U.PORTO
FEP FACULDADE DE ECONOMIA
UNIVERSIDADE DO PORTO

M&A Towards a Global Reach Strategy: Cross-Border M&A Success and Failure: The Case of Daimler-Chrysler Merger

Student name: Tarek ALDAOUD

Student number: 201300110

Dissertation

Master in Management

September 2015

Supervised by:

Advisors: Prof. Maria Catarina de Almeida Roseira & Prof. Miguel Augusto Gomes Sousa

Biographical Note

Tarek Aldaoud, born on July 3, 1987 in Damascus, Syria.

By 2012, he obtained from the University of Damascus, Syria, a bachelor degree in economics with specialty in accounting.

In 2013, he started a Master degree in Management at the University of Porto, Portugal, with Erasmus experience at EMLYON Business School in France. And this dissertation represents the finalization of his Master degree.

Acknowledgements

Firstly, I would like to start by thanking my family for their ultimate support during my studies abroad regardless of the hard circumstances they have been through. I also would like also to thank my friends who have always been there for me every time I needed support. Very special thanks to my friends Benoit Baulot and Chloe Allard, whom I will always be grateful to their help and support, I will always be in your debt.

Secondly, very special thanks for my supervisors, Professor Catarina Roseira and Professor Miguel Sousa. Without their help and professional guidance from the beginning and along the way I would not have improved the dissertation I am presenting here, I am grateful for all what they have done. Additionally, I would like to thank Professor Joao Rebeiro, Master Director, for his advices and support in the very beginning and during the two years of my master.

Lastly, I would like to thank all my master Professors from the University of Porto and EMLYON Business School, each and every one of them has taught me something valuable that has surely enhanced my academic qualifications and has motivated me to pursue my academic journey.

Abstract

The aim of this work is to shed light on corporate strategy and its drivers towards growth and sustainable development through strategic options such as mergers and acquisitions (M&As), a strategy mainly used when growth is to be rapidly realized.

As corporate structure becomes more complex with companies seeking rapid growth, diversified risk and global reach, mergers, acquisitions and alliances have become common practices for many companies during the last few decades. Whether the goal is domestic or international growth, diversification or new market entry, cost efficiency or increased sales, companies now are more aware of the importance of sustainable strategic growth to rapidly and more efficiently achieve their objectives. Motives behind such a step may vary from one company to another taking into account the many surrounding factors like the industry, the strategy of the firm and its vision towards a long-term sustainable growth and many other factors that would justify such a move. Unsurprisingly, more than half of M&As have been proven to be a total or (at least) partial failure and have failed to deliver the desired outcomes due to many reasons and factors that vary from a case to case.

Out of the importance and the promising outlook of cross border M&A as a corporate growth driver, and in order to bring a sound understanding of such a transaction, motives behind it, process and what may lead to success or failure, this dissertation will take a case study approach using DaimlerChrysler merger in 1998. This merger was the largest at the time with significant potential synergies and growth opportunities. However, and regardless of the high potential and strategic fit between Daimler-Benz and Chrysler, the significant differences between these two companies in terms of culture, governance and management style, as well as the mismanagement of this cultural clash after the merger, all of which had furthered the delivery of these synergies, triggered underperformance and consequently led to failure.

Key words: Corporate Strategy, Mergers and Acquisitions, M&A, M&A Success and failure, Daimler-Chrysler

Index

Index of figures

Index of tables

1. Introduction

1.1 Background of the study

Corporate strategies and structures have evolved in the last few decades and still are evolving and assuming more and more complex models as companies always look for a potential venture, partner or a new market. In this fast growing and changing business world, companies need to strive harder than ever to survive competition, achieve quality and excellence and take a lead in their respective market. Any step forward a company intends to take should be aligned, justified and rooted in its vision and core strategy in order for such objectives to be efficiently realized, and consequently deliver the desired value and promise to its stakeholders.

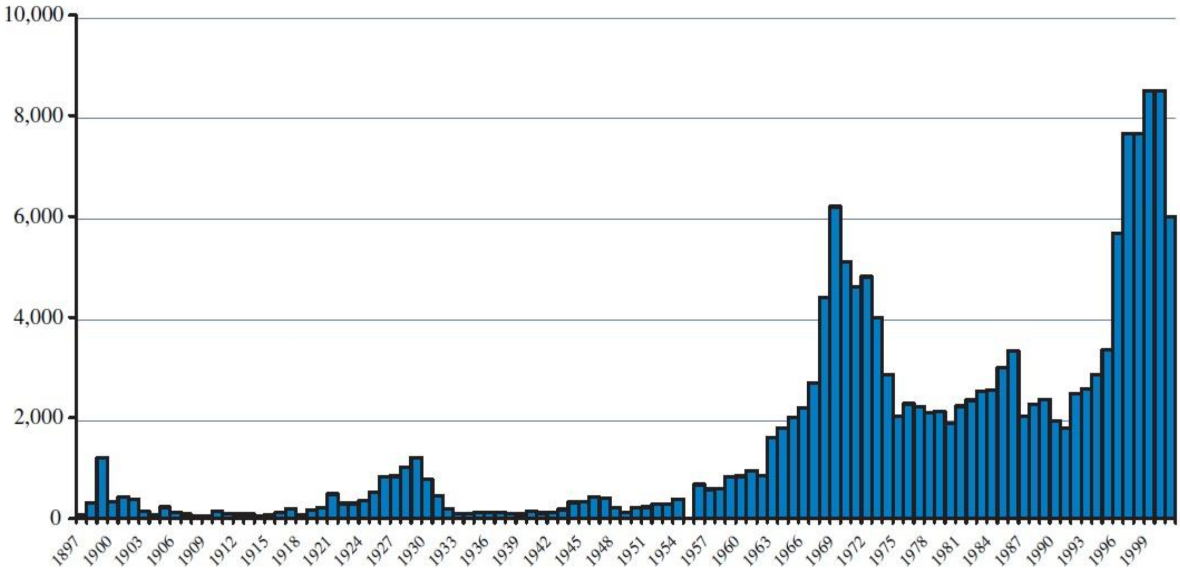
Therefore, strategic growth of any kind is a long-term objective and should be accompanied by solid ground and record of previous successes which would give the stakeholders of any company more trust and support to the management decisions and would give the management more credibility in leading the company forward (Kummer & Steger, 2008).

