK to ensure that the shareholders will not come into a conflict with each other, one could argue that CORPORATE BANK could consider to not issue acquisition credit loans when multiple shareholders are involved. Yet, according to the Acquisition Specialists of CORPORATE BANK (i.e. of the North East region of the Netherlands), this won't be realistic as most of the transactions do involve multiple shareholder. In order to verify that most of the acquisition transactions involve two or more shareholder, one should do further research on CORPORATE BANK's total M&A portfolio. Moreover, another way that CORPORATE BANK could anticipate on the risk of multiple shareholders is by assessing the characters of the shareholders and, by means of emotional intelligence, examine the possibility that the shareholders would not come into conflict.

Another remarkable conclusion which can be drawn considering the individual failure factors of the category "Human Aspects" is that the failure factor "cultural differences between the prior and current entrepreneur" has been indicated mostly, though as indirectly held accountable, regarding the defaulted acquisition credit loan. In general, CORPORATE BANK considers the involvement of prior entrepreneurs as positive as the prior entrepreneurs can function as a guide for the "new" entrepreneurs. Additionally, when the prior entrepreneurs remain involved and committed to the business, CORPORATE BANK has the feeling that the continuity of the business is more guaranteed. However, # out of # cases (i.e. 30%) indicate that the defaulted acquisition credit loan is partly due to disagreements or cultural differences between the prior and current entrepreneur. For example, it can be the case that the prior entrepreneur does not agree with the new strategy or vision of the business. The consequences of the discrepancies between the prior entrepreneur and the new entrepreneur can be of such a degree that it indirectly contributes to the defaulted acquisition credit loan. Therefore, CORPORATE BANK should reconsider if the involvement of the former entrepreneur is really as positive as CORPORATE BANK assumes.

In conclusion, within the category “Human Aspects”, the individual failure factors “Conflict between the shareholders” and “Cultural differences between prior and current entrepreneur” have been indicated most often as having contributed to the defaulted acquisition credit loan. Therefore, CORPORATE BANK should be more careful with issuing acquisition credit loans when multiple shareholders are involved in order to reduce the possibility that the shareholders enter into a conflict with each other. Further, CORPORATE BANK should also take into account the negative effect of having the former entrepreneur involved rather than only looking at it from a positive point of view.

5.2.1.2 Economic Crisis

The category “Economic Crisis” consists of the individual failure factors “economic crisis” and “sector the business is operating in”. The category “Economic Crisis” is a separate category since the time frame of the case studies is 2010 – 2015, and therefore the time frame covers part of the economic crisis. Case study related information retrieved from the documents or from the interview with the corresponding FR&R advisor sometimes indicated that the economic crisis, or the sector in combination with the economic crisis, could be held accountable for the defaulted acquisition credit loan. Therefore, it seemed appropriate to distinguish this category rather than including it in the category “Other Factors”.

Though, one should note that the individual failure factor “sector the business is operating in”, is also included in this category. One could argue that the factor “sector the business is operating in” can be a stand-alone factor as it is not necessarily interrelated with the economic crisis. For example, one of the case studies indicated that the sector the business was operating in did contribute to the defaulted acquisition credit loan as it concerned a printing office. The printing office suffered from digitalization with the result that demand for printed products declined. Digitalization is not a result of the economic crisis, which justifies the sector as being a stand-alone sector. However, most of the cases indicating the individual failure factor “sector the business is operating in” as contributing factor regarding the defaulted acquisition credit loan, specifically indicated the sector in combination with the economic crisis. Therefore, the failure factor “sector the business in this case is operating in” is included in the “Economic Crisis” category. Nevertheless, 35% of the cases indicated that the category “Economic Crisis” can be mainly held accountable for the defaulted acquisition credit loan, which makes this category significant. The most remarkable findings regarding the individual failure factors (i.e. mostly indicated) will be shortly touched upon below.

It can easily be explained that the economic crisis is held accountable for a significant number (i.e. 35%) of the defaulted acquisition credit loans. Due to the economic crisis, buyers in general were less willing to spend money. When buyers are less willing to spend money, the demand for products and services offered by businesses is likely to decline. When the demand for products and services offered by a business declines, the business will most likely have to deal with a decline in revenues. When revenues decline, it is more difficult to service the interest payments and principals. When debt obligations cannot be serviced anymore, the acquisition credit loan is considered to be in default. This is a logic sequence of steps and explains the relative high contribution of the economic crisis regarding the defaulted acquisition credit loans.

For most of the cases that indicated that the economic crisis can be mainly held accountable for the defaulted acquisition credit loan, it concerned the combination of the sector the business is operating with the economic crisis. Several sectors suffered relatively hard from the economic crisis. An example of a sector that suffered hard from the economic crisis is the construction sector. It is notable that ## cases out of the ## having indicated that the economic crisis can be considered mainly responsible for the defaulted acquisition credit loan (i.e. approximately 43%), indicated that the dependency on the construction sector can be mainly held accountable for the transfer to the FR&R department. While it might be easy to argue afterwards that it might not have been smart to issue acquisition credit loans to businesses being dependent on the construction sector during times of economic crisis, CORPORATE BANK could take this as a lesson. CORPORATE BANK could be more careful with issuing acquisition credit loans to businesses that operate in a troubling and/or cyclical market.

5.2.1.3 Valuation Problems

The category “Valuation Problems” consists of the individual failure factors “The business is too highly leveraged” and “Price paid for Target was too high”. Yet, one can derive from Table 4 that the category “Valuation Problems” was not indicated once as most determinative factor regarding the defaulted acquisition credit loans. Therefore, one could question why this category even exists. However, since the level of debt and the price paid for the Target are interrelated these two individual failure factors are grouped in one category rather than in the category “Other Factors”. Especially since if these two individual failure factors were placed in the category “Other Factors”, the factors “the business is too highly leveraged” and “price paid for Target was too high” might not have received the attention these factors deserve. The most important findings regarding the individual failure factors in the category “Valuation Problems” will be shortly touched upon below.

The individual failure factors of “the business is too highly leveraged” and “price paid for Target was too high” are interrelated as if the price paid for Target is too high, the business is more likely to be highly leveraged. When one pays a too high of a price for the Target, a relative higher level of debt is needed in order to finance the acquisition, unless one can bring in a significant amount of own money. However, it can also be the case that a business is too highly leveraged even if the price paid for the Target is acceptable. Therefore, these two individual failure factors are distinguished.

Even though none of the cases indicated that valuation problems could be held directly accountable for the transfer to the FR&R department, # of the # cases (i.e. 45%) indicated that “the business is too highly leveraged” indirectly contributed to the defaulted acquisition credit loan. When a business is too highly leveraged, the debt obligations are relatively high. As debt obligations include interest payments and payment of principals, there is less room left for setbacks or to compensate for lower than anticipated revenues. When interest payments or payments of principals cannot be serviced anymore, the acquisition credit loan is considered to be in default. This indicates the importance of an appropriate and reasonable level of debt, especially considering that CORPORATE BANK is, or partly is, the provider of debt.

Since 45% of the case studies indicated that the business being too highly leveraged indirectly contributed to the transfer to the FR&R department, CORPORATE BANK has a possibility to improve its M&A portfolio as CORPORATE BANK is partly responsible for the level of debt on the balance sheet. CORPORATE BANK could try to ensure that the debt obligations can still be serviced even if revenues decline. Considering that CORPORATE BANK already takes into account a “worst case” scenario when acquisition credit loans are issued, CORPORATE BANK might have to reconsider the “worst case” scenario by taking into account that revenues even further decline than anticipated upon at the worst case scenario. Another way how CORPORATE BANK can anticipate on the “business is too highly leveraged” factor is to be more strict on the level of debt on the balance sheet. Even though CORPORATE BANK already recently anticipated on the guidelines regarding the TnD/EBITDA ratio (i.e. by having stricter guidelines for cyclical businesses), CORPORATE BANK could better apply the rules of the M&A policy. Apparently, Acquisition Specialists are still able to submit an acquisition credit loan application which does not fulfil the requirements regarding the TnD/EBITDA ratio. Even though, one could argue that exceptions to the M&A policy should be possible, it is still arguable that CORPORATE

BANK reconsiders its guidelines regarding the TnD/EBITDA ratio or better applies the rules of the M&A policy in order to ensure that the business will not be too highly leveraged after the acquisition transaction.

The individual failure factor “price paid for Target was too high” is been indicated as having an indirect contribution regarding transfer to FR&R by # out of the # cases (i.e. 25%). Even though this individual failure factor only had an indirect contribution regarding the defaulted acquisition credit loans, 25% is still a significant percentage. Usually, the price paid for a Target is based upon expected future cash flows. When the future cash flows of the Target are lower than expected, one could argue that the price paid for the Target has been too high. Yet, it might be easy to argue that the price paid for the Target has been too high at the point that the acquisition credit loan is already in default. Therefore, it is difficult to make a strong statement about the price of the Target. Before CORPORATE BANK issues an acquisition credit loan, CORPORATE BANK considers whether or not the price is acceptable. Valuing a business is a specialist task itself. CORPORATE BANK can only judge if the price of a Target is acceptable based on external valuators or based on historical figures. Nevertheless, 25% of the cases indicating that a too high of a price paid for the Target indirectly contributed to the defaulted acquisition credit loan can be a considered a significant percentage. The only recommendation regarding the acceptability of the price of the Target I dare to present, is that in the case that CORPORATE BANK doubts whether or not the price being paid for the Target is acceptable, is that CORPORATE BANK has an external valuator determining the price of the Target. By having an external valuator determining the price of the Target as well, CORPORATE BANK could judge if the price paid for the Target is in line with the recommended price of the external valuator.

While it is difficult to make a hard statement or recommendation regarding the individual failure factor “price paid for Target was too high”, a recommendation for CORPORATE BANK can be made considering the individual failure factor “the business is too highly leveraged”. As 45% of the defaulted acquisition credit loans are indirectly due to the business too highly leveraged, CORPORATE BANK can improve its M&A portfolio by anticipating on these findings, especially considering that CORPORATE BANK is, or partly is, the debt provider. CORPORATE BANK could anticipate on these finding e.g. by reconsidering the “worst case” scenario or by employing stricter guidelines regarding the tD/EBITDA ratio.

5.2.1.4 Other Factors

The category “Other Factors” consists of “Breach of Trust”, “Competition”, “Poor Integration Process”, “Dependency on the former entrepreneur”, “Dependency on the suppliers’ side”, “Dependency on the buyers' side", "Exchange Losses", "External Factors (weather, accountant and so on) and "CORPORATE BANK". The category "Other Factors" encompasses all the individual failure factors that did not fit another category. This means that the individual failure factors in the category "Other Factors" can be considered stand-alone factors. The category "Other Factors" explains approximately 5% - 10% of the defaulted acquisition credit loans. The most important findings regarding the individual failure factors within the category "Other Factors" will be shortly touched upon below.

The most striking finding within the category "Other Factors" is that the individual failure factor "dependency on the buyers' side" has been indicated # times (i.e. whereof two times directly) as having contributed to the defaulted acquisition credit loan. This means that 35% of the defaulted acquisition credit loans are partly the result of a high dependency on the buyers' side. A high dependency on the buyers' side contains risk as, for example, one or just a few buyers are responsible for a relatively big part of the revenues, there is a risk that revenues would decline significantly if such a buyer is omitted (i.e. bankrupt). Taken into account that a high dependency on the buyers' side can be, directly or indirectly, held accountable for 35% of the defaulted acquisition credit loans, CORPORATE BANK could improve its M&A portfolio through being more strict regarding the concentration risk on the demand (i.e. buyers') side. By having stricter guidelines in place regarding the concentration risk on the demand side, CORPORATE BANK might avoid that acquisition credit loans become in default as a result of a high dependency on the buyers' side.

The other individual failure factors are indicated on an incidental base. While most of the remaining individual failure factors within the category "Other Factors" have only been indicated twice, the individual failure factor "competition" has been indicated ## times as having indirectly contributed to the defaulted acquisition credit loan. The failure factor "competition" might imply a pressure on the margins due to increased competition. As a result, revenues will decline. Yet, the failure factor "competition" can also imply a conflict with a competitor (i.e. when a competitor assails licenses one needs). Nevertheless, "competition" is a failure factor which is difficult to be in control of.

Another striking finding within the category "Other Factors" is that CORPORATE BANK can be held indirectly accountable for the defaulted acquisition credit loan for ## cases (i.e. 15%). This is remarkable since CORPORATE BANK aims for no defaulted acquisition credit loans as CORPORATE BANK does not benefit from a defaulted acquisition credit loan. Yet, CORPORATE BANK's contribution regarding the defaulted acquisition credit loans can be explained by, for example, making a business too highly leveraged by issuing an acquisition credit loan or by making certain mistakes. Further information regarding CORPORATE BANK's indirect contribution can be discovered at the corresponding case studies in Appendix XVII.

In conclusion, it is striking that within the category "Other Factors", the individual failure factor "dependency on the buyers' side" has been indicated by 35% of the case studies as having contributed to the defaulted acquisition credit loan. In order to reduce the percentage of defaulted acquisition credit loans, CORPORATE BANK could anticipate on this individual failure factor by focusing more on the concentration risk of the demand side. Further, CORPORATE BANK has been indicated as an indirect individual failure factor regarding the defaulted acquisition credit loan of ## cases. This is striking since CORPORATE BANK aims for no defaulted acquisition credit loan. CORPORATE BANK should be aware that certain decisions or mistakes can indirectly contribute to the transfer to the FR&R department.

5.1.3 Conclusion Failure Factors of the Defaulted Acquisition Credit Loans

This section provides the overall conclusion regarding the failure factors of the defaulted acquisition credit loans covered by the case studies. Both the conclusions of the categories of failure factors discovered at the case studies and the conclusions of the individual failure factors within the categories will be presented.

When applying a broad view regarding the failure factors of the defaulted acquisition credit loans, it can be concluded that approximately 95% of the defaulted acquisition credit loans can be explained by either Managerial Problems or by the Economic Crisis. ## out of ## case studies indicate that managerial problems are responsible for the defaulted acquisition credit loan, which is 60% of the case studies. Whereas # out of # cases indicated that the economic crisis can be held mainly accountable for the defaulted acquisition credit loans, which is 35% of the case studies. The remaining defaulted acquisition credit loans can be explained by other, perhaps incidental, factors than Managerial Problems and the Economic Crisis.

When applying a closer view regarding the failure factors of the defaulted acquisition credit loans, multiple conclusions can be derived. If managerial factors was the failure factor resulting in the defaulted acquisition credit loan (i.e. 60% of total cases), it mainly implied that the manager lacked key competences or internal focus and control, or that the manager did not sufficiently anticipate on the market conditions. Yet, these individual failure factors are all somewhat interrelated with "lack of managerial key competences". Another remarkable finding is that the case studies having indicated that the failure factor category "Human Aspect" could be held, directly or indirectly, accountable for the defaulted acquisition credit loans, it predominantly implied either a conflict between the shareholders or cultural differences (i.e. discrepancies) between the former and current entrepreneur. This is interesting because both individual failure factors indicate that the problem lies at heart of the manager (i.e. entrepreneur or shareholder). Further, when the economic crisis is held accountable for the defaulted acquisition credit loan (i.e. 35% of total cases), it mostly concerned the combination of the sector the business is operating in with the economic crisis. Several sectors suffered relatively hard from the economic crisis and therefore the combination of the sector during the economic crisis is applicable. Moreover, the failure factor category “Valuation Problems” has not been indicated as having a direct contribution regarding the defaulted acquisition credit loans. Though, this does not mean that no attention should be given to valuation problems. Indeed, more attention should be given to the amount of leverage as # of the # cases (i.e. 45%) indicated that the business being too highly leveraged indirectly contributed to the defaulted acquisition credit loan. Further, it is notable that within the category “Other Factors”, the individual failure factor “dependency on the buyers’ side” has been indicated by 35% of the case studies as having contributed to the defaulted acquisition credit loan. Moreover, CORPORATE BANK has been indicated as an indirect individual failure factor regarding the defaulted acquisition credit loan of ## cases. This is striking since CORPORATE BANK aims for no defaulted acquisition credit loan.

Altogether, these conclusions indicate that there is room for improvement regarding CORPORATE BANK’s M&A policy. Multiple recommendation can be thought about. These recommendations, partly based upon the conclusion of the discovered failure factors of this case study, will be presented in section 6.7.

5.2 Descriptive Factors of the Case Studies

While previous chapter discussed the failure factors of the defaulted acquisition credit loans of the case studies, this chapter will look into more details regarding the descriptive factors of the case studies. Covering descriptive factors of the case studies (i.e. the business a case study is covering) is important since maybe certain patterns can be discovered when looking at certain descriptive factors or certain characteristics of a business. The conclusion of this chapter might illustrate that certain characteristics of a business indicate a higher risk of an acquisition credit loan becoming in default.

Multiple descriptive factors are examined in this section. These descriptive factors are mainly selected based upon the availability of the information, but also based upon appropriateness or on consultation with CORPORATE BANK. Accordingly, the following nine descriptive factors are selected: “Year of issuing acquisition credit loan”, “Year of transfer to FR&R”, “Months between issuing acquisition credit loan and transfer to FR&R", "UCR when acquisition credit loan was issued", "Number of shareholders after the acquisition", "approximate age of the entrepreneur(s)", "Sector the business is operating in". "Form of acquisition (i.e. MBO/MBI/Strategic), and whether or not it concerns a family business. The descriptive factors of the ## case studies are displayed in table 5. The first column of table 5 displays the descriptive factors, while the first row displays the corresponding case numbers. The descriptive factors are presented in the corresponding cell. The findings of the individual descriptive factors will be discussed below.

Descriptive Factors \ Case Numbers	1	2	3	4	5	6	7	8	9	10
Year of issuing acquisition credit loan	2012	2012	2012	2011	2010	2011	2012	2012	2010	2011
Year of transfer to FR&R	2014	2013	2013	2012	2014	2013	2014	2015	2011	2013
Months between issuing credit loan and transfer to FR&R	20	12	13	20	51	28	23	35	18	27
UCR when acquisition credit loan was issued	5	4	5-	5-	5-	4	6+	5-	4	5
Number of shareholders after the acquisition	3	1	1	1	1	1	2	2	2	2
Approximate age of the entrepreneur(s) (i.e. management)	48, 51 and 53	41	32	56	47	55	72 and 48	43 and 49	40 and 45	49
Sector the business is operating in	TMT	TMT	Leisure	Construction	Industry	Construction	Industry	Business Services	Construction	Agricultural
MBO/MBI/Strategic	MBI	Strategic	MBO	MBO	MBI	MBI	MBI	MBO	Strategic	Strategic
Family Business/ non-family business	Family	Non-family	Family	Family	Non-family	Non-family	Non-family	Non-family	Family	Family

Descriptive Factors \ Case Numbers	11	12	13	14	15	16	17	18	19	20
Year of issuing acquisition credit loan	2010	2014	2011	2011	2011	2012	2012	2011	2010	2010
Year of transfer to FR&R	2012	2015	2012	2012	2012	2014	2013	2013	2011	2012
Months between issuing credit loan and transfer to FR&R	19	17	9	21	23	25	15	24	14	19
UCR when acquisition credit loan was issued	5	5+	5+	5-	5+	5-	5-	5	5	5
Number of shareholders after the acquisition	3	2	1	1	1	1	1	1	3	3
Approximate age of the entrepreneur(s) (i.e. management)	38	45 and 47	48	45	40	40	49	43	45, 45 and 55	31 and 40
Sector the business is operating in	TMT	Retail	Leisure	Business Services	TMT	T&L	Industry	Construction	Retail	TMT
MBO/MBI/Strategic	Strategic	MBI	MBI	MBI	MBO	Strategic	MBO	MBO	Strategic	MBO
Family Business/ non-family business	Family	Family	Non-family	Non-family	Non-family	Non-family	Non-family	Non-family	Family	Non-family

Table 5. Descriptive Factors of the Defaulted Acquisition Credit Loans

5.2.1 Year of Issuing Acquisition Credit Loan

The time frame of the case studies includes 2010 -2015. Acquisition credit loans which were issued within 2010 – 2015 and which became in default before mid- 2016, are covered during the case studies. When solely looking at the year when the acquisition credit loan was issued, it is striking that the larger halve of the defaulted acquisition credit loans were issued in 2011 and 2012. These results can also be retrieved from figure 3. Both the years 2011 and 2012 characterize # issued acquisition credit loans which became in default within 6 years. In total, 70% of the defaulted acquisition credit loans of the case studies were issued during 2011 or 2012. Further it can be noticed from figure 3 that the year 2010 encompasses # out of ### defaulted acquisition credit loans (i.e. 25%), which is also a significant number. While during the year of 2014 only one of the issued acquisition credit loans became in default. Additionally, one should note that none of the acquisition credit loans issued in 2013 or 2015 have become in default yet.

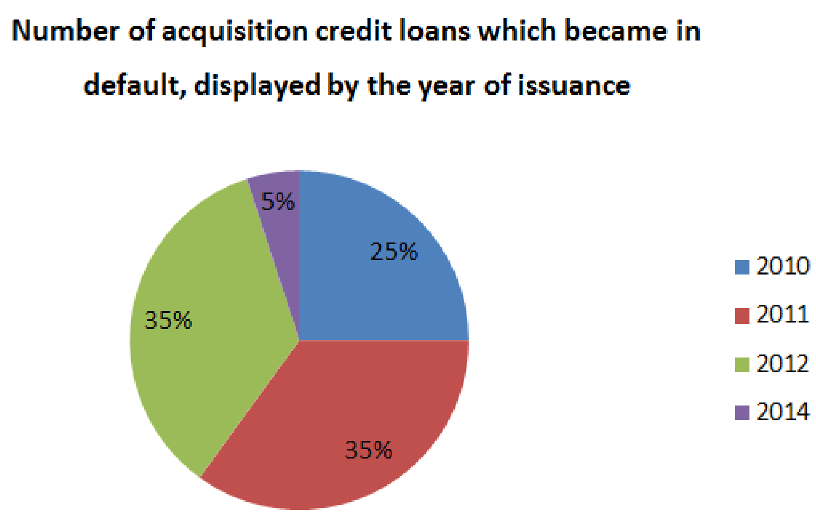


Figure 3. Year of Issuance of the Defaulted Acquisition Credit Loans

The significant differences between the number of acquisition credit loans issued during a particular year which became in default within 6 years can be easily explained. This research only covers the years 2010 - 2015. Acquisition credit loans issued in 2010 have had 6 years the chance of becoming in default. While an acquisition credit loan issued in, for example, 2014 or 2015, only had one year, or even less, chance of becoming in default. Therefore, the closer the year of issuance is to 2010, the higher the chance that the issued acquisition credit loan became in default. Similarly, the closer the year of issuance is to 2015, the lower the chance that the issued acquisition credit loan became in default yet.