Mergers and acquisitions (in the following referred to as M&A) has been used as strategic tool for growth and expansion for more than a century and have had a significant impact on shaping the business world as we see it today. This dissertation seeks to understand the motives, process of M&As and try to investigate and understand what might drive this kind of transactions to success and whether we can predict and possibly better manage the factors that would trigger success. Motives behind M&As have changed since the first practices in late 1890s in the US (Sudarsanam, 2010), starting with horizontal mergers where two or more companies that operate and compete in the same product market combine their operations to gain market power and cut costs, to giant conglomerate corporations we see today where companies converge into M&As to execute their diversification strategy and better manage associated risk. Therefore, M&A is not an invention of recent times. It first appeared at the end of the 19th century, and since then, cyclic waves have been observed due to radical different strategic motivations (Jansen, 2002, in Picot 2002). A brief look backward at the evolution of M&As and the gradual changes that have occurred in motives and characteristics would help to better understand how M&A practices and motives have evolved.

The occurrence and reoccurrence of M&As have been characterized as waves of activities which have made a great transformation and profound changes in the business world and led to the complex corporate structures we see today, eliminating markets that were composed of small and mid-size firms and bringing the domination of multinational corporations (Kummer & Steger, 2008). M&A waves have been caused by combination of economic, regulatory and technological changes driving companies to consider M&A in order to preserve their competitive position in the market (Cordeiro, 2014). 2014 was an optimistic period for M&A with value of M&A reaching $1.75 trillion globally during the first 6 months of the year. As the business world seems to become more volatile, companies understand that this volatility might be the new standards and in such an environment M&A seems to be an easier way to buy growth rather than building it (Cordeiro, 2014).

Figure 1 represents the first 5 waves of M&A activities in the U.S, which is the country with the longest history of M&A and takeover activities going back to 1890s.

Figure 1: US Merger Waves up to 2000



Source: (Martynova & Renneboog, 2008)

The sixth wave took place later on in the late 2000s (Martynova & Renneboog, 2008). And we can clearly observe the significant increase in M&A the latest decades.

The first wave accompanied a massive restructuring for the American industry where consolidation of producers took place, creating what was called horizontal consolidation, while the second wave witnessed economic growth after the First World War and high industrial innovation, being more of a vertical integration oriented (Sudarsanam, 2010). The third wave in the late 1960s surpassed the first two waves and drew a shift in M&A vision as it involved mostly unrelated mergers aiming at achieving growth through diversification into new products' markets boosting the conglomerate era for M&As. Subsequently, the fourth wave in the 1980s was characterized by mega mergers' wave, and two types of activities took place: acquisitions and divestitures (Sudarsanam, 2010).

The fifth wave in the 1990s continued the objective of focusing more on core competences as a source of competitive advantage and the value of M&A deals was $1.6 trillion, while the 6th wave in 2000s which reached its peak in 2007 witnessed significant increase in international M&As (Sudarsanam, 2010). The 1980s and 1990s witnessed a huge rise in M&A activity as part of a global phenomenon having the European Union (EU) and the UK more present on the scene. Additionally, this was accompanied by increased deregulation and privatization to increase competitiveness. Globalization and high economic growth was fueling M&A deals across the world providing many opportunities to grow and internationalize, all up to 2007 (Sudarsanam, 2010).

Globalization has forced many companies to explore M&A as a mechanism towards developing an international presence and increasing their market share (Sherman, 2011). Cross border M&As increased from 23% of total mergers volumes in 1998 to 45% in 2007 (Erel, Liao & Weisbach, 2012). The huge interests in M&A as field of study as well as its importance and impact on the market and economy in a given geographical or economical area, makes it crucial to further examine causes and factors that led and may lead in the future to success or failure of M&As aiming at bringing a sound understanding of the dynamic of these transactions and their outcomes.

Table 1 can provide an example of the increase in M&A deals' value across the world after 1999.