This explains why relatively more acquisition credit loans issued in 2011 and 2012 became in default when compared to 2013, 2014 and 2015. Though, this does not explain why the percentage of defaulted acquisition credit loans issued in 2010 is lower than the percentage of defaulted acquisition credit loans issued in 2011 and 2012. Considering that this research does not cover the full 6 years after an acquisition credit loan is issued, no conclusions regarding the year of issuance should be drawn.

Further, this research only covers the defaulted acquisition credit loans which were issued between 2010-2015. This means that no attention has been given to the overall number of issued acquisition credit loans between 2010 – 2015. In order to draw conclusions regarding the year of issuance of a defaulted acquisition credit loan, one should consider the overall number of issued acquisition credit loans. For example, solely based on figure 3, one could conclude that the years 2011 and 2012 were inferior years regarding the issuance of acquisition credit loans since the highest percentage of defaulted acquisition loans can be traced back to 2011 and 2012. Though, it could also be the case that CORPORATE BANK issued, for example, 80% more acquisition credit loans during 2011 and 2012 in comparison with 2010 or 2013. If that would be the case, the years of 2011 and 2012 might not have been inferior. By not taking into account the total number of issued acquisition credit loans in a particular year, it is not fair to draw a conclusion solely based on the number of defaulted acquisition credit loans issued in a particular year.

5.2.2 Year of Transfer to FR&R

Acquisition credit loans issued in 2010 – 2015, can theoretically become in default between 2010 – 2021 as an acquisition credit loans should be fully serviced within six years. This section will look into the years that the businesses of the case studies were transferred to the FR&R department (i.e. the issued acquisition credit loan became in default). The results are displayed in figure 4.

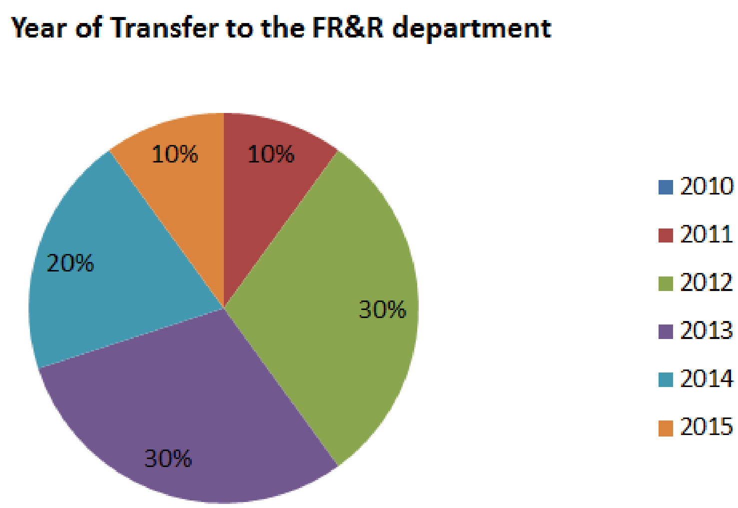


Figure 4. Year of Transfer to FR&R

Figure 4 displays the percentage of the businesses of the case studies (i.e.#businesses) transferred to FR&R during a particular year. It is striking that the bigger halve of the businesses were transferred to FR&R during 2012 and 2013 (i.e. 60%), while the smallest part of the businesses were transferred to FR&R during 2010, 2011 and 2015. Explanations of the most business being transferred to FR&R during 2012 and 2013 could be that relatively more acquisition credit loans were issued during the six years prior to 2012 and 2013 or that relatively more businesses suffered from the economic crisis during the years of 2012 and 2013. Yet, additional research (i.e. covering the total number of issued acquisition credit loans prior to 2012 and 2013) should be conducted in order to draw such conclusions. Further, it is understandable that none of the businesses of the case studies were transferred to FR&R in 2010 as that would mean that the acquisition credit loan was issued within the same year as the transfer to FR&R. Even though it is possible that a business is transferred to FR&R within the same year of issuing the acquisition credit loan, it would be rare. More attention will be given to the months between the issuance of the acquisition credit loan and the transfer to the FR&R department in the next section.

5.2.3 Months between Issuing Acquisition Credit Loan and Transfer to FR&R

This section will give attention to the number of months between the issuance of an acquisition credit loan and the transfer to FR&R. When there can be a pattern discovered regarding the number of months between issuing an acquisition credit loan and the transfer to the FR&R department, CORPORATE BANK can anticipate on these findings by, for example, providing additional attention to businesses which received an acquisition credit loan during the critical months after the issuance of the acquisition credit loan.

The number of months between the issuance of the acquisition credit loans and transfer to FR&R are displayed in figure 5. Figure 5 horizontally displays the number of case studies having indicated that specific amount of months between issuance of acquisition credit loan and transfer to FR&R. While figure 5 vertically displays the number of months. Further, the results of figure 5 are sorted from small to large. From figure 5 can be derived that one case is considered to be an outlier, namely the case with having 51 months between issuance of acquisition credit loan and transfer to FR&R. Nevertheless, when a time frame of 6 years is covered, an outlier is possible and should therefore be taken into account concerning the results of these findings.

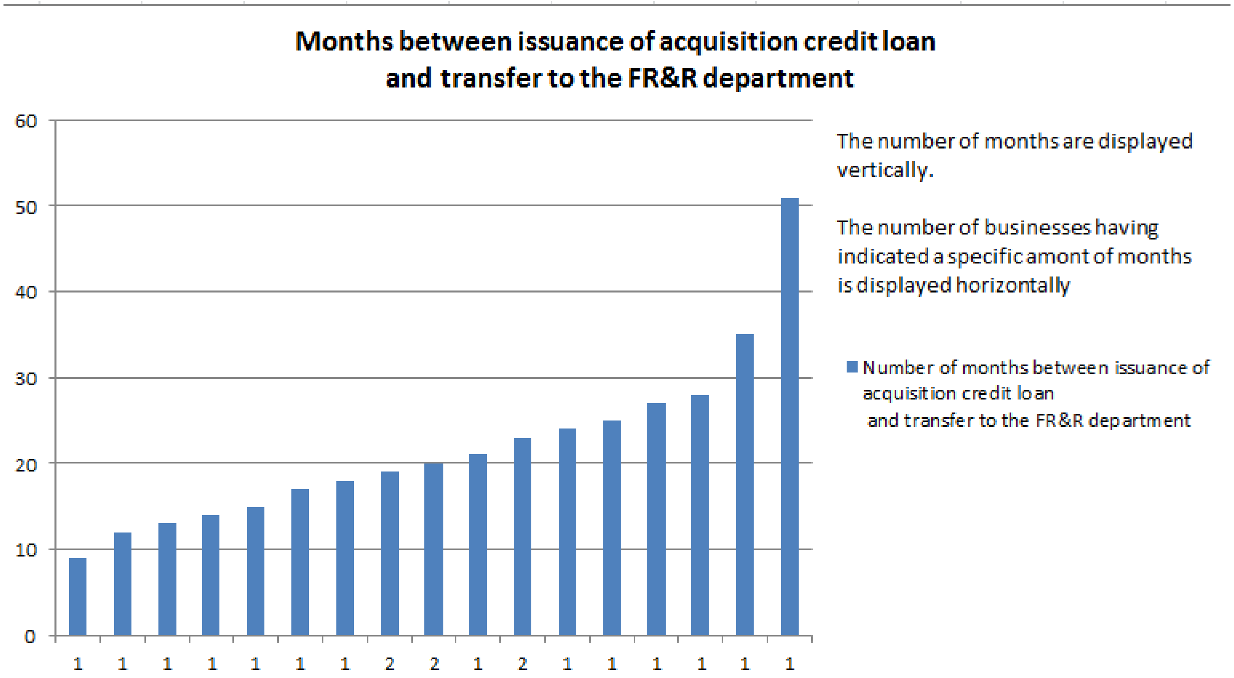


Figure 5. Months between Issuance of Acquisition Credit Loans and Transfer to FR&R

Legend: x- axis: Unit of analysis (businesses)

y- axis: Time (months)

From figure 5 can be derived that the median of the number of months between issuance of acquisition credit loan and transfer to FR&R is 20 months. This median is close to the average of 21.65 months between issuance of acquisition credit loan and transfer to FR&R. This indicates that issued acquisition credit loans have a higher probability of becoming in default at the end of the second year after issuance. Though, one should be slightly careful with this conclusion as acquisition credit loans issued during 2011 and 2015 can still become in default during 2016-2021 since that would influence the average number of months between issuance of acquisition credit loan and transfer to FR&R (i.e. the median and average would become higher). Nevertheless, solely based on the case studies, one can cautiously conclude that the chance that an issued acquisition credit loans becomes in default, is at the highest points during 20 – 22 months after issuance. Yet, this does not mean that attention to the businesses which received an acquisition credit loan should be diminished after two years of issuance.

CORPORATE BANK can anticipate on these findings, for example by providing additional attention or guidance to these businesses which received an acquisition credit loan during the first two years after issuance, or particularly 1,5 year (i.e. 18 months) after issuance. Another way CORPORATE BANK can anticipate on the findings regarding the months between issuance and transfer to FR&R is to act more considerate regarding the interest payments and principals during the first two years after issuance. For example, if the debt obligations during the first two years after issuance of an acquisition credit loan are easier to service for the business (i.e. no principals during the first two years), the chance that an acquisition credit loans defaults within two years will be lower.

5.2.4 UCR

This section gives attention to the UCR of the businesses of the case studies. As can be recalled from section 4.6 and Appendix XV, CORPORATE BANK assigns an UCR to each counterparty to whom CORPORATE BANK grants an acquisition credit loan. The UCR is based on the assessment of the risk that a counterparty will default with respect to its financial obligations to CORPORATE BANK within a 1-year time horizon. The UCR is characterized by a scale of 1 to 8, whereby UCR 1 is of prime quality while UCR 6-8 is, by definition, "in default" (CORPORATE BANK Bank N.V., 2014). The UCR's (i.e. median UCR) of the businesses of the case studies will be translated to the corresponding probability of default (PD). Thereupon, a conclusion regarding the UCR of the businesses and the PD will be provided.

If one wants to assess how the average UCR of CORPORATE BANK's M&A portfolio of 2010 – 2015 relates to the corresponding PD rate, one has to know all the UCR's of the issued acquisition credit loans between 2010 -2015. Yet, the UCR of the defaulted businesses at the time that the acquisition credit loan was issued, can be identified at table 5. The median and the average of these#UCR's is an UCR 5. When assuming that the average UCR of the total M&A portfolio (i.e. also including the non-defaulted acquisition credit loans) of 2010 – 2015 is also an UCR 5, it corresponds with a MID –PD of 6% (i.e. see also table 3). This means that 6% of the total issued acquisition credit loans would have been transferred to FR&R within a 1-year time horizon (i.e. 12 months). As the case studies include all the defaulted acquisition credit loans of the total issued acquisition credit loans, the defaulted acquisition credit loans within 12 months can be identified at table 5. From table 5 can be derived that two out of # business cases have been transferred to FR&R within 12 months. Recall that CORPORATE BANK issued XXXX acquisition credit loans between 2010 -2015 (i.e. in the region North East of the Netherlands). This means that only 1.36% of the total number of issued acquisition credit loans have been transferred to FR&R within 12 months. When comparing the 1.36% (i.e. the actual PD) with the 6% (the corresponding PD), it is a remarkable difference as 1.36% is approximately 77% lower than 6%. Therefore one can argue that CORPORATE BANK's M&A portfolio of the North East region of the Netherlands is of superior quality than suggested by the UCR Golden Scale.

Yet, one should be slightly careful with this conclusion as acquisition credit loans issued in 2015 can still be transferred to FR&R during 2016. Issued acquisition credit loans issued in 2015 that will be transferred to FR&R in 2016 will influence the percentage of 1.36%. Though, the chance that issued acquisition credit loans become in default during 2016 is small since the case studies have been conducted mid – 2016, which diminishes the chance that issued acquisition credit loans of 2015 will become in default. Even if one considers the possibility that one or two issued acquisition credit loans of 2015 will become in default within 12 months, one can still argue that CORPORATE BANK's M&A portfolio of the NO region of the Netherlands is superior than proposed by CORPORATE BANK's M&A policy as 2% (i.e. 3/XXXX*100%) and 2.7% (i.e. 4/XXXX*100%) are significantly lower than 6%.

Another reason why one should be slightly careful with the conclusion that CORPORATE BANK's M&A portfolio of the NO region of the Netherlands is superior than proposed by CORPORATE BANK's M&A policy, is that an assumption has been included in the conclusion. Even though the average UCR of defaulted acquisition credit loans concerned an UCR 5, this does not mean that the average of the total number of issued acquisition credit loans also is an UCR 5. Yet, even if one considers that the UCR of the total number of issued acquisition credit loans concerns an average UCR 5+ or an average UCR 4-, CORPORATE BANK's M&A portfolio of the NO region of the Netherlands between 2010 – 2015 is still superior than proposed by CORPORATE BANK's policy as the corresponding Mid – PD would be 3% and 1.65% respectively.

In short, it is fair to argue that the issued acquisition credit loans of CORPORATE BANK in the North East region of the Netherlands between 2010 – 2015 have been of supreme quality based on the UCR. CORPORATE BANK could contemplate whether or not the UCR is still suitable for acquisition credit loans.

5.2.5 Number of Shareholders after the Acquisition

The aim of this section is to evaluate whether or not findings can be identified regarding the number of shareholders after the acquisitions discussed in the case studies. There can be multiple shareholders of a business. During the case studies, the number of shareholders ranges from one shareholder to three shareholders. With looking at the number of shareholders of the businesses which received an acquisition credit loan and which became in default, this section endeavours to assess whether or not there is a relationship between the number of shareholders of a business and the defaulted acquisition credit loans.

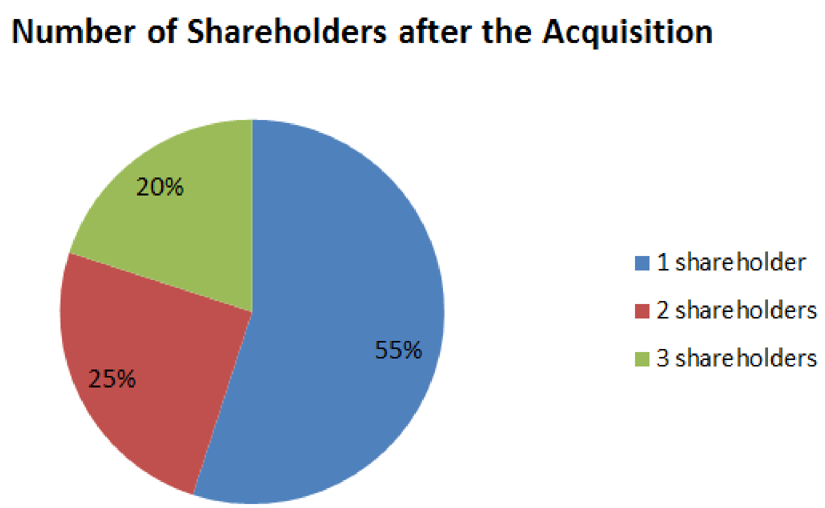


Figure 6. Number of Shareholders after the Acquisition

As can be derived from figure 6, most of the defaulted acquisition credit loans are characterized by only one shareholder (i.e. 55%), while 25% of the defaulted acquisition credit loans are represented by 2 shareholders. The smallest part (i.e. 20%) of the acquisition credit loans are identified with three shareholders. Based on figure 6, one could argue that an acquisition credit loan issued to a business with just one shareholder would have a higher chance of becoming in default than a businesses concerning two or three shareholders. Similarly, one could also argue that the more shareholders a businesses has, the lower the chance that an issued acquisition credit loan would become in default. Though, one should be very careful when drawing such conclusions.

As the case studies only cover the defaulted acquisition credit loans, the overall number of issued acquisition credit loans are not taken into account. When the overall number of issued acquisition credit loans (i.e. during the same time frame) are taken into account, it can influence the findings of figure 6, and thus indirectly influence the conclusion one could draw. For example, if 90% of the issued acquisition credit loans between 2010 – 2015 concerns acquisition credit loans issued to a business with just one shareholder, it would explain why the bigger halve of the defaulted acquisition credit loans are characterized by businesses with one shareholder. Similarly, if, for example, just 5% of the issued acquisition credit loans during 2010 – 2015 concerns acquisition credit loans issued to businesses characterized by two or three shareholders, it could also be the case that relatively more acquisition credit loans become in default when it concerns two or three shareholders. Therefore, solely based on the case studies, one should not draw a conclusion based on the number of shareholders after the acquisition yet.

Though, maybe conclusions can be drawn based on the case studies when looking at the specific cases which involved two or three shareholders (i.e. cases ####). When looking again at the failure factors of these cases which involved multiple shareholders (i.e. appendix XVI), one can derive that ## of the ## issued acquisition credit loans became in default as a result of a conflict between the shareholders (i.e. cases # and ## directly, case # indirectly). This is striking because it indicates that approximately 33.33% of the acquisition credit loans issued to businesses involving two or three shareholders become in default due to a conflict between the shareholders. Furthermore, when one also considers the failure factor "cultural differences between former and current entrepreneur" (i.e. as sometimes the former entrepreneur still is a minor shareholder), # out of # issued acquisition credit loans became in default as a, indirect or indirect, result of either a conflict between the shareholders or as result of cultural differences (i.e. disagreements) between the former and current entrepreneur.

In conclusion, statements regarding the probability of default solely based on the number of shareholders after the acquisition should not be made. Yet, when one compares the cases which involved multiple shareholders with the corresponding failure factors, a conclusion can be drawn. At least 33.33% of the issued acquisition credit loans issued to businesses involving two or three shareholders became in default as a result of a conflict between the shareholders or as a result of differences (i.e. disagreements) between the former and current entrepreneur. CORPORATE BANK can anticipate on this conclusion by being discouraging with issuing acquisition credit loans to businesses involving two or three shareholders.

5.2.6 Age of the Entrepreneur(s)

This section attempts to evaluate whether or not findings can be identified regarding the relationship between the age of the entrepreneur(s) and the defaulted acquisition credit loans. This relationship is being evaluated because it could be the case that the acquisition credit loans became in default as a result of the entrepreneur being too young or too old.

Note that table 5 displays the “approximate” age. Yet, the age of most of the entrepreneurs is precisely identified, only the age of a few entrepreneurs could not be traced anymore (e.g. case 11). Further, it concerns the age of the entrepreneur(s) at the time when the acquisition credit loan was issued. In order to have an overview, the ages of the entrepreneurs are categorized in ranges of 5 years (i.e. ages 31-35). These categories of ages and the corresponding number of entrepreneurs fitting in that age category are displayed in figure 7.

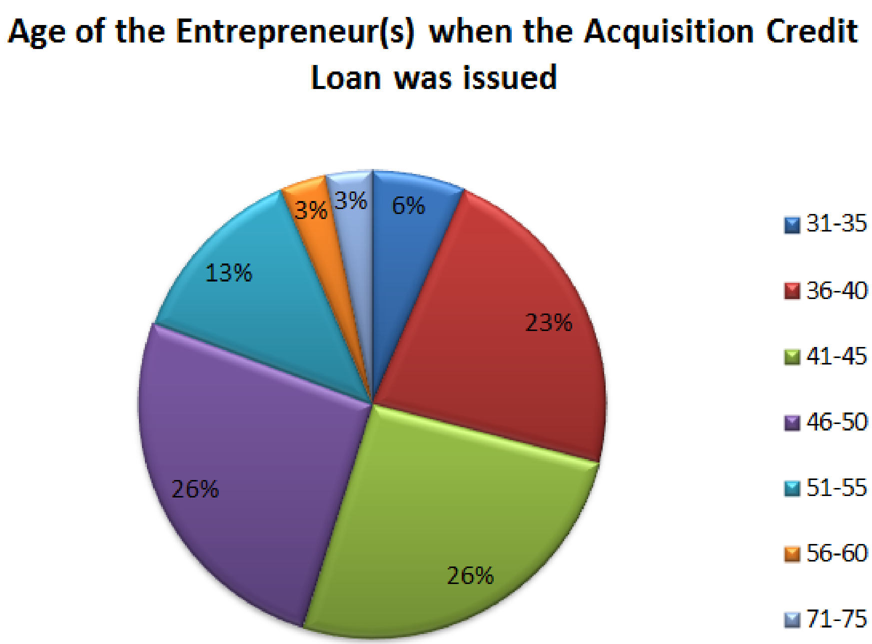


Figure 7. Age of the Entrepreneur(s) when the Acquisition Credit Loan was issued.

From figure 7 can be derived that the bigger halve of the entrepreneurs of the defaulted businesses fit the age categories 41-45 and 46-50 (i.e. totalling 52%). Further, figure 7 indicates that the smallest part of the entrepreneur of the defaulted businesses fit the categories 56-60 and 71-75 (i.e. both age categories totalling for 6%). Therefore, one could argue that entrepreneurs having an age between 41 and 50 are inferior to entrepreneur aging, for example, 72. If that would be true, CORPORATE BANK should be careful with issuing acquisition credit loans to entrepreneurs having an age between 41 and 50.

Though, one should not made such a conclusion solely based on the case studies of this research. The conclusion that an acquisition credit loan issued to an entrepreneur aging between 41 and 50 has a higher chance of becoming in default can easily be undeceived because of the following reason. The total number of issued acquisition credit loans is not evaluated (i.e. regarding the age of the entrepreneurs). For example, if 90% of the entrepreneurs of businesses to whom an acquisition credit loan is granted, fit the age categories of 41- 45 or 46-50, it is logical that relatively a bigger part of the defaulted acquisition credit loans concerns entrepreneurs aging between 41 – 50. Therefore, one cannot draw a conclusion regarding the relationship of an entrepreneur and the probability of default solely based on the findings of the case studies.

Further, the FR&R advisors of the businesses of the case studies all indicated during the interviews that the age of the entrepreneur had nothing to do with the acquisition credit loan becoming in default. Examples were given of relatively young (e.g. 24) entrepreneurs which are successful and examples were given of relatively old entrepreneurs (e.g. 70+) which were successful. All the FR&R advisors argued that the age of the entrepreneur does not give any indication of the probability of the acquisition credit loan becoming in default. Even though this is just the “opinion” of the FR&R advisors, it is striking that all the interviewed FR&R advisor have an uniform opinion regarding the relationship between the age of an entrepreneur and the defaulted acquisition credit loan.

Yet, it would be interesting to evaluate the relationship between “entrepreneurial age” and the probability of default. Entrepreneurial age implies how many years of “entrepreneurial experience” an entrepreneur possesses. One could identify if the probability of becoming in default becomes lower when an entrepreneur possesses more “entrepreneurial ages”. Unfortunately, the information available regarding the case studies did not allow for this research to cover the relationship between “entrepreneurial age” and the defaulted acquisition credit loans since information regarding “entrepreneurial age” is simply not available.

In short, even though it appears that the bigger halve of the entrepreneurs of the case studies (i.e. concerning the defaulted acquisition credit loans) fit the age categories 41-45 or 46-50, no conclusion should be made regarding the relationship between the age of the entrepreneur and the defaulted acquisition credit loans.

5.2.7 Sector the Business is operating in

The aim of this section is to assess whether or not a conclusion can be drawn regarding the relationship between the sector the businesses of the case studies are operating in and the defaulted acquisition credit loans. From section 4.3 can be recalled that CORPORATE BANK distinguishes 15 sectors. Evaluating the sectors the businesses of the defaulted acquisition credit loans are operating is suitable as it might appear that certain sectors accompany a higher probability of an issued acquisition credit loan to become in default. The findings of this section might indicate that CORPORATE BANK should anticipate otherwise on particular sectors, or that CORPORATE BANK should improve its knowledge about the sectors.

The sectors, and the percentage of businesses of the case studies operating in that sector, are displayed in figure 8. From figure 8 can be derived that the case studies only concern 8 different sectors. Further, figure 8 indicates that the predominant part of the defaulted acquisition credit loans (i.e. 25%) can be traced back to the Technology, Media & Telecommunications (i.e. TMT). Thereafter, 20% of the businesses to whom an acquisition credit loan was granted which became in default, were operating in the Construction sector. Yet, 15% of the defaulted acquisition credit loans were issued to businesses operating in the Industry sector. While no defaulted acquisition credit loans are related to the sectors; Utilities, Government & Education, Healthcare, Real Estate, Financial Institutions, Food, Oil & Gas.

Therefore, the findings regarding the sector the businesses of the case studies are operating in, indicate that the TMT sector is related to the most significant part of the defaulted acquisition credit loans (i.e. 25%). One could argue that a business operating in the TMT sector has a relative higher probability of becoming in default than in any other sector. Additionally, one could argue that the sectors Construction and Industry also come along with a higher probability of an issued acquisition credit loan to become in default in comparison with the remaining sectors. Similarly, one could suggest that a businesses operating in, for example, the Healthcare or Food sector has a relatively low probability of becoming in default since these sectors are not related to the defaulted acquisition credit loans of the case studies. However, one should be careful with such conclusions.

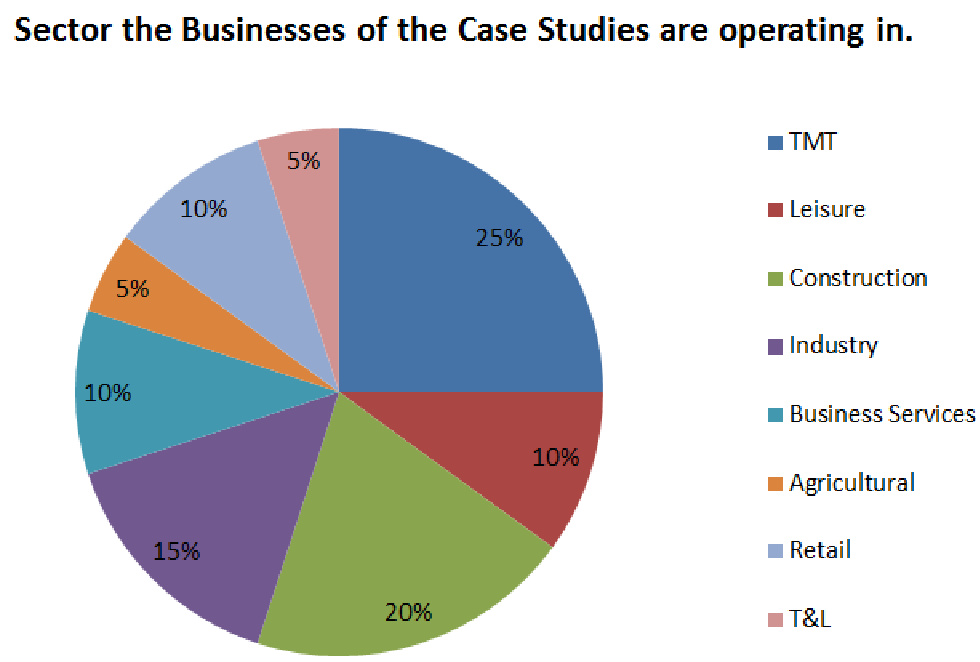


Figure 8. Sector the Businesses of the Case Studies are operating in.

One should be careful drawing conclusions from figure 8 as one should also consider the sectors of all businesses to whom CORPORATE BANK granted an acquisition credit loan during 2010 -2015. If relative more acquisition credit loans were issued to businesses operating in the TMT sector or Construction sector, it would explain why relatively more acquisition credit loans related to the TMT sector or Construction sector became in default. Similarly, if, for example, only 1% of the acquisition credit loans between 2010 -2015 were issued to businesses operating in the Utilities sector, it would clarify why none of the defaulted acquisition credit loans are related to the Utilities sector. Therefore, conclusions drawn from figure 8 should be taken with a grain of salt.

Yet, 25% of the defaulted acquisition credit loans being related to the TMT sector can partly be explained. When looking at the # cases which concerned businesses operating in the TMT sector, it is remarkable that ## out of ## cases indicated that the defaulted acquisition credit loan was due to the sector the business is operating in. The TMT sector does not only suffered from the economic crisis, but also from the digitization. This could explain why a relative big part of the defaulted acquisition credit loans concern businesses operating in the TMT sector.

Moreover, 20% of the defaulted acquisition credit loans being related to the construction sector can be explained by the influence of the economic crisis. The construction sector is a sector that relatively hard suffered from the economic crisis in comparison with other sectors. When looking at the failure factors of the individual business cases operating in the Construction sector (i.e. cases 4, 6, 9, and 18) , this research indicates that these specific business cases all became in default as a result of the sector in combination with the economic crisis (i.e. 3 cases directly, 1 case indirectly). This explains why a relative big part of the defaulted acquisition credit loans during 2010 – 2015 are related to the construction sector.

Furthermore, the sector in combination with the economic crisis can also explain why the industry sector is related to 20% of the defaulted acquisition credit loans of the case studies. The failure factors of the ## cases operating in the industry sector indicate that the defaulted acquisition credit loan was due to the sector in combination with the economic crisis (i.e. 2 cases directly, 1 case indirectly). This explains why a relative big part of the defaulted acquisition credit loans during 2010- 2015 are related to the industry sector.

In short, the bigger halve of the defaulted acquisition credit loans are related to either the TMT sector, Construction sector or the Industry sector. Even though the significant percentages regarding the defaulted acquisition credit loans in relationship with these sectors can be explained (i.e. digitalization and economic crisis), one should be careful with drawing conclusions since the overall number of issued acquisition credit loans and the corresponding sectors are not taken into account.

5.2.8 Form of Acquisition

The purpose of this section is to evaluate if a relationship can be identified regarding the form of acquisition and the probability of becoming in default. CORPORATE BANK distinguishes five forms of acquisitions, as can be recalled from Appendix XIII. Yet, the only forms of acquisitions identified at the case studies are Management Buy - Out (MBO), Management Buy –In (MBI) and Strategic Acquisitions. On a general note, an MBI transaction is considered to contain more risk than an MBO transaction as with an MBI transaction, an external management team replaces the existing management team and might lack the expertise regarding the business and the market the business is operating in. It can be valuable to evaluate the form of acquisition of the defaulted acquisition credit loans as CORPORATE BANK could anticipate on the findings of this section.

The form of acquisition of the defaulted acquisition credit loans of the case studies are displayed at figure 9. One can derive from figure 9 that the form of acquisition is almost equally divided between the ### cases. This is striking because one would assume that a relatively bigger part of the defaulted acquisition credit loans would be characterized by an MBI transaction (i.e. in comparison with MBO transactions). Solely based on figure 9, one could conclude that it barely matters if an acquisition form concerns an MBO, an MBI or a strategic acquisition transaction regarding the probability of becoming in default.

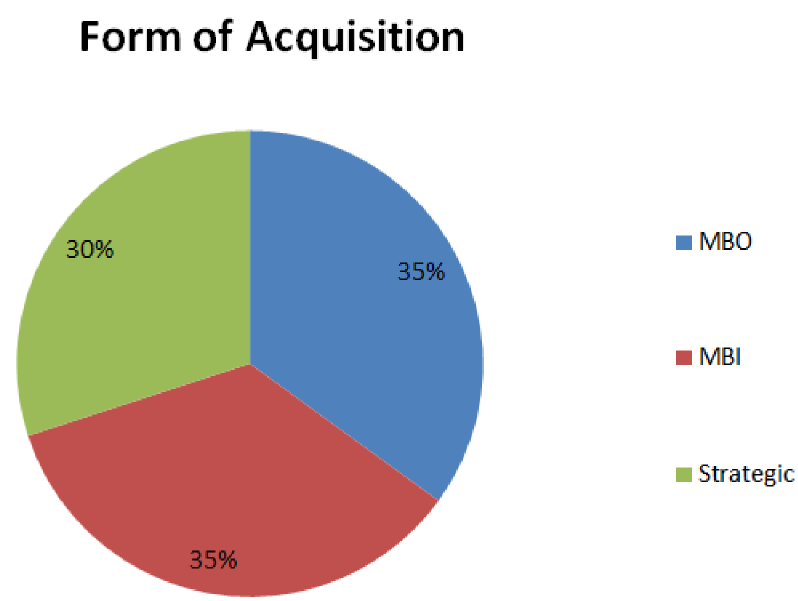


Figure 9. Form of Acquisition of the Case Studies

Though, one should be careful with the conclusion that there are no significant differences between the form of acquisition and the corresponding probability of default. In order to make such a conclusion, one should consider the form of acquisition of all the issued acquisition credit loans. By taking into account the forms of all the issued acquisition credit loans during the time frame of 2010 – 2015, one can determine the percentages of acquisition credit loans which became in default of each individual form of acquisition. Thereupon, one can make a conclusion regarding the relationship between the form of an acquisition and the probability of becoming in default.

5.2.9 Family Business

This section will look into the relationship whether or not the businesses of the cases concerned a family business or not. In general, more emotions come into play when it concerns a family business (i.e. especially when non-family acquires the shares). Additionally, it could also be the case that the shares of a family business are acquired by the x-th generation, while this x-th generation has no affinity with the business or does not possess the essential key entrepreneurial competences (yet), but still acquires the business because it is a family business. No distinction is made regarding the descriptive factor "family business or non – family business" between family businesses being acquired by non – family entrepreneurs or family business being acquired by family members. It can be valuable to assess the defaulted acquisition credit loans based on the descriptive factor "family business or non-family business" as the result could indicate that a higher or lower probability of default can be applied to a family business or non-family business as a Target.

Figure 10 displays the percentages of the defaulted acquisition credit loans which concerned a family business and which concerned a non-family business. From figure 10 can be derived that 60% of the defaulted acquisition credit loans concerned a non-family business while 40% of the defaulted acquisition credit loans concerned a family business. Solely based on these results, one could argue that acquisition credit loans issued to a non-family business contain more risk regarding becoming in default than acquisition credit loans issued to a family business.

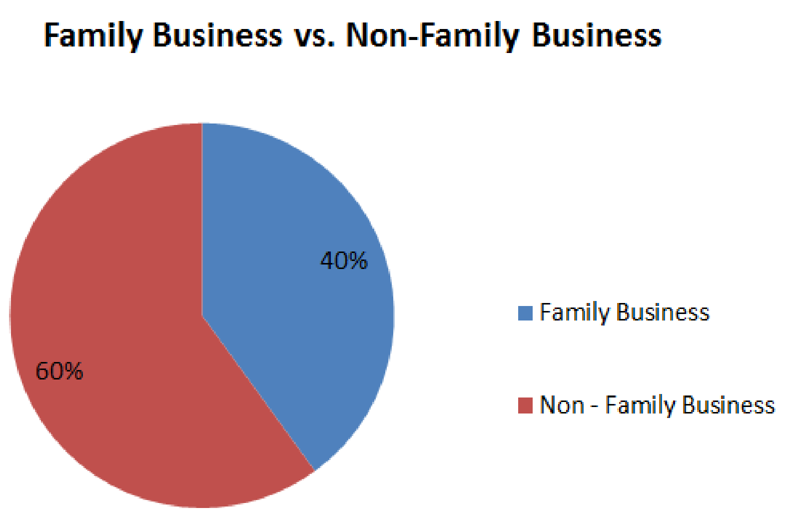


Figure 10. Family Business vs. Non-Family Business

A slightly smaller part of the defaulted acquisition credit loans concerning family business could be explained by the commitment which comes into play when it involves a family business. One could assume that when it concerns a family business, a shareholder would be more willing to be committed to the business, i.e. by bringing in own money or by being privately committed to a collateral on the house. For example, when a person's ancestors founded a business and this person acquires the business, this person is more likely to do whatever it takes to continue the business out of respect for the ancestors.

On the other hand, one could also argue that a family business would contain more risk regarding the chance of becoming in default. For example, if a person's ancestors founded a business and this person is supposed to acquire the business (i.e. even if he/she prefers not to), the person might acquire the business out of respect for the ancestors. This indicates that the intention of the acquisition is disputable, while the person might also lack a level of motivation. When an entrepreneur lack affinity or motivation, it could have a negative effect on the business results (i.e. increase the chance of becoming in default). Additionally, more emotions come into play when it concerns a family business, especially when the business results continue to be disappointing. Rather than taking rational decisions, the entrepreneur might act from his/her emotions, which can have a negative on the business's performance as well.

Nevertheless, one should be careful with concluding that acquisition credit loans issued to a non-family business contain more risk than acquisition credit loans issued to a family business. This conclusion can be undeceived since the total number of issued acquisition credit loans during 2010 – 2015 have not been taken into account. In order to draw a conclusion regarding the descriptive factor "family business or non-family business", one should compare the percentage of defaulted acquisition credit loans concerning a family business from the total number of issued acquisition credit loans concerning a family business with the percentage of defaulted acquisition credit loans concerning a non-family business from the total number of issued acquisition credit loans concerning a non-family business. An even stronger conclusion could be drawn if one distinguishes family businesses being acquired by non-family shareholders from family business being acquired by family business.

In short, solely based on the results of the case studies, no significant differences (40% vs. 60%) can be identified regarding the descriptive factor "family business or non-family business" concerning the defaulted acquisition credit loans. Yet, one should be careful with drawing conclusions solely based on the results of the case studies.

5.2.10 Conclusion of the Descriptive Factors of the Case Studies

The aim of this chapter was to evaluate descriptive factors of the cases studies in order to assess whether or not certain patterns can be discovered regarding the defaulted acquisition credit loans. In total, nine descriptive factors are assessed. A short summary of the most significant findings will be discussed below.

The results indicated that the bigger halve of the defaulted acquisition credit loans (i.e. 70%) have been issued in 2011 and 2012. Further, 60% of the businesses of the case studies have been transferred to FR&R in 2012 and 2013. Though, one should be careful with drawing conclusions regarding the year of issuance and the year of transfer to FR&R since the total number of issued acquisition credit loans have not been taken into account. When looking at the number of months between issuance of the acquisition credit loan and transfer to FR&R, the results of this chapter illustrate that the issued acquisition credit loans of the case studies, on average, were transferred to FR&R after 21.65 months (i.e. with a median of 20 months). Therefore, one could argue that the centre of gravity regarding the risk of becoming in default is at the end of the second year after issuing the acquisition credit loan. Yet, one should take into account that acquisition credit loans issued between 2011-2015 can still be transferred to FR&R between 2016 and 2021. Taking this into account, the average and the median of the number of months between issuance and transfer to FR&R can increase.

Moreover, this chapter evaluated the average UCR (i.e. UCR 5) of the case studies and assumed that this average of an UCR could be applied to the total number of issued acquisition credit loans. An UCR 5 correspond with a MID-PD of 6%. This indicates that 6% of the issued acquisition credit loans should have been transferred to FR&R within 12 months. Yet, only 1.36% of the issued acquisition credit loans between 2010 – 2015 of the region North East of the Netherlands have been transferred to FR&R within 12 months. Therefore, one can argue that CORPORATE BANK’s M&A portfolio of the region North East of the Netherlands was superior to CORPORATE BANK’s standards.

Additionally, the relationship between the number of shareholders after the acquisition transaction and the defaulted acquisition credit loans has been criticized. While no conclusion should be made regarding the probability of default solely based on the number of shareholders after the acquisition, supplementary information follows when the cases which involved multiple shareholders are compared with the corresponding failure factors. At least 33.33% of the issued acquisition credit loans issued to businesses involving two or three shareholders became in default as a result of a conflict between the shareholders or as a result of differences (i.e. disagreements) between the former and current entrepreneur. This is striking because this indicates that an issued acquisition credit involving multiple shareholders contains a relative high risk of becoming in default as a result of having multiple shareholders. CORPORATE BANK can anticipate on this conclusion by being discouraging with issuing acquisition credit loans to businesses involving two or three shareholders.

Furthermore, the ages of the entrepreneurs concerning the defaulted acquisition credit loans have been evaluated. While the results of the case studies indicate that the bigger halve of the entrepreneurs (i.e. 52%) of the case studies fit the age categories 41-45 or 46-50, no conclusion should be made regarding the relationship between the age of the entrepreneur and the defaulted acquisition credit loans since further research would be appropriate.

In addition, the form of acquisition (i.e. MBO, MBI and Strategic) concerning the case studies is considered during this chapter. It appears that the form of acquisition is almost equally divided between the # cases. Though one should not conclude that the form of acquisition does not matter regarding the probability of default since in order to make such a conclusion, one should consider the form of acquisition of all the issued acquisition credit loans. By taking into account the forms of all the issued acquisition credit loans during the time frame of 2010 – 2015, one can determine the percentages of acquisition credit loans which became in default of each individual form of acquisition. Thereupon, one can make a conclusion regarding the relationship between the form of an acquisition and the probability of becoming in default.

Lastly, the defaulted business cases are assessed based on whether or not it concerned a family business. The results indicated that 60% of the defaulted acquisition credit loans concerned a non-family business while 40% of the defaulted acquisition credit loans concerned a family business, these percentages are not significantly different. Solely based on these results, one could argue that acquisition credit loans issued to a non-family business contain more risk regarding becoming in default than acquisition credit loans issued to a family business. Yet, one should be careful drawing conclusions solely based on these results since conclusions can be undeceived as the total number of issued acquisition credit loans during 2010 – 2015 have not been taken into account.

Altogether, most conclusions can be undeceived as the total number of issued acquisition credit loans concerning the same time frame should be taken into account. Though, it is striking that the issued acquisition credit loans of those businesses which involved two or three shareholders for a significant part became in default as a result of discrepancies between the shareholders.

5.3 Future Perspective of the Cases

This chapter investigates the (i.e. sometimes expected) future perspective of the businesses of the cases. From section 4.5 can be recalled that when a business is transferred to FR&R (i.e. in default), it is possible for this business to be transferred back to "regular business" (i.e. no longer in default). Even though this research only covers the failure factors of M&As (i.e. time between an acquisition credit loan is issued, and the transfer to FR&R), it is of interest to discover what happened with the businesses of the cases after transfer to FR&R. Having knowledge of what happened with the businesses of the cases after transfer to FR& indicates the effectiveness of FR&R, considering that FR&R has the mission to prevent or limit potential losses from an CORPORATE BANK perspective.

The ## businesses of the case studies have all been transferred to FR&R between 2011-2015. After transfer to FR&R, several scenarios can occur. For the sake of simplicity and in order to have an overview, this research distinguishes the following four possible scenarios for a business which is transferred to FR&R.

- Scenario 1: The business is already bankrupt
- Scenario 2: The business will be bankrupt within 1 year
- Scenario 3: The business is transferred back to "normal business" within 1 year
- Scenario 4: The business will be send back to normal business, though after 1 year

The businesses of the cases fitting one of these four scenarios is based on the perspective of time around mid-2016. This means that businesses transferred to FR&R between 2011-2015 which went bankrupt before mid-2016, would fit scenario 1. While businesses of which FR&R has the expectation that the business will be bankrupt on the short term (i.e. 1 year from mid-2016), are considered businesses fitting scenario 2. Both scenario 1 and scenario 2 can be considered "failure" from an FR&R perspective. While businesses fitting scenario 3 or scenario 4 can be considered "success" cases from an FR&R perspective. Scenario 3 includes businesses which are already send back to normal business and businesses which will be send back to normal business on the short term (i.e. 1 year from mid-2016). Scenario 4 would include businesses of which FR&R has the expectation that the business will be send back to normal business, only it would take more than 1 year (i.e. from mid-2016). Note that scenarios 1 and 3 are mainly based on facts while scenarios 2 and 4 are based on expectations.

Future Perspective \ Case Numbers	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Already bankrupt	X	X			X								X	X	X		X		X	
Bankruptcy within 1 year			X					X												
Back to normal business within 1 year												X				X				
Back to normal business after 1 year				X		X	X		X	X	X							X		X

Table 6. Future Perspective of the Businesses of the Case Studies

The#businesses of the case studies and the corresponding scenarios are displayed in table 6. Vertically, the four scenarios are displayed, while horizontally the case numbers are displayed. An “X” can be discovered in order to bring to view the fitting scenario of a particular case study. Based on the information of table 6, conclusions regarding the effectiveness of FR&R, and the “real failure rate” can be drawn. Yet, one can distinguish two types of conclusions, namely a conclusion including the expectations of the FR&R department (i.e. conclusion based on scenarios 1,2,3,4) and a conclusion excluding the expectations of the FR&R department (i.e. conclusion based on scenarios 1 and 3). Both type of conclusions will be touched upon below.

When taking into account the expectations of the FR&R department, all the four scenarios should be encompassed. FR&R failure cases would be the total of scenarios 1 and 2 while FR&R success cases would be the total of scenarios 3 and 4. Applying this perspective, figure 11 displays the results. It is striking that exactly halve of the # cases are considered success cases and exactly halve of the # cases are considered failure cases, as can be derived from figure 11. This would indicate that 50% of the businesses being transferred to FR&R will become bankrupt, while the other 50% of the businesses will be transferred back to “normal business”. Yet, this is only a sample of # cases, therefore one should be careful with this conclusion.

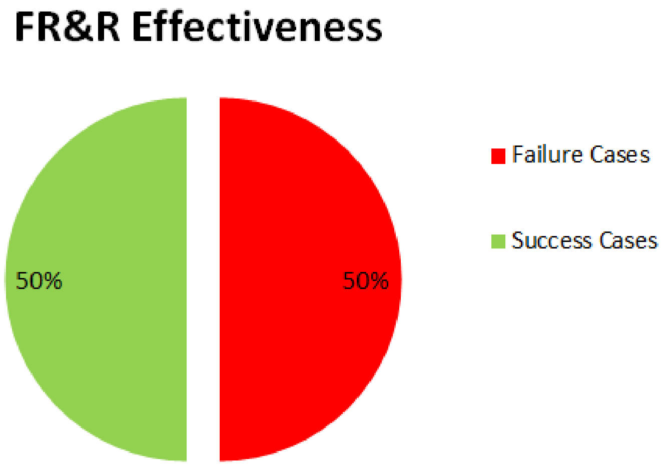


Figure 11. FR&R Effectiveness – including Expectations from FR&R.