Table 1: Largest M&A deals worldwide after 1999

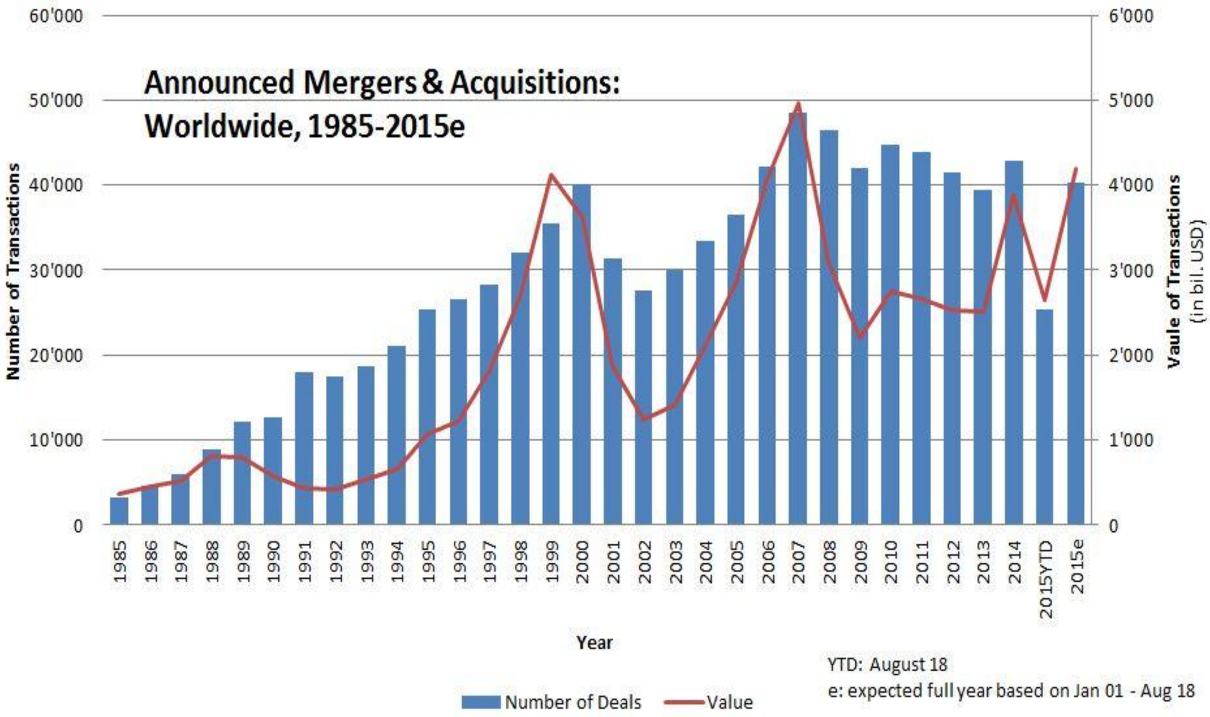
Rank	Year	Acquirer	Target	Transaction value (in bill. USD)	Industry
1	1999	Vodafone AirTouch PLC	Mannesmann	202.8	Telecommunication
2	2000	Merger: America Online Inc. (AOL)	Time Warner	164,7	Mass Media
3	2007	RFS Holding BV	ABN-AMRO Holding NV	98.2	Financial Services
4	2000	Glaxo Wellcome Plc.	SmithKline Beecham Plc.	76.0	Pharmaceuticals
5	2004	Royal Dutch Petroleum Co.	Shell Transport & Trading Co.	74,6	Oil and gas
6	2006	AT&T Inc.	BellSouth Corporation	72,7	Telecommunications
7	2001	Comcast Corporation	AT&T Broadband & Internet Svcs	72,0	Telecommunications
8	2014	AT&T Inc	DIRECTV	65,5	Media and Entertainment
9	2004	Sanofi-Synthelabo SA	Aventis SA	60,2	Pharmaceuticals
10	2000	Spin-off: Nortel Networks Corporation		60.0	Telecommunications
11	2002	Pfizer Inc.	Pharmacia Corporation	59,5	Pharmaceuticals
12	2004	Merger: JP Morgan Chase & Co.	Bank One Corporation	58,8	Banking

Source: Institute of Mergers, Acquisitions and Alliances (http://www.imaa-institute.org) / the statistic Porter (http://www.statista.com/)

1.2 Motivation

M&As are one of the most common practices for firms looking for a rapid growth, and consequently have become a common phenomenon in recent times as the M&A scene has witnessed stable growth on a domestic as well as international level, especially after the recent financial crisis in 2007 (Gupta, 2012). Figure 2 represents the value and number of M&A deals worldwide.

Figure 2: Value and Number of M&A deals Worldwide



Source: Institute of Mergers, Acquisitions and Alliances (http://www.imaa-institute.org)

M&As certainly are not only a good way, but also a sound tool, to realize strategies in certain contexts when they are carried out properly and thoughtfully in line with the core corporate strategy. In general, the desire for M&As to be viable solutions is not a false hope, the key is the way in which they are approached (Kummer & Steger, 2008). As Sudarsanam, 2010 (p.110) states "The challenge for managers is to craft a winning business and acquisition strategy, structuring the deal correctly is another challenge."

Therefore, there is an interesting field of study with many opportunities for future research that would provide more evidence in regards to dynamism and performance in M&As.

1.3 Relevance and research goals

An M&A under the right circumstances is a value creation mechanism (Bruner, 2002), and due to the fact that an M&A can rapidly execute a growth strategy comparing to other growth tools like organic growth, makes the understanding of the strategic fit, of the motives to undergo a merger or an acquisition, of the process of an M&A and the impact of internal and external factors on the deal outcomes, a very valuable piece of knowledge. This knowledge is a key to understanding how we could deliver the desired outcomes and how an M&A transaction may avoid failure.

The topic of M&A as a strategic mechanism towards growth and maximization of corporate value has been increasingly investigated in the last two decades (Appelbaum, Lefrancois, Tonna & Shapiro, 2007) in response to the rise in M&A activities as well as to the increasing complexity of those transactions (Gaughan, 2010). Stahl & Mendenhall (2005) state that “despite the extensive body of research on M&A that has accumulated over the last thirty years, the key factors for M&A success and the reasons why so many M&A fail remain poorly understood” (Stahl & Mendenhall, 2005), cited by (Rottig, 2007, p. 113), which highlight future opportunities for further research.

The complexity of businesses and the rapid change that dominates the scene, as well as the inconclusive findings in international M&A performance (Blaško, Netter & Sinkey Jr, 2000; Rottig, 2007) emphasize the necessity for continuous research in order to enrich reliable and credible records to contribute to a better understanding of the dynamic of M&A and its value drivers. Understanding factors and reasons behind success and failure would allow academics to continuously enrich a solid literature in that area of research as well as let business practitioners benefit from historical and previous research and practices, in an attempt to optimize outcomes and possibly increase possibilities for success.

On the other hand, understanding why companies consider M&A as a viable tool to follow their corporate vision and whether it is strategically fit is of vital importance for a successful company. Moreover, understanding the transition that the company experiences when it decides to undergo an M&A, the measures that exist to evaluate the performance of the new business entity and the impact of industry structure and cultural related factors, contribute to better outcomes.