Though, if only scenarios 1 and 3 are taken into account (i.e. excluding the expectations of FR&R), a more thoughtful conclusion arises. Figure 12 displays the FR&R effectiveness (i.e. failure cases vs. success cases) when only facts have been taken into account. Note that the total number of the cases included in figure 12 is 10. The other 10 cases are still under the assistance of FR&R. Yet, from figure 12 can be derived that 80% of the businesses being transferred to FR&R did become bankrupt already (or will be soon) while only 20% of the business being transferred to FR&R have been transferred back to normal business.

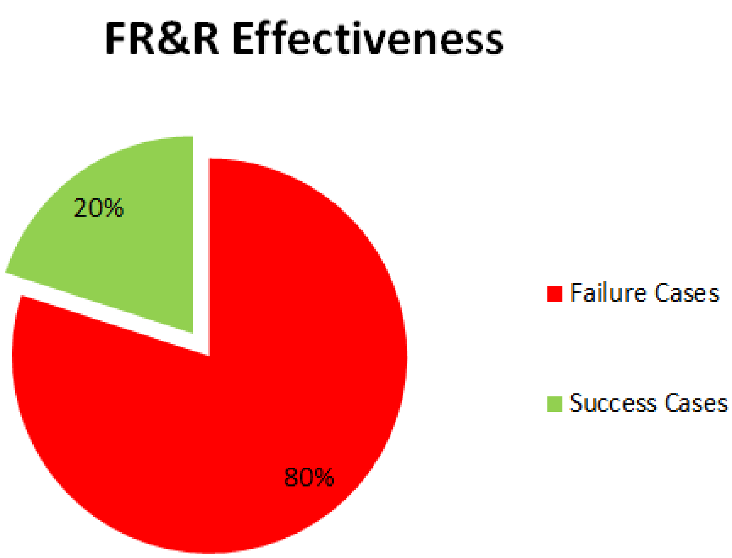


Figure 12. FR&R Effectiveness – Without Expectations of FR&R.

The results of figure 12 are striking because if one compares the results with the results of figure 11, the failure rates significantly differ (50% vs. 80%). This could be explained by reasoning that FR&R tend to be optimistic regarding the future expectation of a business. Since a FR&R advisor (i.e. especially Restructuring) aims for a business to being transferred back to normal business, a FR&R advisor might have the tendency to act too idealistic regarding the future perspective of a business as otherwise the FR&R advisor might have the feeling of already admitting that he/she might "fail". A person in general would like to believe that he/she would not fail, let alone admitting it when it concerns "just" an expectation.

Though, one should also consider that the expectations of the FR&R advisors are correct. As halve of the#businesses are still under assistance of FR&R, one can only draw conclusions when these 10 businesses either are bankrupt or are transferred back to FR&R. Not only conclusions can then be drawn regarding the actual effectiveness of FR&R, but also conclusions regarding whether or not the expectations of the FR&R advisors were correct.

Nevertheless, the findings of this chapter indicate that the probability that a business, which is transferred to FR&R, will become bankrupt is significant. Again, this justifies the "transfer to FR&R" as an indicator of a "failed" acquisition, as the acquisition credit loan is in default and the risk from an CORPORATE BANK perspective is relatively high.

5.4 Overall Conclusion of the Case Studies

The aim of this section is to provide the overall conclusion of this chapter (i.e. covering the case studies). This chapter started by presenting the findings regarding the failure factors (i.e. categories and individual failure factors) of the defaulted acquisition credit loans. Thereafter, nine descriptive factors regarding the case studies are discussed. Lastly, the future perspective of the businesses of the cases is touched upon. As this chapter encompasses a broad range of information regarding the case studies (i.e. failure factors, descriptive factors and future perspective), this sections purposes to endow the most significant findings of this chapter.

The results of the failure factors of the defaulted acquisition credit loans, illustrate that approximately 95% of the defaulted acquisition credit loans can be directly explained by either Managerial Problems or by the Economic Crisis. The remaining defaulted acquisition credit loans can be explained by other, perhaps incidental, factors than Managerial Problems and the Economic Crisis. Yet, when allowance is made for individual failure factors, it is striking that If managerial factors was the failure factor resulting in the defaulted acquisition credit loan (i.e. 60% of total cases), it mainly implied that the manager lacked key competences.

Further, when the economic crisis is held accountable for the defaulted acquisition credit loan (i.e. 35% of total cases), it mostly concerned the combination of the sector the business is operating in with the economic crisis. Moreover, the results indicated that approximately 35% of the defaulted acquisition credit loans can partly be explained by a high dependency on the demand side, this is a significant percentage. Another striking outcome regarding the failure factors is that the category “Human Factors” has been indicated by approximately 40% of the cases as having a (mostly minor) contribution regarding the defaulted acquisition credit loan. Problems concerning the category Human Factors mostly implied a conflict between the shareholders or discrepancies between the former and current entrepreneur. This is a striking outcome since CORPORATE BANK considers the involvement of the former entrepreneur as positive, while apparently the involvement of a former entrepreneur can also have a negative aspect.

The results of the descriptive factors of the defaulted acquisition credit loans indicated that the bigger halve of the defaulted acquisition credit loans (i.e. 70%) have been issued in 2011 and 2012, while 60% of the businesses of the case studies have been transferred to FR&R in 2012 and 2013. Yet, conclusions solely based on the case studies can be undeceived as the total number of issued acquisition credit loans should be taken into account. The average number of months between issuance of the acquisition credit loan (i.e. of the case studies) and transfer to FR&R is 21.65 months. Therefore, one could argue that the centre of gravity regarding the risk of becoming in default is at the end of the second year after issuing the acquisition credit loan. Yet, one should take into account that acquisition credit loans issued between 2011-2015 can still be transferred to FR&R between 2016 and 2021. Taking this into account, the average and the median of the number of months between issuance and transfer to FR&R can increase. Moreover, the average UCR (i.e. UCR 5) of the case studies has been evaluated. Considering that an UCR 5 corresponds with a Mid-PD of 6% while only 1.36% of the issued acquisition credit loans became in default within 12 months, one could argue that CORPORATE BANK’s M&A portfolio was superior to CORPORATE BANK’s standards. Perhaps the most striking results regarding the descriptive factors of the case studies is that the issued acquisition credit loans of those businesses which involved two or three shareholders for a significant part (i.e. at least 33%) became in default as a result of discrepancies between the shareholders.

The results of the future perspective of the businesses of the case studies can be used as an indicator of the effectiveness of FR&R. Further, the future perspective of the businesses being transferred to FR&R

can also signify the seriousness of the increased credit risk from an CORPORATE BANK perspective. A striking result regarding the future perspective of the businesses of the cases is that when the expectations of the FR&R advisors are taken into account, the perceived “success” rate is significantly higher (i.e. 80% rather than 50%) than when the “success” rate is solely based on facts. Though, one should be careful with drawing conclusions since conclusions can only be drawn when the future perspective of all the # cases is disclosed (i.e. bankrupt or back to normal business)

Altogether, these conclusions indicate that there is room for improvement regarding CORPORATE BANK’s M&A policy. Multiple recommendation can be thought about. These recommendations will be presented in section 6.7.

6. General Conclusions and Discussion

This chapter presents the conclusion of this master thesis. i.e. answer is given on both the research questions and on the central research question. Additionally, the interpretation of the results and the unexpected findings of this research are discussed. Thereafter, the results are discussed with a critical look. Next, the findings are contextualized in the general field through discussing the theoretical and practical implications of the results of this research. Subsequently, attention is given to what the findings of this research mean for professionals in the field of M&As. Moreover, a section is dedicated to present recommendations for CORPORATE BANK. Finally, the research limitations are examined and suggestions for further research are presented.

6.1 Conclusion – Central Research Question

The aim of the research is to present failure factors discovered at defaulted acquisition credit loans issued by CORPORATE BANK and to compare these failure factors with M&A failure factors found in the literature. The results of this research are valuable for CORPORATE BANK as these allow CORPORATE BANK to anticipate on particular failure factors and, by doing so, mitigate the M&A transaction risk. Down the road this will lead to less issued acquisition credit loans becoming in default and a better financial position for CORPORATE BANK.

Considering the aim of this research, the results of this research should answer the following central research question:

"How do the M&A failure factors found in literature relate to the failure factors identified in the M&A practice of the CORPORATE BANK Bank?"

In order to answer the central research question, the following two research questions should be answered.

1. What are the M&A failure factors found in the literature?
2. What are the M&A failure factors of acquisitions financed by the CORPORATE BANK Bank?

The first research question is answered through a literature review (i.e. chapter 3), while the second research question is answered through conducted case studies (i.e. chapter 5). The answer to the central research question is presented below.

The Central Research Question assesses how the answers of both research questions are related to each other. The M&A failure factors found in the literature can be grouped into four categories (i.e. Human Aspects, Valuation Aspects, Managerial Problems and Integration Problems). The four categories and the corresponding proportions that the categories are mentioned in the literature are displayed at figure 13 (i.e. conclusion of the literature review). It is striking that halve of the time literature mentions a M&A failure factor, it concerns a failure factor related to Managerial Problems. While literature mentions a failure factor related to valuation problems only approximately 11% of the times.

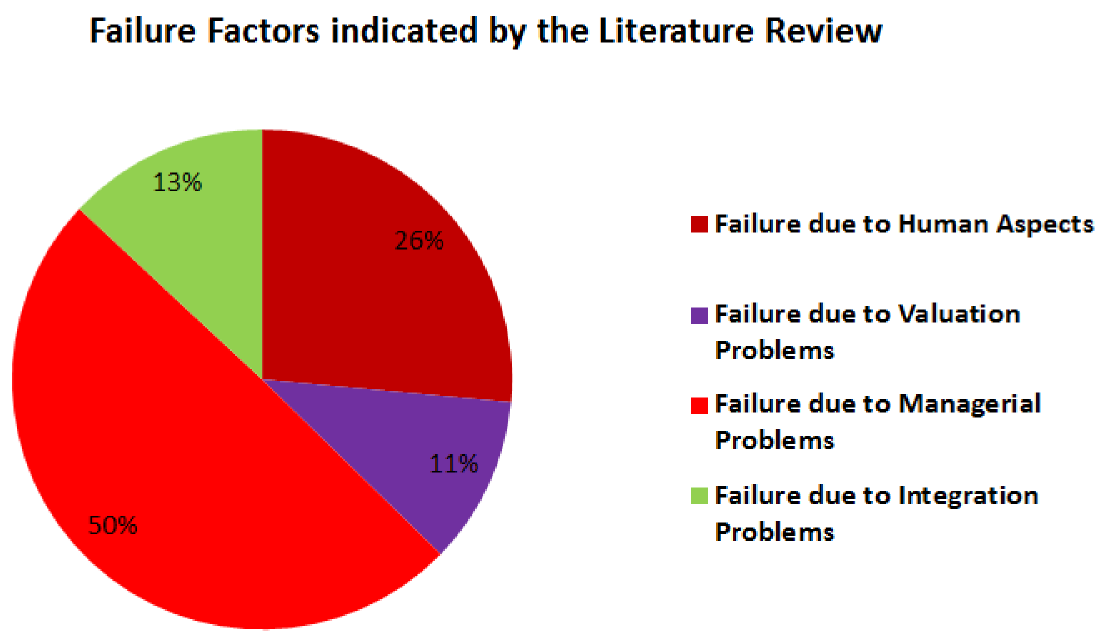


Figure 13. Failure Factors Indicated by the Literature Review. Composed by the Researcher.

The M&A failure factors identified at the CORPORATE BANK case studies can be grouped into five categories (i.e. Managerial Problems, Human Aspects, Economic Crisis, Valuation Problems and Other Factors). The five categories and the corresponding proportions that the case studies have indicated that that category can be mainly held accountable for the defaulted acquisition credit loans are displayed in figure 14. It is striking that managerial problems have been held accountable for approximately 60% of the defaulted acquisition credit loans. While the categories Valuation Problems and Human Aspects have not been indicated as a direct factor regarding the defaulted acquisition credit loan.

Note that the individual failure factors of the literature review have been grouped into four categories while the individual failure factors of the case studies have been grouped into five categories. Though, some categories of the literature review and the case studies are the same and can therefore more easily be compared. Both the literature review and the case studies acknowledges the failure factor categories Managerial Problems, Valuation Problems and Human Aspects. Yet, the failure factor categories Integration Problems (i.e. literature review), Economic Crisis (i.e. case studies) and Other Factors (i.e. case studies) can be considered stand-alone categories.

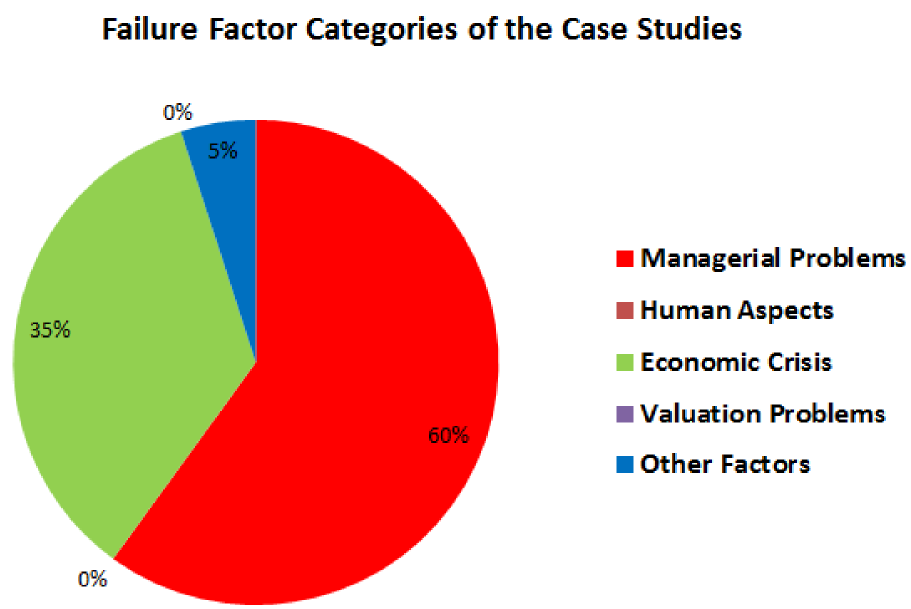


Figure 14. Failure Factors Categories of the Case Studies. Composed by the Researcher.

When one compares the results of figure 13 with figure 14, it is striking that the Managerial Problems category has been indicated most often (i.e. 50% and 60%). While the literature study only indicates how many times a category of failure factors has been mentioned, the case study analysis actually reasons that 60% of the defaulted acquisition credit loans are due to managerial problems. This is striking because it can hardly be coincidental that both studies indicate Managerial Problems most often. This would suggest that the factors being indicated most often as contributing factors regarding M&A failure are also the factors mentioned most often in the literature.

Further, when one compares figure 13 with figure 14, it can be observed that the category “Valuation Problems” has been indicated the least at both figures. While Valuation Problems has been indicated approximately 11% of the total failure factors mentioned by the literature, none of the case studies has indicated that valuation problems was the determining factor regarding the defaulted acquisition credit loan. Therefore, both the figures are compatible regarding the factor being the least indicated or mentioned.

Moreover, it is striking that figure 14 indicates that approximately 35% of the defaulted acquisition credit loans can be explained by the economic crisis while the category “Economic Crisis” has not been included in figure 13 as a separate category. While on the other hand, it is not surprising that the category “Economic Crisis” is not a separate category during the literature review as an economic crisis can be considered an incidental factor rather than a continuous factor regarding M&A failures.

Another striking outcome resulting from the comparison of figure 13 with figure 14 is that the category “Human Factors” has been discussed by approximately 27% of the literature articles while none of the case studies indicated the category “Human Factors” as the determining factor of the defaulted acquisition credit loan. This indicates that the relatedness between the failure factors indicated by the literature review and the failure factors indicated by the CORPORATE BANK cases concerning the category “Human Aspects” is out of balance.

Furthermore, from the comparison of figure 13 with figure 14 can be observed that approximately 13% of failure factors mentioned by the literature review concerns the failure factor category “Integration Problems” while the category “Integration Problems” has not been indicated by the CORPORATE BANK cases analysis, yet it is not even a separate category. Therefore, one could argue that the relatedness between the failure factors indicated by the literature review and the failure factors indicated by the CORPORATE BANK cases concerning the category “Integration Problems” is out of balance.

In conclusion, the M&A failure factors found in the literature relate to the M&A failure factors found at the CORPORATE BANK case studies when it concerns the M&A failure categories “Managerial Problems” and “Valuation Problems”. Though, the relatedness between the failure factor categories “Human Aspects”, “Integration Problems”, “Economic Crisis” and “Other factors” indicated by the literature review and the failure factors indicated by the CORPORATE BANK cases is out of balance.

6.2 Interpretation of the Results

Both literature and CORPORATE BANK indicated failure factors related to the M&A failure factors categories “Managerial Problems”, “Valuation Problems”, and “Human Aspects”. Yet, M&A failure factors categories “Integration Problems” and “Economic Crisis” are only identified at either the literature review (i.e. Integration Problems) or the case studies (i.e. Economic Crisis). Therefore, the results of this research can be interpreted by concluding that the M&A failure factors found in the literature are related to the M&A failure factors identified at the case studies when it concerns managerial problems related factors or valuation problems related factors. Additionally, the results of this research can be interpreted by concluding that the M&A failure factors found in the literature are not, or less, related to the M&A failure factors found at the CORPORATE BANK case studies when it concerns M&A failure factors categories concerning Integration Problems or the Economic Crisis. Further, when one compares the number of times a failure factor (category) is indicated by the literature or CORPORATE BANK, several categories are out of balance. Altogether, the M&A failure factors found in the literature are to some extend related to the M&A failure factors identified at the CORPORATE BANK case studies.

6.3 A Critical Look towards the Results

The answer of the central research question implies that both the results of the literature review and the CORPORATE BANK case studies are related concerning the M&A failure factors categories “Managerial Problems”, “Valuation Problems” and “Human Aspects”, while the M&A failure factors categories “Integration Problems” and “Economic Crisis” do not show relatedness between the results of the literature review and the CORPORATE BANK case studies. Therefore, one could conclude that the literature none or barely includes articles regarding the M&A failure factors and the recent/current economic crisis. Additionally, one could conclude that even though the literature indicates that integration problems can have a significant influence regarding M&A failures, the CORPORATE BANK case studies imply otherwise. However, one should be careful with drawing such conclusions based on these results.

Considering that the CORPORATE BANK cases indicate that 35% of the defaulted acquisition credit loans can be explained by the economic crisis (i.e. especially the sector during the economic crisis), one should look with a critical eye towards drawing conclusions based on a sample during the economic crisis. The economic crisis started December 2007 and, even though the economic crisis already starts to recover, the economic crisis is still not over. Bearing in mind that the time frame of the CORPORATE BANK case studies encompasses 2010 -2015, it is logical that a reasonable part of the issued acquisition credit loans became in default as the result of the economic crisis.

Forasmuch as an economic crisis is incidental, let alone a continuous factor, it also explains why the literature not, or barely, mentions the economic crisis as an M&A failure factor. Literature is more likely to cover more generalizable M&A failure factors rather than incidental M&A failure factors. Therefore, one should be cautious regarding conclusions based on the relatedness between the M&A failure factors found in the literature and the CORPORATE BANK cases.

When one looks with a critical eye towards the relatedness between the M&A failure factors found in the literature and the M&A failure factors identified at the CORPORATE BANK cases, and takes into account that the economic crisis can be considered an incidental factor rather than a continuous factor, one should think about how this influences the answer of the central research question.

On one hand, one could argue that a true entrepreneur should be at least able to survive during times of economic distress. On the other hand, several sectors suffered relatively hard from the economic crisis. The sectors that suffered hard might have had no chance of survival, purely as a result of a decrease on the demand s ide. Even if one argues that a true entrepreneur should be able to keep his head above water during an economic crisis, it rather concerns the failure factor “managerial key competences” than any other failure factor. This critical looks towards the results might influence the conclusions of the findings.

Considering the factor “Economic Crisis” as an incidental factor, it can be the case that other M&A failure factors appears to have a larger contribution regarding the defaulted acquisition credit loans as one now assumes based on this research. Maybe if the same research will be conducted during times of no economic distress, it turns out that actually 80% of the defaulted acquisition credit loans can be explained by managerial problems rather than 60%. Therefore, one should be careful with drawing conclusions regarding how the M&A failure factors of the literature are related to the M&A failure factors of the case studies.

Moreover, one should be careful with arguing that there is no relatedness regarding the M&A failure factor category “Integration Problems” in the literature and the CORPORATE BANK case studies. One could conclude that even though the literature indicates that integration problems can have a significant influence regarding M&A failures, case studies imply otherwise. Yet, one should realize that integration difficulties mostly come into play when it concerns two companies being combined into one company.

While the literature regarding acquisition failure factors mainly concerns two companies being combined into one company (i.e. strategic acquisition according to CORPORATE BANK), only 30% of the CORPORATE BANK case studies are strategic acquisitions. Therefore, it makes sense that relatively less M&A failure factors identified at the CORPORATE BANK cases concerns integration problems as simply less integration has to occur. Hence, rather than arguing that integration problems do not occur in practice (i.e. at the CORPORATE BANK cases), while the literature indicates integration problems as significant, one should take into account the sample and therefore be careful with drawing conclusions.

Furthermore, the literature review of this research does not distinguish SME from large corporate organizations. Therefore the results of the literature might be biased towards large corporate organizations while the case studies only concern SME's. M&A failure factors identified at SME's can differ from M&A failure factors identified at corporates. Since the firm size has not been included in the literature review, one should be careful with drawing conclusions regarding the relatedness of M&A failure factors found in the literature and M&A failure factors identified at the CORPORATE BANK cases.

6.4 Conclusion – Research Questions

In order to answer the central research question, the following two research questions were answered.

1. What are the M&A failure factors found in the literature?
2. What are the M&A failure factors of acquisitions financed by the CORPORATE BANK Bank?

This section presents the answers on both the research questions.

1. <u>What are the M&A failure factors found in the literature?</u>

In the literature, an extensive list of individual M&A failure factors can be discovered. Yet, it is not easy to draw conclusions based on an extensive list of individual failure factors. Therefore, the individual failure factors have been grouped into four categories of interrelated failure factors. The failure categories employed during the literature review ranges from "Human Aspects", "Valuation Problems", "Managerial Problems" to "Integration Problems". Even though the M&A failure factors categories should be taken with a grain of salt as several individual failure factors can be placed in multiple categories, some general conclusions can be drawn based on the literature review.

It is striking that in the literature, failure factors related to "Managerial Problems" are mentioned most often (i.e. approximately 50% of the total times mentioned). Yet, "managerial problems" is a relative broad category encompassing more individual failure factors than the other three categories. Based on the results of the literature review regarding “Managerial Problems”, one could argue that a relative big part of failed acquisitions is due to poor management.

While the M&A failure category “Managerial Problems” is mentioned most often in the literature review, the M&A failure category “Valuation Problems” is mentioned the least during the literature review (i.e. approximately 10% of the total times mentioned). Though, this does not mean that “valuation problems” are not meaningful. Even though “Valuation Problems” is mentioned relatively few times in articles, there are articles arguing that valuation problems can be a causal factor of M&A failure.

Further, the M&A failure category “Integration Problems” has not been mentioned often during the literature review either (i.e. approximately 13% of the total times mentioned). Yet, for the M&A failure factor category “Integration Problems” goes the same argument as for the M&A failure factor category “Valuation Problems”, “Integration Problems” should not be underestimated as there exists scientific research indicating that integration problems can be a causal factor of M&A failure.

The fourth M&A failure category, “Human Aspects” has been indicated approximately 27% of the total times failure factors are mentioned during the literature review. Therefore, the M&A failure factor category “Human Aspects” has been indicated (i.e. mentioned) by literature for a significant amount of times. The number of times mentioned in the literature can be an indicator of the importance of related failure factors.

Altogether, M&A failure factors discovered in the literature broadly consists of “Human Aspects”, “Valuation Problems”, “Managerial Problems”, and “Integration Problems”. While Managerial Problems have been indicated most often in the literature review (i.e. approximately 50%), Human Aspects comes on the second place (i.e. approximately 27%), whereas Valuation Problems and Integration Problems have been indicated relatively few times with approximately 10% and 13% respectively of the total times failure factors are mentioned during the literature review.

Though, one should be careful with drawing conclusions solely based on how many times a failure factor is mentioned in the literature, because if a particular failure factor is mentioned more often in articles, it does not necessarily mean that that particular failure factor is more determinative than other failure factors. A failure factor being more mentioned in the literature solely suggests that it appears that more research has been done concerning M&A failure and that particular failure factor.

2. <u>What are the M&A failure factors of acquisitions financed by the CORPORATE BANK Bank?</u>

The M&A failure factors discovered at the defaulted acquisition credit loans (i.e. case studies) broadly consists of “Managerial Problems”, “Human Aspects”, “Economic Crisis”, “Valuation Problems” and “Other Factors”. The most striking findings regarding the defaulted acquisition credit loans of the case studies will be presented below.

The results of the failure factors of the defaulted acquisition credit loans, illustrate that approximately 95% of the defaulted acquisition credit loans can be directly explained by either Managerial Problems or by the Economic Crisis. The remaining defaulted acquisition credit loans can be explained by other, perhaps incidental, factors than Managerial Problems and the Economic Crisis. Yet, when allowance is made for individual failure factors, it is striking that If managerial factors was the failure factor resulting in the defaulted acquisition credit loan (i.e. 60% of total cases), it mainly implied that the manager lacked key competences.

Further, when the economic crisis is held accountable for the defaulted acquisition credit loan (i.e. 35% of total cases), it mostly concerned the combination of the sector the business is operating in with the economic crisis. Moreover, the results indicated that approximately 35% of the defaulted acquisition credit loans can partly be explained by a high dependency on the demand side, this is a significant percentage. Another striking outcome regarding the failure factors is that the category “Human Factors” has been indicated by approximately 40% of the cases as having a (mostly minor) contribution regarding the defaulted acquisition credit loan. Problems concerning the category Human Factors mostly implied a conflict between the shareholders or discrepancies between the former and current entrepreneur. This is a striking outcome since CORPORATE BANK considers the involvement of the former entrepreneur as positive, while apparently the involvement of a former entrepreneur can also have a negative aspect.

When taking the descriptive factors of the defaulted acquisition credit loans into consideration, only one striking conclusion regarding a “failure factor” can be drawn. The results of the descriptive factors of the defaulted acquisition credit loans indicate that the issued acquisition credit loans of those businesses which involved two or three shareholders for a significant part (i.e. at least 33%) became in default as a result of discrepancies between the shareholders. Therefore, one could argue that having multiple shareholders could be a failure factor.

Altogether, the failure factors indicated by the CORPORATE BANK cases range from “Managerial Problems”, “Human Aspects”, “Economic Crisis”, “Valuation Problems” to “Other Factors”. Yet, 95% of the defaulted acquisition credit loans are due to managerial problems or the economic crisis.

6.5 Unexpected Findings

This master thesis consists of both a literature review and a practical part (i.e. CORPORATE BANK case studies). The literature review was conducted first as additional knowledge regarding the field of M&A could be gained. As a result, I possessed a respectable amount of knowledge regarding M&A failure factors before I started the CORPORATE BANK case studies. Based on the knowledge I already retrieved from the literature review, certain expectations regarding the results of the CORPORATE BANK case studies came to mind, even before the case studies started. Though, roughly two unexpected findings surfaced from the results of the CORPORATE BANK cases.

The CORPORATE BANK case studies indicated that 60% of the defaulted acquisition credit loans can be explained by managerial problems. Even though 60% seems like a significant percentage, I expected that 80% of the defaulted acquisition credit loans would be due to managerial problems since after all, the management team is responsible for the business’ performance. Yet, apparently relative more other factors contributed to the defaulted acquisition credit loans than I expected. Another striking finding within the field of managerial problems is that two issued acquisition credit loans (i.e. 10%) became in default as a result of self-enrichment (i.e. as a direct factor) of the entrepreneur. Even supposing that some persons in the world are characterized by self-enrichment, I just did not expect that entrepreneurs would act so unintelligent, egocentric, naïve or ludicrous regarding their business. Though, these results made me realize that “growth” (i.e. an acquisition) can make people do unintelligent things.

Another unexpected finding concerns CORPORATE BANK as a factor being indirectly held accountable for the defaulted acquisition credit loans of three out of # case studies. This is striking since CORPORATE BANK aims for no defaulted acquisition credit loans as CORPORATE BANK does not benefit from a defaulted acquisition credit loan. Therefore, I did not expect that CORPORATE BANK, as a debt provider, would have had any contribution regarding the defaulted acquisition credit loan. On the other hand, misapplications can probably be discovered at every organization.

Perhaps rather a striking finding than an unexpected finding concerns the CORPORATE BANK case studies. Even though this is not a finding resulting from the total research, I was still astonished by this experience and therefore it is worth to mention. My general view regarding the case studies is that there are significant differences between the information retrieved from the documents and the information retrieved from the interview with the FR&R advisors. In general, the documents mention relative few information regarding the reasons behind the transfer to FR&R, while an interview with the FR&R advisor provided supplementary or additional information. This is striking because essential information is apparently not always stored in documents, while I expected consistency from CORPORATE BANK between the information available in the documents and the information retrieved from the FR&R advisor.

6.6 Theoretical and Practical Implications

This section discusses what the findings of this research mean in relation to the theoretical body of knowledge regarding M&A failure factors. The findings are contextualized in the general field through discussing the theoretical and practical implications of the findings. Additionally, this section addresses what the findings of this research mean for professionals in the field of M&As.

6.6.1 Theoretical Implications

This section will bridge the findings of this master thesis to previous research of M&A failure factors. Further, this section indicates how the results influences our understanding of the complex phenomena of acquisitions.

The introduction of this master thesis raises an issue regarding the world of M&As. Even though it is acknowledged that mergers and acquisitions represent an interesting paradox with on one hand a growing M&A activity while on the other hand a high failure rate, there is little consensus in the literature regarding the reasons for acquisition failure.

The results of the literature review of this master thesis supports this matter of contention as the literature review resulted in an extensive list of M&A failure factors. The results of the literature review further indicate that the M&A failure factors are of a broad range. Therefore, the results of the literature review are in accordance with the contention regarding the little consensus in the literature as for the reasons behind acquisition failure. The results of this literature review support our understanding regarding the broad range of M&A failure factors. Yet, please be careful and conscious that the number of times a M&A failure factor has been mentioned by the literature should not be an indicator of the determinativeness of that failure factor.

6.3.2. Practical Implications

The findings of the CORPORATE BANK case studies feature more consensus regarding the contributing factors of the defaulted acquisition credit loans as 95% of the defaulted acquisition credit loans can be explained by only two failure factor categories (i.e. managerial problems and economic crisis). Therefore, the results of the CORPORATE BANK cases are controversial regarding the little consensus regarding the M&A failure factors identified in the literature.

The findings of the CORPORATE BANK case studies might have a confusing influence regarding our knowledge on the field of M&A failure factors. Considering that a significant part (i.e. 35%) of the defaulted acquisition credit loans can be explained by a failure factor category that is not, or barely, mentioned by the literature review, indicates that our understanding regarding the field of M&A failure factors is underdeveloped.

A practical implication of this study derives from the findings of the case studies. Especially if one takes into account that the M&A failure factor category "Economic Crisis" could be an incidental failure factor category, it appears that the bigger halve of the defaulted acquisition credit loans can be explained by "poor management". This suggests that acquisition specialists can benefit from the results of this research by refining and improving their assessment of the manager(s).

6.7 Recommendations for CORPORATE BANK

This section presents recommendations for CORPORATE BANK's Acquisition Specialists based on the results of this research. Recall that CORPORATE BANK issued XXXX acquisition credit loans in the North East region of the Netherlands during 2010 – 2015. From these XXXX issued acquisition credit loans,#acquisition credit loans became in default before mid-2016. This implies that approximately 13,6% of the issued acquisition credit loans became in default during 2010 – 2015. It should be noted that this percentage can increase as it is possible that issued acquisition credit loans between 2011 - 2015 can still be transferred to FR&R during 2016-2021. Nevertheless, 13.6% is a significant percentage and CORPORATE BANK should aim to decrease the percentage of defaulted acquisition credit loans. The recommendations for CORPORATE BANK's Acquisition Specialists based on the results of this research allow CORPORATE BANK's to anticipate on the M&A failure factors and to mitigate the M&A transaction risk for the future. As a result, CORPORATE BANK's M&A portfolio and financial position will be improved.

This section first presents recommendations for CORPORATE BANK's Acquisition Specialists based on the M&A failure factor results of the case studies. Thereafter, recommendations for CORPORATE BANK's

Acquisition Specialists based on the descriptive factors of the defaulted acquisition credit loans of the case studies will be presented. Subsequential, some general recommendations for CORPORATE BANK will be provided, i.e. based on the literature review or regarding CORPORATE BANK data storage systems. Lastly, a summary of the recommendations is presented.

6.7.1 Recommendations based on the M&A Failure Factor results.

Since 60% of the issued acquisition credit loans became in default as a result of “managerial problems”, CORPORATE BANK’s Acquisition Specialists should have most of their focus towards this failure factor category. Yet, it might be difficult to assess whether or not an entrepreneur possesses managerial key competences. Nevertheless, CORPORATE BANK can improve its M&A portfolio through assessing whether or not an entrepreneur possesses knowledge of the Target company and corresponding target sector, and through ensuring that sufficient due diligence has been conducted. Additionally, CORPORATE BANK’s Acquisition Specialists should be more careful with issuing acquisition credit loans when multiple shareholders are involved in order to reduce the possibility that the shareholders enter into a conflict with each other. Further, CORPORATE BANK’s Acquisition Specialists should also take into account the negative effect of having the former entrepreneur involved rather than only looking at it from a positive point of view (i.e. see also section 5.2.5).

The Economic Crisis is held accountable for approximately 35% of the defaulted acquisition credit loans. Even though an economic crisis can be considered an incidental factor rather than a continuous factor, recommendations regarding the Economic Crisis are appropriate considering the significant percentage which became in default as a, perhaps indirect, result of the economic crisis. While it might be easy to argue afterwards that it might not have been smart to issue acquisition credit loans to businesses being dependent on the construction sector during times of economic crisis, CORPORATE BANK should take this as a lesson. CORPORATE BANK’s Acquisition Specialists should be more careful with issuing acquisition credit loans to businesses which operate in a cyclical (i.e. insecure) market. Further, one could argue that CORPORATE BANK’s Acquisition Specialists should be better apprised of the trends and future perspective of the sectors. Sector information is essential, especially during times of economic distress, as this sector information can be a determinative factor regarding the decision about whether or not to issue the acquisition credit loan.

Moreover, considering that 45% of the defaulted acquisition credit loans of the case studies are indirectly due to being too highly leveraged, recommendations based on the level of debt can be provided. CORPORATE BANK can improve its M&A portfolio by anticipating on these findings, especially considering that CORPORATE BANK is, or partly is, the debt provider. CORPORATE BANK's Acquisition Specialists could anticipate on these finding e.g. by reconsidering the "worst case" scenario or by employing stricter guidelines regarding the tD/EBITDA ratio.

6.7.2 Recommendations based on the Descriptive Factors.

Even though most conclusions based on the descriptive factors of the case studies can be undeceived as the total number of issued acquisition credit loans has not been taken into account, three careful recommendations can be provided.

Solely based on the case studies, one can cautiously conclude that the chance that an issued acquisition credit loans becomes in default, is at the highest points during 20 – 22 months after issuance. CORPORATE BANK's Acquisition Specialists can anticipate on these findings, for example by providing additional attention or guidance to these businesses which received an acquisition credit loan during the first two years after issuance, or particularly 1,5 year (i.e. 18 months) after issuance. Another way CORPORATE BANK's Acquisition Specialists can anticipate on the findings regarding the months between issuance and transfer to FR&R is to act more considerate regarding the interest payments and principals during the first two years after issuance. For example, if the debt obligations during the first two years after issuance of an acquisition credit loan are easier to service for the business (i.e. no principals during the first two years), the chance that an acquisition credit loans defaults within two years will be lower.

Despite that no statements or conclusions regarding the probability of default solely based on the number of shareholders after the acquisition should be made, cautious conclusions can be drawn when the failure factors of the defaulted acquisition credit loans concerning two or three shareholders are evaluated. It turns out that at least 33.33% of the issued acquisition credit loans issued to businesses involving two or three shareholders became in default as a result of a conflict between the shareholders or as a result of differences (i.e. disagreements) between the former and current entrepreneur. CORPORATE BANK's Acquisition Specialists can anticipate on this conclusion by being discouraging regarding issuing acquisition credit loans to businesses involving two or three shareholders.

The bigger halve of the defaulted acquisition credit loans are related to either the TMT sector, Construction sector or the Industry sector. Even though the significant percentages regarding the defaulted acquisition credit loans in relationship with these sectors can be explained (i.e. digitalization and economic crisis), one should be careful with drawing conclusions since the overall number of issued acquisition credit loans and the corresponding sectors are not taken into account. Yet, evaluating the descriptive factor “sector the business is operating in”, makes me again suggest that CORPORATE BANK considers to further improve the overall sector knowledge.

6.7.3 General Recommendations for CORPORATE BANK

Based on the findings of the literature review and the results of the case studies, I would recommend that CORPORATE BANK’s Acquisition Specialists mostly focusses on the capabilities and competences of the management team. After all, the management team is responsible for the business’ performance. CORPORATE BANK should evaluate the management team regarding the credit risk before issuing an acquisition credit loan. Fortunately, CORPORATE BANK realizes this and recently applied a management evaluation procedure. This is a step in the right direction, and I would encourage CORPORATE BANK to continue to focus on assessing the management team. An example of how the credit risk being indicated by the management team can be evaluated can be discovered in appendix XVIII.

Further, CORPORATE BANK’s Acquisition Specialists could prepare for the trends expected for the near future. Recall that specialization across industries, an active healthcare industry as well as an active Technology/Media/Telecom industry and cross-border M&A activity are trends we can expect in the M&A market. This is in line with the recommendation regarding further improving the sector knowledge. Having sufficient sector specialists in place regarding the expected trends is a way CORPORATE BANK’s Acquisition Specialists can anticipate on the expected trends.

Within the context of further research (and possible further recommendations), I would recommend that CORPORATE BANK improves its data storage. My own experience regarding the availability of information is unsatisfactory. Some of the data (i.e. the bigger halve of the TnD/EBITDA ratios at the time of issuance) was not even available anymore. Yet, the data which was available was hard to find as the data was not structured. Rather than having a data storage system which only stores the data in “dossiers” (i.e. you have to search through all the dossiers) , CORPORATE BANK should employ a data storage system which stores data in categories and with a search function. For example, CORPORATE BANK could label the M&A deals with a code and make a distinction between whether it concerns an MBO/MBI or strategic acquisition. By labelling the issued credit loans, information can be easily be retrieved

Similarly, even the information regarding the issued acquisition credit loans was difficult to retrieve. The information regarding the issued acquisition credit loans of the region North East is not stored centrally, but only on a shared database structured by excel files by employees. The several files were not only inconsistent, but also incomplete. For example, rather than specifically stating the name of the Target, the employees sometimes stated the name of the entrepreneur, or the Newco or only part of the name of the Target. Further, no accounts numbers could be identified in the files nor addresses or locations of the Target. As a result, after a few years (i.e. if employees leave) it is difficult to identify to whom the acquisition credit loan was issued. Therefore, in the context of further research and further recommendations (i.e. and thus possible further improvements), CORPORATE BANK should store its data more consistently and should employ a data storage system which stores data in categories and with a search function.

Likewise, the information regarding the reasons behind transfer to FR&R was sometimes inconsistent when one compares the information retrieved from the documents with the information retrieved from the interview with the FR&R advisor. This is striking since the FR&R advisor is responsible for at least one of the stored documents (i.e. "Ingangsresume") regarding transfer to FR&R. In general, the information retrieved from the documents was incomplete. Therefore, I would recommend that CORPORATE BANK employs a fixed format regarding the documents mentioning the reasons behind the transfer to FR&R. For example, CORPORATE BANK could employ a list with reasons for transfer to FR&R (i.e. also include "other reason, namely") at which the composer of the documents has to indicate which reason(s) is/are appropriate regarding that specific defaulted acquisition credit loan.

6.8 Research Limitations

As this research consists of both quantitative research (i.e. the literature review) and qualitative research (i.e. the CORPORATE BANK case studies), it is appropriate to separate the research limitations into quantitative research limitations and qualitative research limitations. Both the limitations of the literature review and the limitations of the case studies will be discussed below. Subsequently, limitations of the researcher will be presented.

6.8.1 Quantitative Research Limitations

Data limitations is the first limitation of the literature review as not all available literature is covered. Due to a limitation of time, there was simply not enough time to cover all the available and relevant resources. Although articles are chosen carefully, and sufficient articles are studied until the point that I could answer the research question, the results regarding the literature review should be interpreted with caution.

Another data limitation of the literature review is that firm size has not been taken into account. Articles are selected based on the level of generalizability, yet no distinction is made whether it concerned a small medium sized company or a large corporate organization. Since the M&A failure factors identified in the literature are all lumped together and subsequently compared with M&A failure factors identified at SME (i.e. the CORPORATE BANK case studies), one should be cautious regarding the validity of the answer of the central research question.

The third limitation of the literature review concerns the lack of available data. Since the central research question implies that the M&A failure factors found in the literature will be compared to the M&A failure factors identified at the CORPORATE BANK cases, it would be appropriate if both research concerns the same region (i.e. North East of the Netherlands). Unfortunately, no scientific data concerning the M&A failure factors of the North East region of the Netherlands is available yet. Therefore, one could argue that the circumstances of both research areas are unequal which limits the reliability of the results.

The fourth limitation concerns self-reported data. As the individual failure factors found in the literature are grouped into categories by the researcher, this is considered self-reported data. One could argue that some of the individual failure factors fits other or multiple categories, this might reduce the internal validity of the results of the literature review.

In general, I do not consider these limitations as major constraints as the first research question could still be answered. Even though the validity of the literature research could be threatened as a result of the data limitations, the findings of the literature review are still a relative accurate representation of the M&A failure factors phenomena.

6.8.2 Qualitative Research Limitations

The sample size is the first limitation of the case studies. A sample size of XXXX issued acquisition credit loans of which # became in default might be too small. When the sample size is too small, it is difficult to find significant relationships from the data. On the other side, sample size is less relevant in qualitative research. I do not consider the sample size as a major constraint as the sample size of # is adequate and conclusions could be drawn.

Data limitations does also concern the case studies. Some information regarding the cases was not available any longer (i.e. CORPORATE BANK switched data storage systems in 2010 – 2011). Additionally, the information regarding the case studies was inconsistent, for example regarding financial ratios being assessed. While this data limitation did influence the descriptive factors being examined (i.e. I could only examine the available information), the data limitation does not influence the results of the research.

Yet, if no data limitations would be present, additional factors (i.e. tD/EBITDA ratio) could have been assessed.

Another sign of data limitations regarding the case studies is the unavailability of the data after mid – 2016. Issued acquisition credit loans between 2011 – 2015, can still be transferred to FR&R until. Though, this information is not available yet. However, I do not consider this as a major constraint as this research investigates the reasons why transfer to FR&R was necessary rather than the amount of time between issuance and transfer to FR&R. Yet, the sample size could be bigger than # cases if information was available regarding the defaulted acquisition credit loans after mid - 2016

Further, the case studies characterize bias limitations. The results of the case studies are based on both information retrieved from documents and information retrieved from interviews. The documents are composed by multiple persons (i.e. multiple documents), while the information retrieved from the interview only concerns one source (i.e. the FR&R advisor). Even though there are multiple documents available for each individual case, the individual documents are usually composed by only one person. On one side, the documents can be compared with each other, which increases the reliability of the information. On the other side, two documents per case were most important and determinative. Therefore, the information retrieved from the documents can contain bias as only a few persons are responsible for the information which makes it more difficult to verify the information.

Moreover, considering that the information retrieved from the interview had a relative determinative say regarding the M&A failure factors, bias limitations are present here as well. The information retrieved from the interviews with the FR&R advisors can be considered self-reported data. Self-reported data can rarely be independently verified as the researcher has to take what the FR&R advisor says. The information retrieved from the interviews can contain bias e.g. an FR&R advisor might have a selective memory or can exaggerate through arguing that certain factors had a more significant say regarding the transfer to FR&R than is actually suggested from other data.

Furthermore, the case studies represent impact limitations. The case studies are only conducted at CORPORATE BANK, characterize a regional focus and concern a time frame of economic distress. As the case studies are only conducted at CORPORATE BANK, the results are not unquestionable representative for other corporate banks or debt providers. This limits the generalizability of the research. Even the generalizability within CORPORATE BANK is disputable as the case studies only cover a region of the Netherlands, while there could be regional differences regarding the M&A failure factors. Additionally, the time frame of the case studies concerns a time of economic distress. The results of this research might be influenced by the economic crisis. This limits the generalizability of the results as well since the results might differ if the case studies were conducted during times of non-economic distress.

6.8.3 Limitations of the Researcher

Researcher-bias is one of the limitations of the Researcher. The researcher was active within the organizations being examined (i.e. CORPORATE BANK), therefore the answers of the respondents could be influenced. Yet, the researcher worked independent and the answered of the respondents were compared with the information retrieved from the documents, which limits the limitation of researcher-bias.

Another limitation of the researcher is a result of time constraints. The time available to investigate a research problem is constraint by the due date of this research. If more time would have been available, further research could have been conducted and the results of this research would have been stronger. Yet, this limitation of time is limited as a research problem has been chosen in such a matter that it did not require an excessive amount of time.

6.9 Suggestions for Further Research

Despite the enormous availability of M&A failure factor research (Hitt et al., 2009) and the satisfactory results of this thesis, multiple suggestions for further research can be thought about.