Around the world, M&A activities have witnessed a significant rise triggered by globalization. However up to 83% of those deals underperformed (KPMG, 1999; Moeller & Schlingemann, 2005; Sirower, 1997) cited by (Rottig, 2007). Cross-border deals (acquiring and target companies that are from different countries) are an unexplained paradox. Despite the low success rate, it is still a popular strategy for companies that are looking for global reach (Rottig, 2007). Therefore, having a sound understanding of why companies consider this type of transaction is of particular importance to answer the following question:

- *What can drive success or failure in a cross-border M&A deal?*

1.4 Structure

To pursue the research goal, the study is organized as follows: Following this introductory chapter, the second chapter will construct the literature review that relates to the main goal of this work which is providing a sound understanding of M&A as a strategic growth driver, the nature and mechanism of this transaction and its value drivers. The third chapter will introduce the chosen methodology, a case study approach that will be applied in the forth chapter to analyze DaimlerChrysler merger in light of the reviewed literature. The fifth chapter will represent the conclusion of this work and implications for future research.

2. Literature Review

This chapter provides a in-depth review of the M&A literature and constructs a theoretical understanding, which directly relates to the goal and main question of this work on understanding the M&As in terms of success and failure factors and drivers in a cross-border set. After providing a brief definition of corporate strategy (section 2.1), followed by the definition of M&A (section 2.2), the different classification of M&A deals (section 2.2.1), motives and rationale behind M&A (section 2.2.2), M&A as a process of different stages (section 2.2.3), success and failure factors and drivers (section 2.3), the impact of industry on M&A (section 2.3.1), the impact of culture on M&A (section2.3.2), wrapping up with a section on M&A performance measures (section 2.4).

2.1 Corporate Strategy

The literature on corporate strategy has provided a fair and enriched comprehension of corporate strategy as a discipline and of M&A as a strategic option to expand and grow. And while the focus of this work is on M&A, the review regarding corporate strategy will be brief to the extent that frames M&A as a highly strategic activity.

As a simple definition, *Corporate strategy* is the long term direction of an organization and is concerned with the overall scope and core existence of an organization and how value is added, all strategic decisions are made at this level (Scholes, Whittington & Johnson, 2011).

Adaptation and repeated evaluation of the validity of a corporation strategy in the long term is of great importance towards maintaining a successful strategy, Rumelt (1993) argues that "Strategy can neither be formulated nor adjusted to changing circumstances without a process of strategy evaluation" and "Strategy evaluation is an attempt to look beyond the obvious facts regarding the short-term health of a business, and instead to appraise those more fundamental factors and trends that govern success in the chosen field of endeavor." (Rumelt, 1993, p. 1).

Strategic decisions such as growth and expansion through M&As or alliances provide an essential element of a successful business strategy and impact the whole organization. The choice to expand domestically or internationally is a crucial decision, and in some cases, it is a matter of survival and will determine the future of a company. Clear and sound strategy is a key to success for an organization and the starting point of any desired success, as it provides stakeholders with a better understanding of what values this company stands for and how it is going to maximize its market share, staying ahead of competitors and fulfilling stakeholders' expectations.

2.2 Mergers and Acquisitions

A merger or an acquisition occurs if at least two companies join together part or all of their operations. The main purpose of M&A is to create/add shareholders value, meaning that the combined firms have a higher value compared to the separate companies. The higher value can result from higher cost-efficiency, higher competitiveness, advanced R&D, new technologies, acquisitions of talents and competencies, all of which could be achieved through synergies and management expertise.

And while M&A are frequently used together in one term, there exist some differences between a merger and an acquisition regarding ownership, management control and the relative size of the separate corporations as compared to the combined business (Coyle, 2000)**.** A merger occurs when two or more companies agree to combine their businesses and continue as one new firm rather than operating and remaining separately owned with a view to combine the firms' resources into a new single company. And in the strictest definition, the merging firms' shares are replaced by the new company's, whereas the management control and the ownership remain with the pre-merger management and the stockholders. The merging companies have an equal stake in the new firm, which is why such a merger is also called a "merger of equals" (Snow, 2011).

Therefore, we can conclude that a merger happens if:

- none of the involved firms is considered to be an acquirer, and so all involved firms have same interests in initiating and pursuing the deal;
- the firms have a similar size so one does not dominate the other when they are combined;

- the two companies form the new management structure;
- very little cash is involved. Instead, a share swap, i.e. the exchange of one asset for another, takes place.

Mergers are much less common than acquisitions, because in reality, it is very rare that two companies are truly equal and can co-exist in a merged fashion. In practice, one company always dominates the other.

A good example of a so-called merger of equals was the merger between Daimler-Benz and Chrysler into DaimlerChrysler in 1998. Although labeled as merger of equals Daimler’s top management was controlling the new company, which shows that mergers in its purest form are very rare (Hollmann, Carpes & Beuron, 2010). In fact, business practice has shown that "the number of “real” mergers is so low that, for practical purposes, “M&As” basically mean “acquisitions”" ("World Investment Report: Cross-border Mergers and Acquisitions and Development," 2000).

An acquisition occurs if one corporation either buys a controlling interest in another company’s stock, a business operation including the assets or the entire business entity. In an acquisition, the purchase can either be paid in cash or with stocks of the acquirer. If the purchase is paid with stocks of the acquirer, the stockholders of the target company sell their stocks to the acquirer and receive stocks of the acquiring firm in return. In a cash payment, the stockholders of the target firm receive cash in return for their shares in the target. An acquisition can also involve both cash and shares (Coyle, 2000).

Acquisitions can be full acquisitions that is where the acquirer buys all the shares of the target, or partial acquisitions where the buying company acquires a controlling interest in the target, which is usually above 50% of the equity but below 100% (Coyle, 2000).

2.2.1 Classifications of M&A transactions

M&A take different forms in terms of deal characteristics (Table 2), and have evolved overtime according to firms' needs and objectives as well as changes in the business world.