Further research regarding the literature review could be conducted on specific regions of the Netherlands. As this master thesis assesses the relationship between M&A failure factors found in the literature and M&A failure factors identified at CORPORATE BANK, it could be interesting to take into account literature concerning M&A failure factors of specific regions of the Netherlands in order to find out whether or not regional differences exist concerning M&A failure factors. Though, as the Netherlands is small, I do not expect that substantial differences exist regarding M&A failure factors between regions of the Netherlands. Therefore, this research might lack theoretical and practical implications.

Further research could be conducted through comparing the M&A failure factors of several corporate banks (i.e. Rabobank, ABN AMRO, ING Bank). However, this is probably not interesting as I expect that the identified M&A failure factors of the corporate banks will not differ notably since, in general, the corporate bank is just an external factor rather than a determinative factor regarding M&A failure.

Further research could be conducted through comparing the different sources providing information regarding the defaulted acquisition credit loans. For example, it could be interesting to compare the opinions of the account manager, FR&R advisor and the entrepreneur regarding the transfer to the FR&R department. Even though it is likely that these three sources have different views regarding the contributing factors of the defaulted acquisition credit loans, it is not of high added value to compare the different opinions of the three sources. Therefore, this research will probably lack theoretical and practical implications.

Yet, it would be noteworthy to conduct further research within CORPORATE BANK through comparing the defaulted acquisition credit loans with the total M&A portfolio. This research would be related to the qualitative part of this master thesis, only the non-defaulted acquisition credit loans would be taken into account. By also taking into account the non-defaulted acquisition credit loans, stronger results regarding M&A failure factors can be provided as similar businesses can be compared. For example, one could compare a defaulted business with a non-defaulted business operating in the same sector (i.e. both received an acquisition credit loan) and should assess how one business became in default while the other stayed healthy. This is interesting as factors as “sector” and “economic crisis” are eliminated since both the defaulted and non-defaulted businesses operate in the same sector and same economic circumstances. As a result, more determinative factors might arise regarding the defaulted acquisition credit loan (i.e. problems within the management team).

7. References

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A. Appendices

A.1 Appendix I – Search Terms, Databases, Results

Date	Title	Authors	Year Published	Database	Search words	Results
23-11-2015	Strategic Integration: How to Realize the Value of an Acquisition	Recardo, R.J. & Toterhi, T.	2015	Scopus	"Acquisitions" AND "Fail" (Limit to BUSI)	159
23-11-2015	Misvaluation: Another Explanation for the Failure of Corporate Acquisitions	Price, J.	2013	Scopus	"Acquisition" AND "Failure" (Limit to BUSI)	368
23-11-2015	The role of corporate culture in mergers and acquisitions	Bouwman, C.H.S.	2013	Scopus	"Acquisition" AND " Failure" (Limit to BUSI)	368
24-11-2015	Attributes of Successful and Unsuccessful Acquisition of US Firms	Hitt et al.,	1998	Ebscohost	"Acquisitions and mergers" AND unsuccessful	114
24-11-2015	Thirty Years of M and A Research: Recent Advances and Future Opportunities	Cartwright, S & Schoenberg, R.	2006	WEB OF SCIENCE	"Acquisition" AND "Failure"	476
1-12-2015	Mergers and Acquisition-Ways of Developing Business	Ionescu, R.	2015	Scopus	"Mergers" AND "Acquisitions" AND "defi*"	205
4-12-2015	Takeover Waves: Triggers, Performance and Motives	Martynova, M & Renneboog, L.	2005	Google Scholar	"Takeover" AND "Wave" AND "1920s"	21400
4-12-2015	The success of mergers in the 1920s: A Stock market appraisal of the second merger wave	Borg et al.,	1989	Google Scholar	"Takeover" AND "Wave" AND "1920s"	21400
4-12-2015	A Century of Corporate Takeovers: What have we learned and where do we stand?	Martynova, M. & Renneboog, L.	2008	Google Scholar	"Takeover" AND "Wave" AND "1920s"	21400
9-12-2015	June M&A Grew More Than May, But Less Than April	Flynn, M.K.	2015	Ebscohost	"Mergers & Acquisitions" AND "2015"	364
9-12-2015	Pace of M&A Holds Steady.	Flynn, M.K. & Noto, A.	2015	Ebscohost	"Mergers & Acquisitions" AND "2015"	364
9-12-2015	M&A process: a literature review and research agenda.	Caiazza, R. & Volpe, T.	2015	Scopus	"Merger" OR "acquisition" OR "Takeover" AND "challenges" (Limit to BUSI)	978

14-12-2015	Types of synergy and economic value	Chatterjee, S.	2002	Google Scholar	“Different” AND “types” AND “M&A”	31400
14-12-2015	On the Patterns and Wealth Effects of Vertical Mergers	Fan, J. P. & Goyal, V.K.	2006	Google Scholar	“Merger” AND “Vertical”	76400
15-12-2015	Firm Boundaries matter: Evidence from conglomerates and R&D activity	Seru, A.	2014	Scopus	“Merger” OR “Acquisition” AND “conglomerate” (Limit to BUSI)	89
16-12-2015	Merger efficiency and managerial incentives	Kräkel, M., & Müller, D.	2013	Scopus	“Merger” OR “acquisition” AND “synergy” (Limit to BUSI)	382
16-12-2015	Creating or destroying value through mergers and acquisitions. A marketing perspective.	Rahman, M. & Lambkin, M.	2015	Scopus	“Merger” OR “acquisition” AND “synergy” (Limit to BUSI)	382
16-12-2015	A Focus on resources in M&A success: a literature review and research agenda to resolve two paradoxes	Coding et al.,	2002	Google Scholar	“M&A” AND “synergy”	10500
6-1-2016	Financial Management	Chandra, P.	2011	Google Scholar	“Strategic Benefit” AND “merger”	1150
8-1-2016	Horizontal mergers in multitier decentralized supply chains	Cho, S.H	2013	Scopus	“Merger” OR “Acquisition” AND “cost reduction” (Limit to BUSI)	81
8-1-2016	The timing and terms in mergers and acquisitions motivated by economies of scale and risk diversification.	Wang, Y.	2014	Scopus	“Merger” OR “Acquisition” AND “economies of scale” (Limit to BUSI)	103
11-1-2016	Financial leverage changes associated with corporate mergers	Ghosh, A., & Jain, P. C.	2000	Scopus	“Merger” OR “Acquisition” AND “unused debt capacity” (Limit to BUSI)	1
12-1-2016	Optimizing Private Middle-Market Companies for M&A and Growth.	Marks, K.H. & Howard, J.A.	2015	Scopus	“Merger” OR “acquisition” OR “Takeover” AND “challenges” (Limit to BUSI)	978

13-1-2016	Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation	Birkinshaw et al.,	2000	Google Scholar	“Acquisition” AND “human integration”	1780000
13-1-2016	Improving Acquisition Outcomes with Contextual Ambidexterity	Meglio et al.,	2015	Scopus	“Merger” OR “Acquisition” AND “human integration” (Limit to BUSI)	7
13-1-2016	The moderating effects of decision-making preferences on M&A integration speed and performance	Uzelac et al.,	2015	Scopus	“Merger” OR “Acquisition” AND “human integration” (Limit to BUSI)	7
15-1-2016	Are you paying too much for that acquisition?	Eccles, R. G., & Cfa, K. L.	1999	Google Scholar	“Acquisition” AND “valuation challenge”	80000
15-1-2016	Valuation Methods and shareholder value	Fernandez, P.	2002	Google Scholar	Valuation Methods	1270000
26-1-2016	The role of information technology systems in the performance of mergers and acquisitions	Lohrke et al.,	2016	Scopus	“Merger” OR “Acquisition” OR “Takeover” AND “Challenge” (Limit to BUSI)	979
26-1-2016	Synergy Management Pitfalls in Mergers and Acquisitions	Fiorentino, R. & Garzella, S	2012	Scopus	“Merger” OR “Acquisition “OR “Takeover” AND “difficult*” (Limit to BUSI)	677
26-1-2016	Playing at acquisitions: Behavioral option games	Smit, H., & Moraitis, T.	2015	Scopus	“Merger” OR “acquisition” OR “takeover” AND “Fail*” (Limit to BUSI)	786
26-1-2016	Recent trends in the study of mergers and acquisitions	Achim, S.A.	2015	Scopus	“Merger” OR “acquisition” OR “takeover” AND “Fail*” (Limit to BUSI)	786

26-1-2016	Post-merger integration: Looking under the haziness of culture conflict	Frantz, T.L.	2015	Scopus	“Merger” OR “acquisition” OR “takeover” AND “Fail*” (Limit to BUSI)	786
26-1-2016	The human aspects of cross-border acquisition outcomes: The role of management practices, employee emotions and national culture	Gunkel et al.,	2015	Scopus	“Merger” OR “acquisition” OR “takeover” AND “Fail*” (Limit to BUSI)	786
26-1-2016	Analysing the M&A Preparedness Building Approach	Vaniya, N. & Bernus, P. & Noran, O.	2014	Scopus	“Merger” OR “acquisition” OR “takeover” AND “Fail*” (Limit to BUSI)	786
26-1-2016	Microcap M&A: An Exploratory Study	Steen, A., Turpie, K., & Ng, G.W.	2014	Scopus	“Merger” OR “acquisition” OR “takeover” AND “Fail*” (Limit to BUSI)	786
26-1-2016	Family firm succession: Lessons from failures in external party takeovers	Meier, O., & Schier, G.	2014	Scopus	“Merger” OR “acquisition” OR “takeover” AND “Fail*” (Limit to BUSI)	786
27-1-2016	Is the role of HRM strategic in M&A success? Exploring the involvement of HRM in a due diligence process	Latukha, M.O., Panibratov, A.Y.	2013	Scopus	“M&A” OR “Mergers and acquisitions” AND “Fail*” (Limit to BUSI)	243
27-1-2016	Multiple levels of culture and post M&A integration: A suggested theoretical framework	Viegas-Pires, M.	2013	Scopus	“M&A” OR “Mergers and acquisitions” AND “Fail*” (Limit to BUSI)	243
27-1-2016	Sociocultural integration in mergers and acquisitions: Unresolved paradoxes and directions for future research	Stahl, G.K., Angwin, D.N., Very, P., Gomes, E., Weber, Y., Tarba, S.Y, & Durand, M.	2013	Scopus	“M&A” OR “Mergers and acquisitions” AND “Fail*” (Limit to BUSI)	243

27-1-2016	A decision-making framework to analyse important dimensions of M&A performance	Straub, T., Borzillo, S., Probst,G.	2012	Scopus	“M&A” OR “Mergers and acquisitions” AND “Fail*” (Limit to BUSI)	243
27-1-2016	Mergers and acquisitions: Overcoming pitfalls, building synergy, and creating value.	Hitt, M.A., King, D., Krishnan, H., Makri, M., Schijven, M., Shimizu, K., & Zhu, H.	2009	Scopus	“M&A” OR “Mergers and acquisitions” AND “pitfall” (Limit to BUSI)	18
27-1-2016	THE MERGER SYNDROME	Sacek, A.	2012	WEB OF SCIENCE	“Merger” OR “Acquisition” AND “Fail*” (search categories Business, Business Finance, Management)	1659
27-1-2016	Effective Management Of Change During Merger And Acquisition	Kansal, S., Chandani, A	2014	WEB OF SCIENCE	“Merger” OR “Acquisition” AND “Fail*” (search categories Business, Business Finance, Management)	1659
1-2-2016	M&A and Innovation: The role of integration and cultural differences A central European targets perspective	Bauer, F., Matzler, K., Wolf, S.	2016	WEB OF SCIENCE	“Merger” OR “ Acquisition” OR “Takeover” AND “Fail*” (search categories Business, Business Finance, Management)	7094
1-2-2016	Selection, valuation and performance assessment: Are these truly inter-linked within the M&A transactions?	Hassan, I., Chidlow, A., & Romero-Martínez, A. M.	2015	WEB OF SCIENCE	“Merger” OR “ Acquisition” OR “Takeover” AND “Fail*” (search categories Business, Business Finance, Management)	7094

1-2-2016	Acquirer performance when founders remain in the firm	Xie, Y.	2015	WEB OF SCIENCE	“Merger” OR “ Acquisition” OR “Takeover” AND “Fail*” (search categories Business, Business Finance, Management)	7094
1-2-2016	How do high-technology firms create value in international M&A integration, autonomy and cross-border contingencies	Zhu, H., Xia, J., & Makino, S.	2015	WEB OF SCIENCE	“Merger” OR “ Acquisition” OR “Takeover” AND “Fail*” (search categories Business, Business Finance, Management)	7094
2-2-2016	Value leakages in mergers and acquisitions: Why they occur and how they can be addressed.	Meyer, C. B.	2008	WEB OF SCIENCE	“Mergers and Acquisitions” AND “Fail” (search categories Business, Business Finance, Management)	34
2-2-2016	Integration of different ERP systems: the case of mergers and acquisitions.	Myers, M.D.	2008	WEB OF SCIENCE	“Mergers and Acquisitions” AND “Fail” (search categories Business, Business Finance, Management)	34
2-2-2016	Merger Failures	Banal-Estañol, A., & Seldeslachts, J.	2011	WEB OF SCIENCE	“Merger” OR “Acquisition” AND “Pitfall”	45
5-2-2016	Due diligence as a key success factor of mergers and acquisitions	Savovic, S., & Pokrajcic, D.	2013	Ebscohost	“Mergers and acquisitions” OR “Takeover” AND “Fail”	67
5-2-2016	M&A failures: Receivables and inventory may be key.	Sagner, J. S.	2012	Ebscohost	“Mergers and acquisitions” OR “Takeover” AND “Fail”	67

A.2 Appendix II – M&A

Mergers and Acquisitions are commonly referred to as "M&A" in the literature since the two terms are grouped in the same area of interest (Ionescu, 2015). Despite the broad interest on the topic of M&A, it is hard to find one clear definition of "M&A" in the scientific literature. While looking at non-scientific literature, definitions of M&A appear to be similar.

According to Investopedia (Mergers & Acquisitions, n.d., p.1), "M&A" is defined as "a general term used to refer to the consolidation of companies. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed". In line with this simple definition is the more extensive definition proposed by Whatis.com (Rouse, 2013, p.1): "Mergers and acquisitions (M&A) is the area of corporate finance, management and strategy dealing with purchasing and/or joining with other companies. In a merger, two organizations join forces to become a new business, usually with a new name. In an acquisition, on the other hand, one business buys a second and generally smaller company which may be absorbed into the parent organization or run as a subsidiary. " Another comparable definition of M&A emerges in the Farlex Financial Dictionary (2012, p.1) namely; "A term referring to any process by which two companies become one. In a merger, two companies integrate their operations, management, stock, and everything else, while, in an acquisition, one company buys another." Another similar term to mergers and acquisitions is the term "takeover". Hillier et al., (2010) noted in their book "Corporate Finance, European Edition" the following about takeovers; "Takeover is a general and imprecise term referring to the transfer of control of a firm from one group of shareholders to another." In short, the term "M&A" in this research encompasses the combination of two firms into one firm and/or a transfer of control of a firm.

Even though mergers and acquisition slightly have different definitions. These variances will be inessential in this research since the focus in this research is on the failure factors. The failure factors of acquisitions will be close to equal to the failure factors of mergers as both comprise a combination of two firms into one firm. This combination is the overall aspect which embraces challenges and thus yield failure factors. Therefore, unless otherwise stated, the terms "M&A", "merger", "takeover" and "acquisition" shall be referred to synonymously.

A.3 Appendix III – History of CORPORATE BANK

The first takeover wave, also called the "Great Merger Wave" was in the early 1900s. During this time, radical changes in, for example, technology, economic expansion and innovation were taking place. These mergers were mostly characterized by horizontal consolidation of industrial production and resulted in enormous companies. Stigler (1950) even describes this wave as "merging to form monopolies".

Right after the First World War, the second wave continued through the 1920s. Stigler (1950) assesses this second wave as a move towards oligopolies. Characterizing this wave were mergers between small companies focusing on achieving economies of scale in order to compete with dominant firms in the industry (Martynova & Renneboog, 2008; Borg et al., 1989). The stock market crash and economic depression initiating in 1929 resulted in the downfall of the second takeover wave.

The third takeover wave took place during the 1950s, 1960s and early 1970s as companies intended to diversify their revenue streams by benefiting from growth opportunities in new product markets which were unrelated to their primary business (Martynova & Renneboog, 2008; Matsusaka, 1993). This period was considered a phase of economic welfare in the United States, which enabled companies with the necessary resources to acquire other companies. The oil crisis of 1973 caused this wave to an end since it resulted in a world economy recession (Martynova & Renneboog, 2008).

Another period of economic prosperity commenced during the 1980s, which coincides with the fourth takeover wave. This wave represented more hostile takeovers than previous merger waves (Martynova & Renneboog, 2008; Davis & Greve, 1997; Lipton, 2006). In addition, the takeovers appeared to be larger than those of previous waves and more debt was used to finance the takeovers (Martynova & Renneboog, 2008; Lipton, 2006). The conglomerate structure of the third wave was not efficient anymore during the 1980'. As a result, businesses were required to reorganize their business takeovers (Martynova & Renneboog, 2008).

During the fifth takeover wave, which started in 1993, companies of exceptional large size were created (Lipton, 2006). The economic globalization, technological innovation, deregulation and financial market boom triggered the assumption that size matters (Martynova & Renneboog, 2008; Lipton, 2006). In line with these developments and views, this fifth wave is characterized by its international nature (Martynova & Renneboog, 2008). In 2000, the equity market collapsed and as a result, the fifth takeover wave came to an end (Martynova & Renneboog, 2008; Lipton, 2006).

An increase in takeover activity can be observed since 2003. This is considered the sixth takeover wave. A large number of cross-border deals are noticed, as well as a rice in commodity prices, the availability of low-interest financing and a growth of private equity funds (Martynova & Renneboog, 2008; Lipton, 2006; KPMG, 2015). In addition, hostile takeovers are preferred over aggressive takeovers (Martynova & Renneboog, 2008). The sixth takeover wave lasted until approximately 2007, when the subprime crises started. Thus, the sixth takeover wave was a relatively short, but intense takeover wave (Alexandridis et al., 2010; Graff Kvalen & Vister, 2014).

During this section, six takeover waves are touched upon. The interesting take-away of this section is that each takeover wave possesses its own characteristics and despite this diversity, all waves do have similarities. Each takeover wave preceded by technological or industrial shocks and occurred in a positive economic environment. While, at the end of a takeover wave, non-rational, self-interested managerial decision-making can be observed (Martynova & Renneboog, 2008). This is relevant as this might express something about the current M&A market and the time scope in which the case studies at CORPORATE BANK are researched.

A.4 Appendix IV – M&A History

After the appalling M&A year of 2007, the U.S. M&A activity began to rebound in 2013 (Deloitte, 2014). Through 2014, shareholder activism and announced deals worldwide continued growing (Primack, 2015; Reuters, 2015; Hammond, 2015; Deloitte, 2014; Flynn & Noto, 2015). The expectations for 2015 are positive as well. Even though the current M&A transactions are not yet as high as in the peak years, it is clear that M&A is not going away anymore (Groen & Mc Carthy, 2011). Shareholder activism is expected to continue to rise globally. Therefore, the deal activity will keep increasing as well (Flynn & Noto, 2015; J.P. Morgen, 2015). This is in line with the reports of Deloitte, which argue that, according to the 2015 M&A Trends Report, U.S. corporations and private equity firms expect that the pace of the M&A market of 2015 might even accelerate. In addition, Forbes (2015) published an article claiming that the first half of 2015 coincided with voluminous shareholder activism. According to the same analysis of PwC, 2015 could be the best merger year for the U.S. since the financial crisis of 2007 (Forbes, 2015; PwC, 2015). This indicates an overall positive outlook for the current M&A market. Maybe we currently are in a takeover wave? The answer to this question is not necessarily relevant in order to answer my main research question. However, it could be appealing to companion that the case studies at CORPORATE BANK occur prior to, or during the seventh takeover wave.

This positive outlook for 2015 is due to several reasons. The most straightforward justifications for the favourable 2015 M&A market will be briefly touched upon. First of all, the economy is recovering and therefore signals confidence. This results in high stock prices and a higher demand for M&A deals (PwC, 2015; Deloitte, 2014). Second, the current market is increasingly competitive. Therefore, CEO's feel the need to strategically strengthen and protect their current competitive position (PwC, 2015) Third, companies in general have relatively more cash, which provides these companies with currency to initiate a transaction (Deloitte, 2014). Last, the debt market, and its outlook, is favourable. Favourable debt terms provides investors more easily with the capital needed to engage in a transaction as investors can take advantage of a low interest rate (KPMG, 2014; Deloitte, 2014). In short, investors are encouraged by the recovering economy, the strong competitive market, the availability of cash and favourable debt terms.

Several trends are expected for the near future. One of these expected trends is further specialization across industries. A Deloitte (2014) survey among private equity respondents highlighted that firms are trying to become more industry focused. Another foreseeable trend in the world of M&A's is an active healthcare industry in M&A. KPMG noted in their MA& Outlook Survey report that 84% of the respondents predict that healthcare related industries will be most active in M&A during 2015 (KMPG, 2014). In accordance with 62% of the respondents of the same survey of KPMG, the Technology/Media/Telecom industry is also expected to dominate deal making in 2015. Furthermore, the recovering international economy, the increasingly competitive market and the acceleration of globalization are just a few factors pressuring companies to go global in order to maintain or strengthen their competitive position. Therefore, cross-border M&A activity will continue being a trend (Caiazza & Volpe, 2015). In short, specialization across industries, an active healthcare industry as well as an active Technology/Media/Telecom industry and cross-border M&A activity are trends we can expect in the M&A market. This is in line with the sector analysis during the CORPORATE BANK case studies (i.e. see also section 5.2), as e.g. 25% of the cases were operating in the Technology, Media & Telecommunications sector.

This section highlighted the positive outlook for the M&A market. Positive in the sense that M&A transactions are expected to continue rising. However, positive as it sounds, decades of academic research indicate that more than half of the acquisitions fail to achieve their desired outcomes. Therefore, the impact of M&A activity on the performance of the firm is troubling (Groen & McCarthy, 2011). This is an interesting paradox with on one side the increasing M&A activity and on the other side the high failure rate. Since the current M&A transaction market is expected to continue rising, it proposes an additional motive to understand why acquisitions fail. Especially for CORPORATE BANK, as a provider of debt, it is crucial that an acquisition does not fail as otherwise CORPORATE BANK does not receive the initial debt payment back. This research is beneficial for CORPORATE BANK as the results can assist CORPORATE BANK on how to ensure that CORPORATE BANK only issues acquisition credit loan to the little percentage of acquisitions that do not fail.

A.5 Appendix V – Types of M&A's

Three categories of acquisitions are touched upon below, namely; horizontal acquisitions, vertical acquisitions and conglomerate acquisitions. However, in the literature other categories can be discovered. An example of another category found in the literature is "concentric mergers" (Lubatkin, 1983). Though, for the sake of simplicity, this research withstands with a straightforward classification into three categories.

A.5.1 Horizontal acquisition

The majority of the acquisitions are horizontal acquisitions (Rahman & Lambkin, 2015). Horizontal acquisitions involve companies that are in direct competition as the companies offer similar products or services to the same market (Hillier et al., 2010; Van den Berg & Camesasca, 2001). Horizontal acquisitions therefore allow to eliminate competition between the two firms (Van den Berg & Camesasca, 2001). Note that by a horizontal acquisition, the capacity of the acquirer expands while the business operations remain the same (Investopedia, n.d.). According to the Minority Business Development Agency, horizontal acquisitions are likely to occur in industries with fewer firms. In industries with fewer firms, the competition is usually tenser. Therefore, potential benefits of a merger or acquisitions are greater for companies in such an industry (MBDA, n.d.). An example of a horizontal acquisition case would be if McDonalds acquires BurgerKing. McDonalds and BurgerKing offer similar products and services to the same target market. Therefore, BurgerKing and McDonalds are competitors. By acquiring BurgerKing, McDonalds eliminates competition.

A.5.2 Vertical acquisition

Vertical acquisitions involve combining companies that are in the same value chain of producing the same good or service but are at different steps of the production process (Hillier et al., 2010; Van den Bergh & Camesasca, 2001). In this form, a firm merges with or takes over a customer or supplier (Van den Bergh & Camesasca, 2001). The companies combine their operations and productions under one roof, literally or hypothetically. This form of acquisition might secure the supply of essential products and can avoid disruption in supply. The combining firms believe that operating together is more efficient than operating as one. Hillier et al., (2010) mention in their book "Corporate Finance" the following example of a vertical acquisition; The acquisition by an airline company of a travel agency. An airline company and a travel agency operate both in the same value chain, but at different levels of the supply chain. By acquiring the travel agency, the airline company might secure that travelers book the flight by their airline company while otherwise they might choose for another airline company.

A.5.3 Conglomerate Acquisition

Conglomerate Acquisitions involve companies that are not related to each other (Hillier et al., 2010; Van den Bergh & Camesasca, 2001). The companies can operate in completely different industries and geographic areas. Companies which embark for a conglomerate merger might believe that the merger offers opportunities for the companies to venture into other business areas as risks might be reduced by diversification (Amihud & Lev, 1981). Conglomerate acquisition can be further categorized in pure and mixed conglomerate acquisitions. Pure conglomerate acquisitions considers the conglomerate acquisitions in which the companies are essentially unrelated regarding the products and/or services they produce and distribute (Fan & Goyal, 2006). While mixed conglomerates considers the conglomerate acquisitions in which the companies are looking for product extensions or a wider market (Economy Watch, 2010). An example of a conglomerate acquisition is the acquisition of Motorola by Google in 2011. This acquisition was not a horizontal acquisition as Google and Motorola weren't competitors nor a vertical acquisition as Google and Motorola were not each other's suppliers/customers (Chiu et al., 2015). Worstall (2013) published an article in Forbes underlining that Google might have made this deal for a combination of Motorola's patent portfolio and for tax benefits.

A.6 Appendix VI – Motives for M&A's

This Appendix treats four rational motives for M&A's and subsequently two non-rational motives for M&A's. The rational motive for M&A is to create synergy. Rational motives for M&A's consists of revenue enhancement, cost reduction, tax gains and reduced capital requirements. While the non-rational motives for M&A's consists of earnings growth and diversification. The take-away of this section is that there is no sole motive behind M&A's and a motive is not necessarily always a rational motive. In addition, the merger motive can be used as an indicator of the M&A transaction risk and so the likelihood of the acquisition to fail. In short, if the motive behind the acquisition is focused on product expansion, geographic expansion or earnings growth, the transaction is more risky and more likely to fail (Groen & McCarthy, 2011). This is relevant to understand for the case studies at CORPORATE BANK.

A.6.1 Rational Motives for M&As

The rational motive behind M&A's is synergy (Hillier et al., 2010; Kräkel & Müller, 2013; Rahman & Lambkin, 2015). According to Rouse (2006) comes the word "synergy" from Greek *sunergia* which means "cooperation" and also *sunergos* which means "working together". Rouse further defines synergy as "the combined working together of two or more parts of a system so that the combined effect is greater than the sum of the effects of the parts. " This is in line with the explanation of Hillier et al., (2010, p. 787), who define synergy as "synergy occurs if the value of the combined firm after the merger is greater than the sum of the value of the acquiring firm and the value of the acquired firm before the merger". Thus, synergy simply means that two plus two equals a number higher than four.

Synergies can occur from different sources (Hillier et al., 2010; Eccles & Cfa, 1999). These sources of synergies are discussed below and are based upon Hillier et al., (2010) their classification of sources of synergy.

A.6.1.1 Revenue Enhancement

Synergies from revenue enhancement appear when a combined firm generates greater revenues than two separate firms (Hillier et al., 2010; Cording et al., 2002; Rahman & Lambkin, 2015). These increased revenues may come from marketing gains, strategic benefits, or market power (Hillier et al., 2010; Dauda, 2013).

Hillier et al., (2010) argue that mergers and acquisitions can lead to improved marketing in several areas namely; Ineffective media programming and advertising efforts prior to a merger, a weak distribution network prior to a merger and in the case of an unbalanced product mix. By naming these areas of improvement, Hillier et al., (2010) suggests that a merger or acquisition can have a positive effect on these areas. In example, a merger might turn a weak distribution network into a stronger distribution network (Caiazza & Volpe, 2015). In addition, Rahman & Lambkin (2015) reported a detailed study which indicates that marketing performance is positively affected by mergers and acquisitions. This positive effect is due to a growth in sales revenue and a reduction in selling, marketing and administrative costs. Therefore, improved marketing can increase operating revenues and reduce costs, suggesting a realization of expected synergies (Hillier et al., 2010; Rahman & Lambkin, 2015).

Strategic benefits can be pursued for example in the case when a company has decided to enter in or to expand in another operating industry (Caiazza & Volpe, 2015). Rather than being depended on internal expansion, the company can acquire a company engaged in that particular industry. Through this acquisition, the company also acquires the knowledge and resources necessary for operating in another industry. This offers a time saving advantage as the bidding company is able to eliminate several stages in the process of expanding to another industry (Hillier et al., 2015; Chandra, 2011). In addition, strategic benefits can occur from a competitive advantage perspective. Acquiring a target in another industry can be a precautionary move in order to prevent a competitor from establishing a similar position in this other industry (Chandra, 2011).

Revenue enhancement from market power can be realized when a company increases its market power. Market power increases when a company acquires a target in order to reduce competition. Increased market power can lead to more power over the output price. More power over the output price can lead to a higher output price, which generates monopoly profits (Hillier et al., 2010; Sudarsanam, 2003; Lubatkin, 1983). Furthermore, increased market power can improve the position when it comes to discussing non-price terms. Non-price terms might be agreed on more positive conditions when the market power is higher. Ultimately, this might as well lead to higher revenue streams (Sudarsanam, 2003). However, when competition get reduced and a company acquires too much market power, the society might suffer. In this case, the government intercede in order to protect the society (Hillier et al., 2010).

A.6.1.2 Cost Reduction

Synergies from cost reduction occur when a combined company operates more efficient than a separate company (Hillier et all., 2010; Rahman & Lambkin, 2015; Cho, 2013). Operating efficiency can be realized through economies of scale, economies of vertical integration, technology transfer, complementary resources and/or efficient management (Hillier et al., 2010; Rahman & Lambkin, 2015; Wang, 2014; Oliverira et al., 2001; Machiraju, 2007).

Cost reduction through economies is scale is realized when the average cost of production decreases as the volume of production increases (Hillier et al., 2010; The Economist, 2008). Acquisitions can attain economies of scale as an acquisition increases firm size (Caiazza & Volpe, 2015). When firm size increases, average costs of production falls until the firm reaches its optimal firm size. After the optimal firm size, diseconomies of scale arises, which actually leads to an increase in average costs (Hillier et al., 2010). Economies of scale are often realized in the case of horizontal acquisitions (Hillier et al., 2010) and can arise in several areas. One of these areas is R&D. R&D costs might be extremely high, for example in the pharmaceuticals industry. A larger company, or a combined company, is better able to cover these R&D costs (The Economist, 2008). Economies of scale are often connected to spreading overhead costs. A combined firm can share central facilities, such as computer systems and top management, and by doing so, decrease the overall overhead costs (Hillier et al., 2010; Rahman & Lambkin, 2015).

Cost reduction as a result of economies of vertical integration are mostly achieved in the case of combining companies that are in the same value chain of producing the same good or service. When a company mergers with either a customer or supplier, the combined firm secures the supply of an essential product and can avoid disruption in supply. This simplifies the co-ordination of related operating activities. Altogether, this not only reduces transaction costs but might also reduce marketing costs as supply will be more steady in the case a firm owns a supplier (Hillier et al., 2010).

Technology transfer is another justification for cost reduction (Hillier et al., 2010; Grimpe, 2008; Oliverira et al., 2001; Caiazza & Volpe, 2015). When a firm acquires another firm, the firm acquirers the technology and knowledge in the target as well. The technology in the target might improve the products or services of the bidding company (Hillier et al., 2010; Stellner, 2015) . Hillier et al., (2010) give the example of an automobile manufacturer which might acquire an aircraft company if the aerospace technology is able to improve the quality of automobiles. Technology transfer reduces costs in the way that the bidding company does not have to buy the technology and hire the required personal in order to control the technology. In addition, technology transfer might offer a timing advantage over competitors since no additional learning time is needed to control the technology and no addition time is needed to hire additional personal. Saving time is saving money and this might offer a competitive advantage (Hillier et al., 2010; Grimpe, 2008; Oliverira et al., 2001; Stellner, 2015).

Cost reduction can also be realized through complementary resources. Complementary resources combine capabilities in order to create new opportunities. A motive for an acquisition can be to improve usage of existing resources (Hillier et al., 2010; Stellner, 2015; Auerbach & Reishus, 1987). This can be the case when your company is seasonal. Hillier et al., (2010) give the example of a ski equipment store which combines with a tennis equipment store. These are seasonal companies and by combining they can realize sales in both the winter and the summer. In addition, the store capacity will be used more efficient. When store capacity is used more efficient, total costs will reduce. By acquiring another firm and make use of complementary resources, it can lead to a reduction in costs.

Another way to reduce costs is to eliminate inefficient management (Karenfort, 2011; Hillier et al., 2010). When management of a particular firm is inefficient, firm value of this firm should be able to be increased and costs should be able to be decreased (Hillier et al., 2010). Inefficient managers are managers who for example, overspend on perquisites or simply do not understand changing market conditions or new technology. Inefficient management is not capable to capture the full potential value of the company (Hillier et al., 2010; Karenfort, 2011). A merger might be needed to eliminate this inefficient management (Hillier et al., 2010). When inefficient management is replaced with efficient top management, firm value can increase and costs can reduce (Hillier et al., 2010).

A.6.1.3 Tax Gains

Synergies from tax gains occur when a combined company after a merger is capable of reducing taxes. Reduced taxes can be a strong incentive for companies to engage in acquisitions (Hillier et al., 2010; Auerbach & Reishus, 1986; Thu, 2014). Reduced taxes after a merger can be realized through the use of tax losses, the use of unused debt capacity or through the use of surplus funds (Hillier et al., 2010; Thu, 2014).

Tax losses lead to a reduction in taxes paid in the case when a company is able to take advantage of potential net operating losses. A loss in an unprofitable division of the company offsets the income of a profitable division of the company. If these divisions are merged in one company, the offset of income can lead to lower taxes (Hillier et al., 2010; Auerbach & Reishus, 1986).

The use of unused debt capacity can lead to a reduction in taxes as debt capacity allows for a tax shield (Hillier et al., 2010; Thu, 2014). A merger or acquisition which allows for either an increased debt capacity or an increased tax shield would therefore lead to a reduction in taxes (Hillier et al, 2010). The debt capacity and tax shield can be increased through a merger in the case when the target has too little debt (Hillier et al., 2010; Bloomsbury Information Ltd, 2015) or in the case when the target and acquirer both are close to optimal debt levels (Hillier et al., 2010; Norback et al., 2012). When the target has too little debt, the acquirer can use this unused debt capacity (Hillier et al 2010; Bloomsbury Information Ltd, 2015). By using the unused debt capacity of the target, the overall debt capacity increases and therefore a greater tax shield is generated (Hilier et al., 2010). When both the target and acquirer are close to optimal debt levels, a merger would lead to a reduction in risk. The modern portfolio theory suggests that a merger between two companies with optimal debt levels, or companies with the same level of risk, creates a more diversified company. The risk of this combined company is less than the risk of either one of the separate companies. Due to the lower level of risk in the combined company, the combined company should be able to receive a higher amount of debt from a debt provider than the two separate companies together (Hillier et al.,2010; Norback et al., 2012). This indicates that the risk reduction from the merger leads to a greater debt capacity and therefore a greater tax shield (Hillier et al., 2010).

Another way to improve tax gains through an acquisition is by the use of surplus funds (Hillier et al., 2010; Connolly, 2006). When a company has free cash flows, the company can either buy securities, pay dividends or buy back shares. However, in the case that the company pays additional dividends, it is not always a desirable situation for the investors due to a possible increase of the income taxes. In the case of a share repurchase, the investors might pay lower income taxes. Though, if the sole purpose of the share repurchase is to avoid taxes on dividends, it might not always be a legal option. Another possibility to make effective use of surplus funds is to finance an acquisition with the surplus funds. This way, the shareholders of the acquiring company can avoid paying income taxes they would otherwise have paid on dividend (Hillier et al., 2010).

A.6.1.4 Reduced Capital Requirements

An additional source of synergy through a merger is the reduction in capital requirements. The term "capital" is often divided into fixed capital and working capital. In the case of a merger, some facilities might become redundant, such as plants or headquarters. In the section of "*cost reduction",* sources of "operating more efficiently" are already discussed and included potential economies of scale, economies of vertical integration, technology transfer, complementary resources and the elimination of inefficient management. These sources of cost reduction mostly cover the fixed capital. In addition, the working capital requirements can be reduced through a merger. A consequence will be that the inventory-to-sales ratio and the cash-to-sale ration might decrease while the firm increases. A merger can realize these economies of scale regarding the working capital and by doing so allowing for a reduction in working capital (Hillier et al., 2010).

A.6.2 Non-rational motives for M&A's

Even though the rational reason behind acquisitions might be synergy, there are also other motives for M&A's. Unfortunately, not all reasons behind acquisitions are rational reasons. Two non-rational motives for acquisitions are discussed below.

A.6.2.1 Earnings Growth

Some companies might just want to grow fast and at a low cost. By acquiring a target, an appearance of growth can be created. An acquisition influences numbers of, for example, earnings per share and price-earnings ratio (Hillier et al., 2010; Stern, 1974) which creates the illusion that the value of the combined firm is higher than it actually is. If there are no actual synergies or other benefits due to the merger, the displayed growth is not true growth. Though, it seems that the market is smart enough to not be fooled this easily. Therefore, if the sole reason for an acquisition is to make a perception of growth in order to fool the market, it will be a bad acquisition as this reason won't benefit the shareholders (Hillier et al., 2010).

A.6.2.2 Diversification

Often, diversification is associated with being beneficial for companies. However, if diversification is the sole reason for an acquisition, investors might not always optimally benefit (Hillier et al., 2010; Merton, 1982; Caiazza & Volpe, 2015). Hillier et all., (2010) argue that diversification solely does not produce an increase in value. The authors reason this by separating the business's variability of return into unsystematic risk and systematic risk. As systematic variability will not be eliminated through diversification, mergers with the sole reason of diversification will not eliminate the systematic risk. Though, Hillier et al., (2010) do claim that unsystematic risk can be diversified away by diversification through mergers. Nevertheless, if shareholders want to diversify, they can accomplish diversification more easily and at a lower cost by purchasing equity in distinct companies. Previous argument is in line with the ideas of Salter & Weinhold (1978), who defend common misconceptions about diversification through acquisition. In addition, Bruner (2002) reasons in his article that diversifying mergers are associated with inferior performance than non-diversifying mergers. Thus, diversification by itself as a reason for merger may not be beneficial for the shareholders.

A.7 Appendix VII – Numbered Articles

Number	Title	Author(s)
1	Strategic Integration: How to realize the value of an acquisition	Recardo, R.J. & Toterhi, T.
2	Misvaluation: Another Explanation for the Failure of Corporate Acquisitions	Price, J.
3	M&A failures: Receivables and inventory may be key.	Sagner, J. S.
4	Why 80% of all acquisitions fail	Johnson, R.
5	Mergers and acquisitions: Overcoming pitfalls, building synergy, and creating value	Hitt et al.,
6	A century of corporate takeovers: What have we learned and where do we stand	Martynova, M. & Renneboog, L.
7	Enhancing the success of mergers and acquisitions: an organizational culture perspective.	Schraeder, M. & Self, D.R.
8	Does M&A Pay? A survey of evidence for the decision- maker	Bruner, R.F.
9	Making mergers and acquisitions work: What we know and don't know–Part II.	DiGeorgio, R
10	The Moderating effects of decision-making preferences on M&A integration speed and performance	Uzelac et al.,
11	The drivers of success in post-merger integration	Epstein, M.J.
12	M&A process: a literature review and research agenda	Caiazza, R., & Volpe,T.
13	Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation	Birkinshaw et al.,
14	Improving Acquisition Outcomes with Contextual Ambidexterity	Meglio, O., King, D. R., & Risberg, A.
15	The role of corporate culture in mergers & acquisitions.	Bouwman, C.H.
16	Enhancing the success of mergers and acquisitions: an organizational culture perspective.	Schraeder, M., & Self, D.R.
17	Optimizing Private Middle-Market Companies for M&A and Growth	Marks, K.H. & Howard, J.A.
18	Creating value from mergers and acquisitions: The challenges: An integrated and international perspective.	Sudarsanam, S.
19	The effective management of mergers.	Nguyen, H. ,& Kleiner, B.H.
20	Mergers and acquisitions: Creating integrative knowledge	Pablo, A.L., & Javidan, M.

21	Do cultural differences matter in mergers and acquisitions? A tentative model and examination	Stahl, G.K. & Voigt, A.
22	Integrating strategic, organizational, and human resource perspectives on mergers and acquisitions: A case survey of synergy realization	Larsson, R., & Finkelstein, S.
23	Mergers & Acquisitions: What Winners Do to Beat the Odds.	Connerty, M., & Lavoie, B.
24	Mergers and the Performance of the Acquiring Firm	Lubatkin, M.
25	Thirty Years of M and A Research: Recent Advances and Future Opportunities	Cartwrigth, S., & Schoenberg, R.
26	The role of information technology systems in the performance of mergers and acquisitions	Lohrke, F.T., Frownfelter-Lohrke, C., & Ketchen, D.J.
27	Synergy Management Pitfalls in Mergers and Acquisitions	Fiorentino, R. & Garzella, S.
28	Playing at acquisitions: Behavioural option games	Smit, H.T., & Maraitis, T.
29	Recent trends in the study of mergers and acquisitions	Achim, S.A.
30	Post-merger integration: Looking under the haziness of culture conflict	Frantz, T.L.
31	The human aspects of cross-border acquisition outcomes: The role of management practices, employee emotions and national culture	Gunkel, M., Schlaegel, C., Rossteutscher, T., Wolff, B.
32	Analysing the M&A Preparedness Building Approach	Vaniya, N. & Bernus, P. & Noran, O
33	Microcap M&A: An exploratory Study	Steen, A., Turpie, K., & Ng, G.W.
34	Family firm succession: Lessons from failures in external party takeovers	Meier, O., & Schier, G.
35	Is the role of HRM strategic in M&A success? Exploring the involvement of HRM in a due diligence process	Latukha, M.O., Panibratov, A.Y.
36	Multiple levels of culture and post M&A integration: A suggested theoretical framework	Viegas-Pires, M.
37	Sociocultural integration in mergers and acquisitions: Unresolved paradoxes and directions for future research	Stahl, G.K., Angwin, D.N., Very, P., Gomes, E., Weber, Y., Tarba, S.Y, & Durand, M.
38	A decision-making framework to analyse important dimensions of M&A performance	Straub, T., Borzillo, S., Probst,G.
39	Mergers and acquisitions: Overcoming pitfalls, building synergy, and creating value.	Hitt, M.A., King, D., Krishnan, H., Makri, M., Schijven, M., Shimizu, K., & Zhu, H
40	Attributes of Successful and unsuccessful Acquisitions of US Firms	Mitt, M., Harrison, F., Ireland, R.D,. & Best, A.

41	THE MERGER SYNDROME	Sacek, A.
42	Effective Management Of Change During Merger And Acquisition	Kansal, S., Chandani, A
43	M&A and Innovation: The role of integration and cultural differences A central European targets perspective	Bauer, F., Matzler, K., Wolf, S.
44	Selection, valuation and performance assessment: Are these truly inter-linked within the M&A transactions?	Hassan, I., Chidlow, A., & Romero-Martínez, A. M.
45	Acquirer performance when founders remain in the firm.	Xie, Y.
46	How do high-technology firms create value in international M&A integration, autonomy and cross-border contingencies	Zhu, H., Xia, J., & Makino, S.
47	Value leakages in mergers and acquisitions: Why they occur and how they can be addressed.	Meyer, C. B.
48	Integration of different ERP systems: the case of mergers and acquisitions.	Myers, M.D.
49	Merger Failures	Banal-Estañol, A., & Seldeslachts, J.
50	Due diligence as a key success factor of mergers and acquisitions	Savovic, S., & Pokrajcic, D.