Table 2: M&A Classifications

M&A Classifications		
Value Chain	**Bid's Characteristics**	**Economic/Geographic Area**
• Horizontal M&A • Vertical M&A • Conglomerate M&A	• Friendly M&A • Hostile M&A	• Domestic M&A • Cross-border M&A

Source: Adapted from (Chen & Findlay, 2003; Gaughan, 2010)

In the perspective of the value chain, M&As could be classified as following (Chen & Findlay, 2003; Gaughan, 2010):

- *Horizontal M&A.* Involves two or more companies operating and competing in the same product market combine their operations to gain market power;
- *Vertical M&A.* Happens between two companies producing different goods or services for one specific finished product. A vertical M&A occurs when two or more firms that are operating at different levels within an industry's supply chain decide to merge operations. An automobile company joining with a parts supplier would be an example of a vertical M&A;
- *Conglomerate M&A.* Occurs between firms that are involved partially or completely in unrelated business activities for the goal of diversification. An example of conglomerate M&A is Philip Morris, a tobacco company, which acquired General Foods in 1985 for US$5.6 billion (Gaughan, 2010).

In terms of bid characteristics and how the target is approached, M&A could be classified as hostile or friendly (Chen & Findlay, 2003):

- *Hostile.* The management of the target firm reject the acquisition offer and the acquiring firm makes the offer directly to shareholders offering a higher price than the market price;
- *Friendly.* Occurs when management of the target firm approves the acquisition offer.

In terms of market regions and with regards to where the companies involved have their home base and operate, M&A could be classified as domestic or cross-border (Chen & Findlay, 2003):

- *Cross-border M&A.* Occurs when the two firms involved are located in different economies, or they are operating within one economy but belonging to two different countries;
- *Domestic M&A*. Happens when the involved companies originate within one country and accordingly operate in that one economy-country.

2.2.2 The motivations for M&A

Daniel Vasella, CEO of Novartis in 2002 stated that "It is clear that you cannot stay in the top league if you only grow internally. You cannot catch up just by internal growth. If you want to stay in the top league, you must combine" (Gupta, 2012, p. 61).

The primary motivation for M&A deals is the quest for rapid growth. When internal growth initiatives do not materialize, or there are no other organic growth options, M&A transactions prove to be a favored way to achieve and accelerate growth (Kummer & Steger, 2008). Gammelgaard (2004) stated that nowadays the most significant motives behind M&A are market share growth and synergies, followed by competence-based, diversification and financial synergies.

Several authors have studied the motives behind M&A (Blaško et al., 2000; El Zuhairy et al., 2015; Gammelgaard, 2004; Motis, 2007; Mukherjee, Kiymaz & Baker, 2004), and the rationale behind M&A seems to vary from one deal to another:

- *Market exploitation*. As M&A strategy could accelerate growth, increase sales, give access to new markets, and consequently lead to greater market power (Blaško et al., 2000; El Zuhairy et al., 2015; Gammelgaard, 2004; Motis, 2007);
- *Diversification*. M&A can help the company in reducing and better managing the risk associated with a firm portfolio of businesses, and increase market share through new segments and new product lines (El Zuhairy et al., 2015; Gammelgaard, 2004; Motis, 2007);

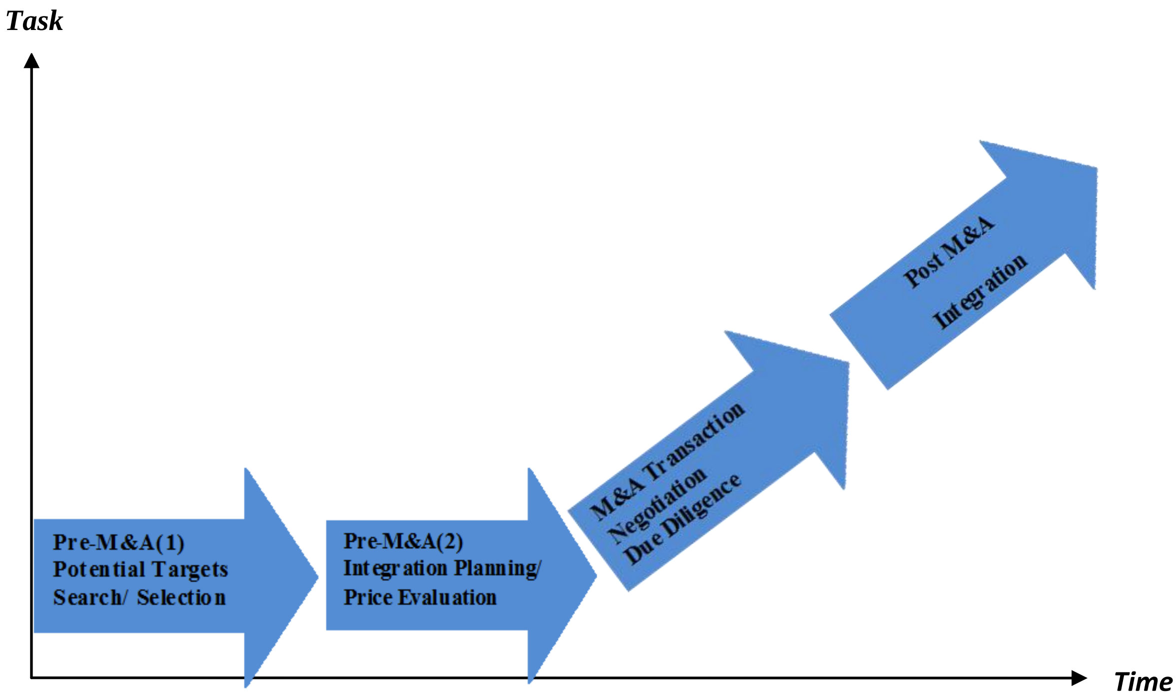
- *Financial synergies*. As M&A can reduce the financial costs through a change in debt/equity ratio, provide potential tax advantages and thus present a change in the cost of capital. Additionally, M&A may exploit financial strengths through cost reduction, as M&A can lead to economies of scale and scope and in certain circumstances an acquisition can provide access to cheaper resources (Blaško et al., 2000; El Zuhairy et al., 2015; Gammelgaard, 2004; Motis, 2007; Mukherjee et al., 2004);
- *Non-financial synergies*. An important driver of M&A, when complementary resources are pooled together producing higher efficiency, like R&D and patents (El Zuhairy et al., 2015; Gammelgaard, 2004; Motis, 2007; Mukherjee et al., 2004);
- Exploration of competences. Through M&A a company can gain access to certain competences, such as unique employee skills or knowledge, which can lead to a sustained competitive advantage (Gammelgaard, 2004; Graham, 2005; Motis, 2007). Furthermore, M&A has become a talent acquisition strategy, as in many cases buyers are not necessarily looking for a target companies' hard assets, but rather are more interested in thoughts, ideas, expertise and people. Graham (2005) suggested that the free market is better at identifying talent, and that traditional hiring practices do not follow the principles of free market because they depend heavily upon credentials and university degrees. Graham identified the trend in which large companies such as Google, Yahoo or Microsoft were choosing to acquire startups instead of hiring new recruits (Graham, 2005);
- Improved management which could be brought to the target firm by the acquirer, as the acquirer may believe that its management skills and expertise would drive the value of the acquired firm to rise under its control (Blaško et al., 2000; Gaughan, 2010).

Motives impact the company's decision whether M&A is the right strategy to implement. Therefore a profound understanding of the company's motives behind M&A is significant to justify M&A as a better strategy to consider (El Zuhairy et al., 2015).

2.2.3 M&A as a process

The complex process which M&A represents has attracted the interest and research attention of a broad range of management disciplines including those exploring financial, strategic, behavioral, operational and cross-cultural aspects of this challenging and risky activity (Cartwright & Schoenberg, 2006), pinpointing that success seem to be the result of multiple factors connecting on the different levels of the M&A process (Gomes, Angwin, Weber & Yedidia Tarba, 2013). Figure 3 represents the process of M&A and its gradual complexity.

Figure 3: Process and Task Complexity of M&A



The Process and Task Complexity of

Source: Adapted from (Kummer & Steger, 2008)

In a transaction as complex as M&A, there are many potential problems and pitfalls. Some of these problems may arise in the preliminary stages of the process, such as forcing a deal that should not be made as a result of mistakes, errors, rushed or misleading planning, or the post-merger integration process between the companies, which may then become a fiscal or organizational nightmare (Sherman, 2011).

The starting point is the identification of a target that complements the acquirer's growth strategy and goal behind that deal. It clearly takes time and efforts to identify the right target company and the “right fit” in terms of product, strategy, financials, and people. And given the substantial commitment of financial and human resources to the task of corporate development, corporations should do everything they can to ensure their transactions are successful (Schmid, Sánchez & Goldberg, 2012).

The identification and selection of a target firm is followed by due diligence, an important investigation that may require external consulting, aiming at a more detailed analysis and valuation towards an accurate picture of the target. Furthermore, due to its importance, it should be given high attention, because at this stage we still can control and predict but yet not guarantee on the outcomes of this deal (Gomes et al., 2013). Thorough evaluation and investigation of the strategic, financial and cultural fit of both entities during due diligence could be a determinant of M&A's outcomes as analysis reveals that detailed evaluation of the target firm's employees and business capabilities improves M&A performance (Ahammad & Glaister, 2013).

After the deal closes comes the most important stage of the transaction which is the post-M&A integration, holding a huge impact on determining the deal's outcomes because the potential success, as well as the actual realization of the expected synergies will surface after the deal closes. The integration phase is a complex task and in many cases insufficient integration was a major contributor to an M&A failure. Therefore, the organizational and cultural fit of the target should be considered and how those two different cultures and business models could be actively integrated, and integration should proceed quickly as competition will not stand aside (Sudarsanam, 2010).

Integration is the most critical stage where the potential of a deal could be spoiled, and the speed of the integration phase is often seen as a very important success driver and yet its importance is underestimated (Kummer & Steger, 2008). Change may be seen as easy and fast to achieve while reality proves the opposite in many occasions. In order for a change to occur and be deeply realized, a profound change in the whole organization's levels should take place and be strictly followed. Changes implemented during the very early beginning of the integrations are rather scratches on the surface and the real transformational change will need tremendous efforts and following on to be profoundly realized (Abbas, Aroosh, Butt & Zafar, 2014; Kummer & Steger, 2008).

It is clear that the due diligence, valuation, analysis and negotiation that precede cannot guarantee the success, as the synergies and assumptions that supported the decision to acquire a firm will be realized only if the acquirer effectively integrates that target. "A clear, strategic rationale for an acquisition is critical, but not enough to guarantee a successful deal and merger integration. The rationale helps to identify the right target and set boundaries for negotiations, but the hard work remains of bringing two companies together effectively" (Gadiesh, Ormiston, Rovit & Critchlow, 2001, p. 190). Unfortunately, many acquirers neglect the importance of planning the integration ahead and consequently either fail to integrate the target adequately or conduct the integration process too slowly (Venema, 2012).

2.3. M&A Success and Failure

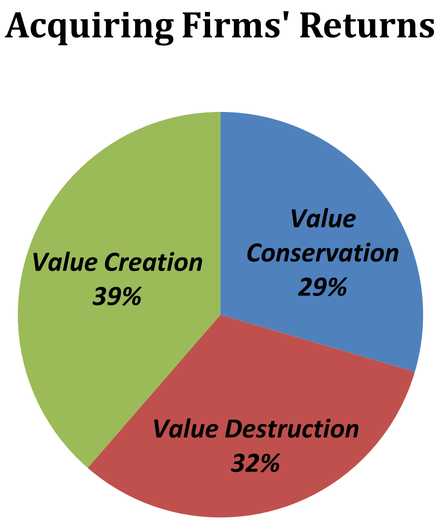
The question of cross-border M&As success and constitutes the focus of this work. Domestic and cross-border M&As share the majority of motives, risks and success and failure factors. However, cross-border deals bear more uncertainty due to added elements like cultural and geographic differences, governance differences, currency, compensation policies and legal formalities (Erel et al., 2012; Rottig, 2007).