A.8 Appendix VIII – Individual Failure Factors of the Literature Review

Failure Factors / **Article Number**	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Poor Cultural fit		*X*		*X*			*X*		*X*		*X*	*X*		*X*	*X*	*X*			*X*	*X*	*X*	*X*			*X*				*X*	*X*	*X*
Poor Strategic fit																									*X*				*X*		
Wrong Acquisition Intentions																		*X*													
Management styles are not similar			*X*									*X*			*X*							*X*									
Fail to achieve expected synergies	*X*	*X*		*X*				*X*				*X*									*X*	*X*	*X*				*X*				
Overestimation of synergy potential																											*X*				
Premium paid for target is too high					*X*													*X*													
Misvaluation of Assets																	*X*			*X*											
Misvaluation of Target (problems with valuation methods)	*X*	*X*										*X*					*X*			*X*			*X*					*X*			
Narrow focus on closing	*X*											*X*						*X*													

Poor human integration										*X*		*X*	*X*	*X*							*X*										*X*
Poor task integration							*X*					*X*									*X*					*X*					
Poor Integration Speed										*X*																					
Poor integration process	*X*			*X*			*X*		*X*	*X*	*X*	*X*	*X*	*X*				*X*	*X*	*X*		*X*	*X*		*X*					*X*	
Firm lacking effective organisation																		*X*													
Sources of value creation are not understood																		*X*					*X*								
Wrong company size																						*X*									
Employee resistance																						*X*									*X*
Employee and customer dissatisfaction											*X*														*X*						
Poor HR												*X*										*X*									
Commitment of management												*X*			*X*																
Poor management competencies									*X*	*X*		*X*	*X*	*X*					*X*	*X*				*X*		*X*	*X*				*X*

Political challenges How Power is exercised							X																								
Psychological issues																						X									
Poor Negotiation																									X						
Poor communication									X			X						X	X			X	X								X
Financial Reporting Problems																	X														
Biased assessment of key talent in combined company				X																			X								
Not honouring commitments (Credibility)				X																											
Inappropriate decision making				X																					X			X			
Poor focus on Customers																	X		X												
Lack of a clear vision																			X												
Underestimation of negative reactions of being acquired				X																											
Time challenge for management				X															X												
A Fast Start									X																						
Combination's potential																						X									
Underestimating time and costs to achieve synergies																							X				X				

Narrow focus on Closing (poor transition)				X								X											X			X					
Excess Cash						X		X																							
Managerial Hubris, Overconfident managers/ High MTB						X		X																X							
Demographic Challenges / Foreignness							X					X																			X
Wrong mix of autonomy and coordination														X																	
Different legal environments																													X		
Disrupted information flow																														X	
Culture risks not sufficiently addressed during due diligence															X																
Not addressing Human Aspects										X															X						X
Incompatible Marketing Strategies			X																												

Article Number / Failure Factors	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50
Poor Cultural fit		*X*	*X*		*X*	*X*		*X*		*X*	*X*	*X*			*X*	*X*	*X*	*X*	*X*
Poor Strategic fit	*X*	*X*	*X*	*X*			*X*	*X*	*X*						*X*			*X*	
Wrong Acquisition Intentions	*X*	*X*																	
Incompatible Management styles						*X*													
Overestimation of synergy potential																			*X*
Premium paid for target is too high								*X*					*X*						
Misvaluation of Assets																			
Misvaluation of Target (problems with valuation methods)		*X*					*X*		*X*				*X*						*X*
Poor human integration					*X*	*X*			*X*	*X*		*X*		*X*					
Poor task integration	*X*											*X*					*X*	*X*	
Poor Integration Speed		*X*				*X*						*X*				*X*			

Poor integration process		*X*		*X*		*X*	*X*	*X*							*X*				*X*	
Firm lacking effective organisation																		*X*		
Wrong company size								*X*								*X*				
Employee resistance			*X*							*X*	*X*									
Employee and customer dissatisfaction	*X*	*X*								*X*	*X*	*X*							*X*	
Poor HR				*X*						*X*	*X*		*X*							
Commitment of management																				
Poor management competencies	*X*	*X*	*X*					*X*	*X*		*X*								*X*	
Political challenges How Power is exercised			*X*			*X*			*X*				*X*		*X*	*X*		*X*		
Psychological issues										*X*										
Poor Negotiation																			*X*	
Poor communication	*X*	*X*				*X*				*X*	*X*	*X*			*X*		*X*			
Financial Reporting Problem													*X*							*X*
Inappropriate decision making												*X*								
Lack of a clear vision											*X*							*X*		

Combination's potential																	X	X	
Underestimating time and costs to achieve synergies						X						X			X		X		
Managerial Hubris, Overconfident managers/ High MTB/empire building		X						X	X				X			X		X		
Demographic Challenges / Foreignness															X					
Wrong mix of autonomy and coordination															X					
Disrupted information flow/information asymmetry														X				X	X	
Culture risks not sufficiently *addressed during due diligence*					X														X	
Not addressing Human Aspects		X			X					X										
Buying at wrong time		X																		
Lack of knowledge of Target's industry		X			X								X		X					
Little or no acquisition experience		X			X			X						X	X	X				

Insufficient due diligence		*X*		*X*															*X*	
Unforeseen events				*X*														*X*		
Large Debt									*X*											
Poor handling of change management											*X*					*X*				
Change of ownership and control														*X*						

A.9 Appendix IX – Categories of Individual Failure Factors

This appendix presents which identified failure factors of the literature review are included in which category. Four categories are distinguished, namely; Human Aspects, Valuation Problems, Managerial Problems, and Integration Problems. These categories encompasses multiple individual M&A failure factor categories, identified at the literature review.

A.9.1 Human Aspects

This category consists of "poor human integration", "poor cultural fit", "employee resistance", "employee and customer dissatisfaction", "psychological issues", "culture risks not sufficiently addressed during due diligence", "incompatible management styles", "commitment of management", and "not addressing human aspects". These failure factors can be grouped together because they all emphasizes the "human aspects".

"Employee Resistance" and "employee and customer dissatisfaction" as individual failure factors suits this category as both factors influences employee-related work outcomes. ". When employees are dissatisfied, it can lead to employee resistance (Wu & Wu, 2011) and so to a poor human integration. When customers are dissatisfied, it leads to a decline in profitability (Epstein, 2004). A decline in profitability has a negative effect on the overall outcome of the acquisition. Larsson and Finkelstein (1999) link psychological issues to negative employee reactions on the individual level. In addition, Sacek (2012) argues that the phase of cultural integration, or human integration, leads to high stress levels and psychological effects. This connects "psychological issues" to human integration and so "human aspects" and indicates that "psychological issues" is also on the right place in this category. Furthermore, "culture risks not sufficiently addressed during due diligence" fits this category as it is indirectly linked to cultural integration (Bouwman, 2013). Bouwman reasons that "culture risks not sufficiently addressed during due diligence" is among the top three cited reasons for unsuccessful cultural integration. Another failure factor in this category is "incompatible management styles". This refers to different management views of the two companies getting combined. The management styles have to be integrated as well, which makes it part of the human integration process. As argued by Caiazza & Volpe (2015), incompatible management styles can lead to stress, implementation problems and lower performance. Moreover, "commitment of management" is considered a human aspect related factor as it is linked to the motivation of managers as well as to the character of the members of the management team. The last individual failure factor fitting this category is "not addressing human aspects". When the overall human aspects are mismanaged, it can lead to negative consequences such as stress-related absence, employee resistance and an increased employee turnover (Uzelac et al., 2015). Consequently, with an unfavorable effect on the business' performance and indirectly on the overall outcome of the acquisition.

As all of the above mentioned individual failure factor have to do with "people issues" or "human aspects", they can be grouped together.

A.9.2 Valuation Problems

This category consists of "overestimation of synergy potential", "premium paid for target is too high", "misvaluation of Target/problems with valuation methods", "disrupted information flow/information asymmetry" and "misvaluation of assets". These failure factors can be grouped together into one category since they all focus on "Valuation Problems".

An overestimation of synergy potential is a result from an incorrect valuation of the potential synergies. This is a failure factor since when synergy potential is overestimated, an inappropriate price might have been paid and accordingly it will be more difficult to achieve the desired outcome of the acquisition (Fiorentino & Garzella, 2015).

A similar failure factor is paying a too high premium for the target company as the premium for the target is partly based on the expected synergies from the combination (Shusta, 1999). Therefore equivalently, when the bidding company pays too high of a premium for the target, an unsuitable price will be paid for the target and consequently it is less manageable to achieve the desired outcomes of the acquisition. Paying a too high premium can be the result of a problem with the valuation of the premium.

Misvaluation of the target and problems with the valuation methods also fits this category for the same arguments as above. As discussed in section 2.6, there are multiple valuation methods with each having its own advantages and disadvantages. These valuation methods comprise fundamental problems and according to Price (2013) this results in a portion of the acquisitions to fail.

Another failure factor in this category is "disrupted information flow/information asymmetry". Information asymmetry can increase the level of difficulty of target valuation, as discussed in section 2.6 (Pablo & Javidan, 2009; Chemmanur et al., 2009; Capron & Shen, 2007). In the case of a disrupted information flow or information asymmetry, the acquirer feels that the target company did not share all the relevant information. Therefore, it is more difficult to assess the true value of the target company. This links this failure factor to the category of "valuation problems".

Further, there is the failure factor of “valuing the assets of the target company”. Assets can be tangible or intangible. The valuation of tangible assets is not that difficult since one can look up the book or market values. Problems with the valuation of tangible assets should therefore be similar to the valuation method problems. Though, valuation of intangible assets is challenging. Intangible assets are associated with more uncertainty than tangible assets which makes it difficult to determine the value for an intangible asset. Since the valuation of intangible assets is challenging, it can be considered a failure factor and fits it the overall category of “valuation problems”.

As all the above mentioned failure factors are overarched with the term “valuation problems”, these can all be grouped together in this category.

A.9.3 Managerial Problems

his category consists of “poor strategic fit”, “wrong acquisition intentions”, “narrow focus on closing”, “firm lacking effective organization”, “sources of value creation are not understood”, “wrong company size”, “Poor HR”, “poor management competencies”, “political challenges/how power is exercised”, “poor negotiation”, “poor communication”, “financial reporting problems”, “biased assessment of key talent in combined company”, “credibility problems”, “inappropriate decision making”, “poor focus on customers”, “lack of a clear vision”, “underestimation of negative reactions of being acquired”, “time challenge for management”, “underestimating time and cost to achieve synergies” “narrow focus on closing”, “excess cash”, “managerial hubris/high MTB/empire building”, “demographic challenges/foreignness”, “wrong mix of autonomy and coordination”, “buying at wrong time”, “lack of knowledge of target’s industry”, “lack of acquisition experience”, “insufficient due diligence”, “a fast start”, “large debt”, “poor handling of change management”, “change of ownership and control”, “incompatible marketing strategies”.

If the sole intention of the acquisition is to create an appearance of growth, shareholders will not benefit from the acquisition as this intention has more to do with glory-seeking than with business strategy (Hillier et al., 2000). On the other side, acquisitions can also be driven by the idea that only big players will survive in the competitive world of nowadays. These acquisitions can be driven by generalized fear. New technological development, increasing competition, globalization or the fast changing economy are possible factors driving acquisitions from fear (Investopedia, n.d.). A challenge for the managers is to make sure that the right intention for an acquisition is pursued. A right intention is essential in order to make an acquisition successful. Acquisitions driven by the ego of managers who want to seek glory are doomed to fail (Sudarsanam, 2003).

Managers coping with a merger face the challenge of spreading their time between their core business and the merger. Managers need to be intimately involved during the negotiation phase of the acquisition (Nguyen & Kleiner, 2003), while they also have to run the core business of the acquirer. Even when the deal is sealed, managers should stay focused on the transaction (Simpson, 2000). Yet, management should not have a too narrow focus on closing (Recardo & Toterhi, 2015). This imposes a time management challenge. Yet, during the integration phase, management has to focus on the identification and capture of value which demands time as well. Management is responsible that human integration takes place as smoothly as possible (Nguyen & Kleiner, 2003). Additionally, management is responsible for an effective organization within the company. Further, there is a time pressure regarding "a fast start". Roughly, the first three months after a major change are essential in order to make a change successful. Managers should be aware of this and time should be set aside to focus on a good start of the combined company (DiGeorgio, 2002). Time demanded for human integration and a good start should not be underestimated and imposes a challenge for management (Nguyen & Kleiner, 2003; Di Georgio, 2002).

When company cultures differ significantly, it imposes a significant challenge for management (Birkinshaw et al., 2000). Not only might management have to deal with other management views of the target company, they also have to attempt to make or keep employees satisfied. Employees of the target company might feel invaded by the acquisition. Management has the responsibility to create a respectful working environment in which the employees won't feel invaded anymore and are committed to the company. In addition, if, for example, the employees of the target company are used to a very open company culture in which access to top management and flexible working hours are normal, management should be careful in changing this all the sudden (Investopedia, n.d.). Dealing with another company culture is complex and negative reactions of being acquired should not be underestimated. This can be a challenge for management.

In short, all the individual failure factors employed in the category Managerial Problems concern failure factors which are directly related to managerial problems. Since managerial problems is the overarching term covering the individual failure factors, these failure factors are grouped together in the category of Managerial Problems.

A.9.4 Integration Problems

This category consists of the individual failure factors “poor task integration”, “poor integration speed” and “poor integration process”. These individual failure factors can be grouped together since, as also implied by the name of the individual failure factors, they all focus on integration related problems.

Task integration after a merger imposes difficulties as two separate companies’ systems need to fit together. This process is sophisticated and requires a demanding approach (Epstein, 2004). The two companies might use different systems which not easily work together. Maybe one system has to be replaced to make integration work. In addition, duplicate functions might have to be removed, while technology, capabilities and intellectual capital might have to be increased (Caiazza & Volpe, 2015). These are just a few challenges a company might face regarding task integration after merging with another company.

The integration speed refers to the pace the integration should take place. On one hand, sufficient time should be taken to have a fluent integration process (Epstein, 2004). On the other hand, it is beneficial if the combined company co-operates and works as one company as soon as possible (Caiazza & Volpe, 2015). The perfect balanced should be found regarding the pace of the integration. Yet, the speed of the integration is closely interrelated with the overall integration process as the overall integration process is the overarching term is this category.

A.18 Appendix XVIII – Management Risk Evaluation

Management - Indication of Credit Risk	Answer with Yes/No
There is a strategic plan (not older than 3 years)	
The strategic plan presents the opportunities and the threats for both the business and the sector	
The management team has been active in the sector for over 3 years	
The business is not dependent on just 1 person (keyman-risk)	
The management team communicates on time and transparent towards stakeholders	
The management team possesses operating and cash flow projected for the next year on a monthly basis	
The management team proposes, at least quarterly, financial figures	
There is a good track reconrd regarding the realization of projections	
The management team acts proactive on the basis of periodic reports	
The operational administration is automated (i.e. inventory)	
The members of the management team are also shareholders	
The major shareholder does not pursue an expensive life style	
The Credit Risk can be considered high if 3 or more questions are answered with "no" (i.e. 25%)	

A.19 Appendix XIX - Template Semi-Structured Interview

This appendix describes the general approach of the semi-structured interviews. The method of contacting the respondents is shortly touched upon as well as the design of the interview. Additionally, a template with key questions grouped into themes is presented.

After identification of the respondents, an –email has been composed by my supervisor (i.e. Ton van Krevel). The purpose of this e-mail was to introduce my name (i.e. Renée Houwers) and my research, nothing was requested yet. By doing so, my request for cooperation would not just come out of nowhere. Ton van Krevel as the sender of the e-mail has been chosen as Ton van Krevel has a good track-record within CORPORATE BANK (i.e. goodwill) and a significant part of the respondents know who Ton van Krevel is. Therefore, the chance of collaboration of the respondents would be higher if the request comes from Ton van Krevel rather than from me. The composed e-mail is send to the FR&R advisors and the account managers of the corresponding cases. Even though the FR&R advisors are the respondents of the interviews, it was valuable to also trigger the account managers as it was possible that I needed additional information regarding cases as well. The e-mail send by Ton van Krevel can be discovered in Appendix XX.

Thereafter, I contacted the FR&R advisor separately with a personal email (i.e. containing the name of the FR&R advisor and the name of the corresponding business) with the request of collaboration. Subsequently, a telephone conversation took place in order to make a face- to –face appointment for the interview. One or two days before the appointment of the interview, I contacted the FR&R advisor again to confirm the data and location of the interview.

The interviews took place in a closed and quiet room, not only to not be disturbed, but also to ensure the privacy of the information. On average, the interviews lasted 60 to 90 minutes. I consider this as an acceptable amount of time as every question could be covered without having the interviewer or respondent losing the attention.

Even though the interviews are semi-structured, rigorous preparation is valuable. Therefore, I prepared every single interview through studying the information which was already available.

Additionally, I employed a basic template for every interview. Yet, this template was refined at every single interview by taking into account the information retrieved from the documents. In general, an interview was structured as follow:

Name of the Business

FR&R advisor: *name displayed*

Account Manager: * name displayed*

Interviewee: "*At first, I would like to thank you for your collaboration regarding this important interview. The purpose of this interview is to find out why *name of the business* needed/needs assistance from FR&R. The structure of this interview will be as follows. First I will give you the time to introduce yourself, subsequently I will tell something about myself as well. After this introduction, I will argue why this interview is so important. The total interview will take approximately 60 minutes.*"

<< Introduction Respondent >>

<< Introduction Interviewee >>

<< Bridge towards the master thesis and introduction of the research question >>

> *"How do the M&A failure factors found in literature relate to the failure factors identified in the M&A practice of the CORPORATE BANK Bank?"*

Interviewee: *"Failed in this research implies transfer to FR&R. Therefore, the goal of this conversation is to identify the factors which contributed to the transfer to FR&R. This research is beneficial for CORPORATE BANK as CORPORATE BANK can anticipate on the results of this research and by doing so, better assess the risks. This is especially important since acquisition credit loans are financed with barely any collateral.*

The businesses within the scope of my research are identified. Through the use of EKD and Klantbeeld, I already could read some information regarding the business and regarding the transfer to FR&R. However, the retrieved information from the documents is not yet sufficient for the research. Therefore, I have decided to interview the FR&R advisor as the FR&R advisor is close to the business, objective and hopefully can provide additional information regarding the transfer to FR&R. I hope that the purpose of the research is clear as well as the reason why I would like to interview you?"

Respondent: confirms

Interviewee: *"The interview will be recorded. By recording the interview, I have full attention regarding asking the appropriate questions as I do not have to write everything down. Additionally, a recording of the interview allows me to ensure that all the information will be processed through verifying the information with the recorded interview. Yet, the recording will not leave CORPORATE BANK and will certainly not be handed in by the University. On top of that, the recordings will be destroyed after the information is processed. I fully realize that the information is sensitive and private. Note that I did the "Bankierseed" which labels my duty regarding sensitive information. Therefore, I hope that you do not have any objections regarding recording the interview?"*

Respondent: confirms

Interviewee: *"Do you have any questions before we start the interview"*

Respondent: answers

** Start Recording **

Interviewee: *"As I already could read some information about *name business*, I would like to start with presenting some general information about *name business* as an introduction. Subsequently, I have several open ending questions in mind. Additionally, there is room for supplementary questions. Not all the questions have been prepared as questions can also be dependent on your answers. Note that the question concern the period after the issuance of the acquisition credit loan until transfer to FR&R"*

<< General information about the business>>

<< The FR&R advisor confirms or extends >>

<< Start questions >>

- Why do you think that *name business* is transferred to FR&R ?

Managerial Problems

- How much/to what extend can management be held accountable for the transfer to FR&R?
- Can you extend on that answer? Can you provide examples?
- * dependent on previous answer * Would transfer to FR&R also been necessary if the management team acted differently (not an open question, rather seeking for confirmation).
- How do you assess the quality of the competencies of the management team?
- How do you assess the quality of the experience of the management team?
- The age of the entrepreneur at the time of the acquisition was XX. Do you see any relationship between the age of the entrepreneur and the transfer to the FR&R department? (and, what relationship?)

Human Aspects

- How do you assess the business culture within *name business* after the acquisition?
- What can you tell me about possible cultural differences between the former entrepreneur and the entrepreneur after the acquisition?
- What can you tell me about possible cultural differences between the new entrepreneur and the employees?
- What can you tell me about possible cultural differences between the employees?
- What can you tell me about the quality of communication within the business and towards stakeholders?
- What can you tell me about the employees? (i.e. touch upon resistance, unsatisfaction, level of motivation)

Integration Problems

- What was the quality of the integration process? (i.e. when the new entrepreneur entered the business, or when the two businesses were combined)
- << dependent on previous answer and the form of acquisition, additional questions are appropriate if it concerns a strategic acquisition or when the FR&R advisor extends on the integration process>>
- How much attention was dedicated to the integration process after the deal was closed?

Synergies

- What can you tell me about the intention of the acquisition?
- To what extend were anticipated synergies realized?
- What can you tell me about the quality of the estimation of potential synergies?

Valuation Problems

- The price of X% of the shares of *name business* was €X.000.000. Do you see any relationship between the price paid for the business and the transfer to the FR&R department? (And, what relationship?)
- What can you tell about the quality of the valuation method used to determine the price?
- What can you tell me about the relationship between the level of debt of *name business* and the transfer to FR&R?

Remaining

- The UCR at the time of issuance was X. Do you see any relationship between the determined UCR and the transfer to FR&R? (And, what relationship?)
- In general, do you think that CORPORATE BANK should act differently regarding the UCR? (i.e. should CORPORATE BANK consider the UCR as a more leading factor before issuing a credit loan? And why?
- What can you tell me about the relationship between the Economic Crisis and the transfer to FR&R? i.e. To what extend can the Economic Crisis be held accountable for the transfer to FR&R?
- To what extent can the sector *name business* is operating in being held accountable for the transfer to FR&R?
- What can you tell me about the relationship between a possible dependency on suppliers and the transfer to FR&R?
- What can you tell me about the relationship between a possible dependency on buyers and the transfer to FR&R?

- Are there any other factors which might have contributed to the defaulted acquisition credit loans that were not covered in this interview yet?

<< Last Questions >>

- What have been the most determinative factors regarding transfer to FR&R?

<< summarize the answers / direct and indirect factors regarding transfer to FR&R and asks confirmation from the respondent >>

<< In the case the business is still under treatment of FR&R, ask the following question >>

- What are your expectations of *name business*? Do you expect that this business will be transferred back to regular business or do you expect that the business will become bankrupt?

Stop Recording

Interviewee: *“Thank you for your collaboration. I considered this conversation as informative and pleasant at the same time.”*

<< Interviewee explains how the rest of the procedure of the research will be and offers to send the research or conclusions to the respondent so that he/she can see the result of the research>>

A.20 Appendix XX - E-mail to introduce the Research

Beste collega,

Graag doe ik een beroep op jullie.

Om de kwaliteit van onze Overname Kredieten verder te verhogen hebben wij Renée Houwers (trainee), gevraagd om hier een onderzoek naar te starten.
Ik stel het zeer op prijs als je haar van dienst wil zijn om de juiste informatie te verzamelen. Dit zal de kwaliteit van ons onderzoek beslist ten goede komen. (zie hieronder)

Alvast zeer veel dank.

Vr. groet,
ton...

Beste collega's,

Mijn naam is Renée Houwers en ik ben aan het afstuderen aan de Universiteit van Twente. Hiervoor doe ik een onderzoek voor de afdeling Business Management (Ton van Krevel) en dan specifiek voor de Financieringsspecialisten (Dirk-Jan van Winkelen en begeleider is Elroy Witzand).

Ik doe onderzoek naar 'gefaalde' overnames over de afgelopen 6 jaar. Het doel is om te achterhalen **waarom** deze financieringen in default zijn geraakt en assistentie nodig hebben/hadden van FR&R.

Om mijn onderzoek goed te kunnen uitvoeren heb ik ook jullie hulp wellicht nodig. Zodra ik de bedrijven in beeld heb die binnen de scope van mijn onderzoek vallen zou ik graag een afspraak met jullie willen maken om de case goed in beeld te krijgen.

Met vriendelijke groet,

Renee Houwers | BMR
CORPORATE BANK