This section will shed light on some of the findings of empirical studies that focused on M&As success and failure as well as its critical factors.

Succeeding in M&A has never been an easy task. Gadiesh et al. (2001) revealed "it is calculated in several well-structured studies that 50-70% of the acquisitions actually destroy shareholder value instead of achieving cost and/or revenue benefits" (Gadiesh et al., 2001, p. 188). Companies spend more than $2 trillion on acquisitions annually, yet study after study indicate a failure rate of M&As somewhere between 70% and 90% (Christensen, Alton, Rising & Waldeck, 2011). Furthermore, studies suggest that cross-border acquisitions perform worse than within borders with 83% more poor performance (Moeller & Schlingemann, 2005).

Evidence shows that while M&As bring positive short-term returns for shareholders of target firms, the long-run benefit to investors in acquiring firms is more questionable (Cartwright & Schoenberg, 2006). Bruner (2002) summarized 44 studies which focused on acquiring firm shareholders returns and the findings are presented in figure 4:

Figure 4: Acquiring Firms' Returns



Source: Adapted from (Bruner, 2002)

Meeks (1977) in a study of 223 transactions between 1964 and 1971 in the United Kingdom found that two-thirds of acquirers performance were below the standards of industry in terms of changes in ROA (return on assets), cited by (Bruner, 2002).

Nevertheless, and regardless of the low success rate of M&A and poor performance, companies still consider M&A as a viable and a popular mean towards rapid growth (Rottig, 2007). This emphasizes the importance of M&A as a corporate growth mechanism as well as an interesting research topic, and leaves significant future research opportunities toward better understanding of performance drivers and the complex paradox that M&A represents.

Many direct and indirect reasons proved to be correlated with a deal's outcome. Bruner (2002) attributed failure to the following factors:

- Insufficient assessment of the target firm, which could lead to failure in capturing the desired synergies and the elements that made this deal viable in the first place;
- Too much focus on the financial aspects of the deal;
- Premium paid is too high as result of the pressure from the management to make something happen;
- M&A as part of an outdated strategic plan;
- Lack of experience in integration of the entities.

Additionally, (Gadiesh et al., 2001) identifies five causes of failure, which are:

- Poor understanding of the strategic levers;
- Overpayment for the acquisition based on overestimation of enterprise value or overconfidence from management (hubris);
- inadequate integration planning and execution;
- A void in executive leadership and strategic communication;
- Severe cultural mismatch.

The motive behind a merger whether to diversify or to focus is of great significance to the outcomes. Diversification proves to destroy value and so the relatedness of the merging firms businesses seems to be positively associated with returns (Bruner, 2002). Maquieira, Megginson & Nail (1998) found negative but yet insignificant returns to buyers in conglomerate deals in comparison to positive and significant returns to buyers in non-conglomerate deals (Maquieira, Megginsonb & Nail, 1998).

Moreover, payment method could contribute to the deal results. Cash-deals prove to have zero or slightly positive return on the announcement day in comparison to stock-deals that have negative returns. Cash-deals appear to outperform stock-deals in terms of shareholders returns (Sudarsanam, 2010), as stock-deals might be seen as signal of overpriced shares of the acquirer (Bruner, 2002). However, in cash transactions, acquirer's shareholders take on the entire risk that the expected synergy value embedded in the acquisition premium[1] will not materialize. While in stock transactions, this risk is shared with the target shareholders (Rappaport & Sirower, 1999).

Gomes et al (2013) emphasized the need to consider the interrelationship between variables and factors along the M&A process after identifying the success factors that relate to two dimensions of the process, the pre and post M&A, presented in table 3.

Table 3: Pre- and Post-acquisition success factor

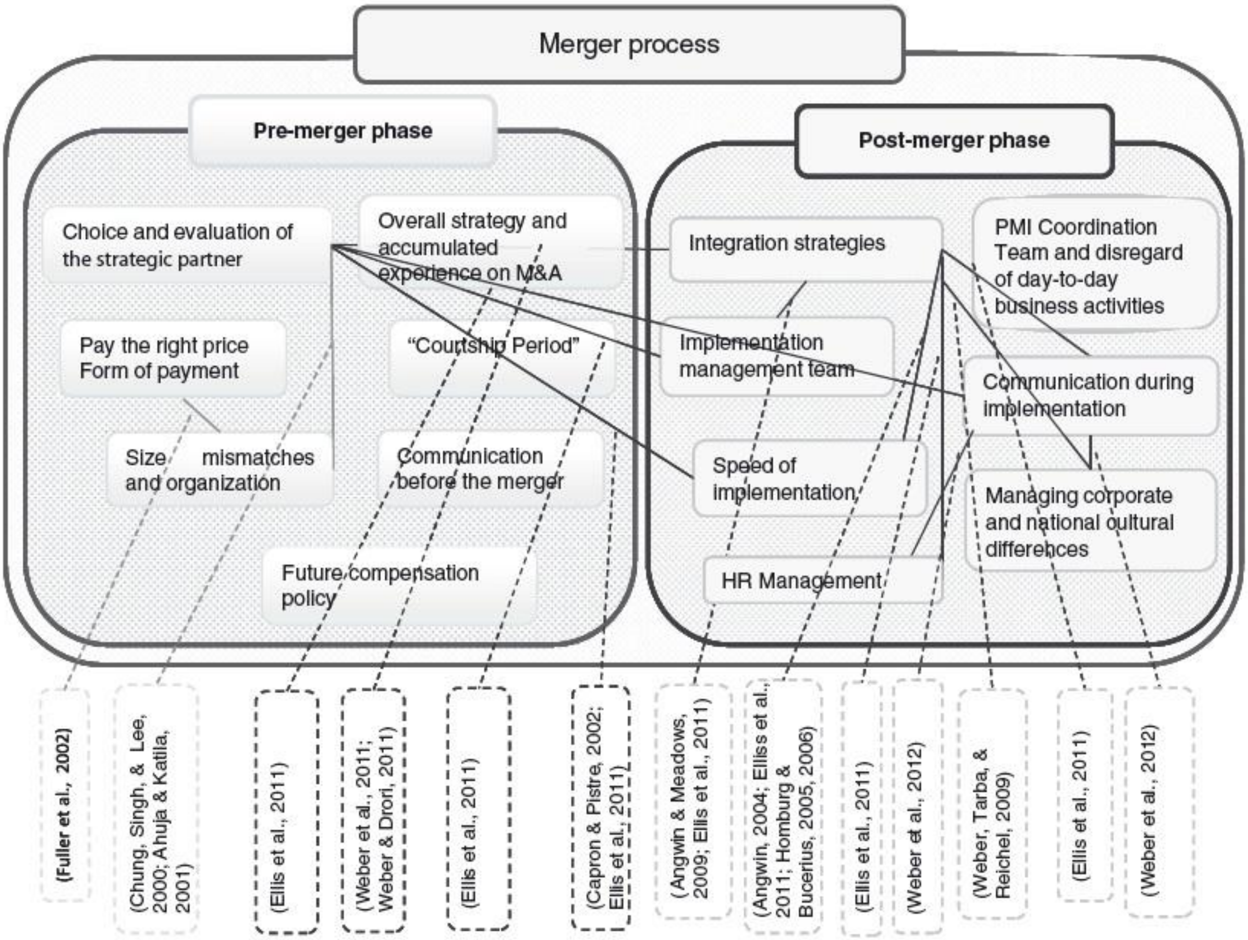
Pre-merger success factors	***Post-merger success factor***
Choice and Evaluation of the Strategic Partner	Integration Strategies
Pay the Right Price	Post Acquisition Leadership
Size Mismatches and Organization	Speed of Implementation
Overall Strategy and Accumulated Experience on M&A	Post-merger Integration Team and Disregard of Day-to-Day Business Activities
Courtship	Communication During Implementation
Communication Before the Merger	Managing Corporate and National Cultural Differences
Future Compensation Policy	

Source: Adapted from (Gomes et al., 2013)

After categorizing success factors within those two dimensions, pre and post merger, Gomes et al (2013) emphasized the necessity to understand and investigate the interrelationships between the pre and post M&A success factors towards a better M&A performance. Figure 5 presents the possible interrelationship between the pre and post M&A success factors (Gomes et al., 2013).

[1] Acquisition premium: The difference between the estimated real value of a company and the actual price paid.

Figure 5: Summary of Pre- and Post-acquisition Phase-Critical Success Factors and Studies of Interrelationships

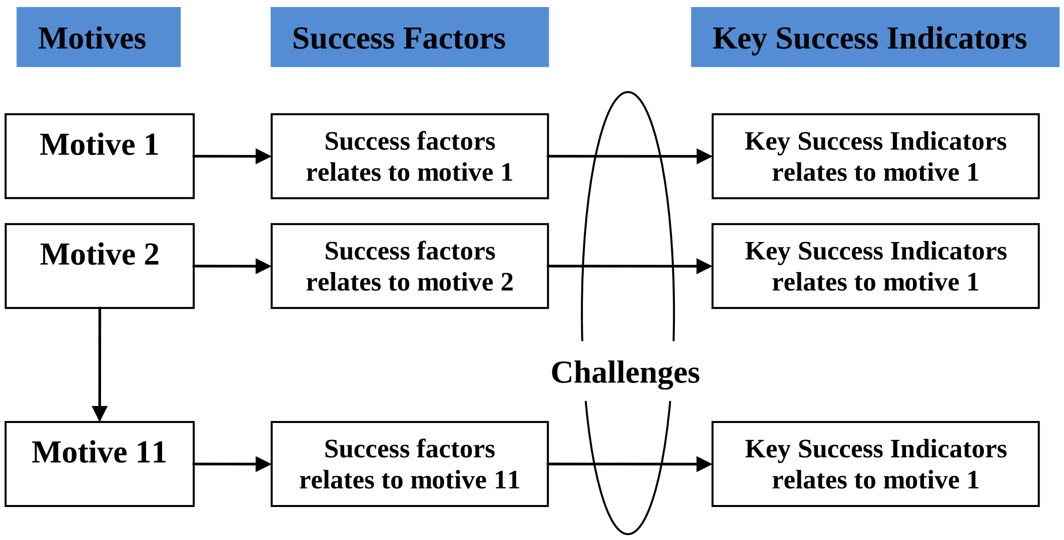


Source: (Gomes et al., 2013)

This framework represents the possible interrelationships between pre and post merger variables as a better understanding of this link could bring an improved M&A performance, as well as it is an attempt from authors to fill the lack of research about interrelationships between critical success variables in the pre and post merger phase (Gomes et al., 2013).

A recent framework proposed by El Zuhairy, Taher & Shafei (2015), suggests the connection between motives and actions taken towards realization in an attempt to bring a successful execution of M&A, presented in figure 6.

Figure 6: M&A Framework



Source: (El Zuhairy, Taher & Shafei, 2015)

Figure 6[2] represents a framework that suggests the connectivity between motives and success factors related to each motive, as well as key success indicators the measure the achievements of those goals. Motives constitute the actual objectives for the management to achieve, success factors being management practices, actions and strategies to bring those objectives to realization, and key success indicators being the proper measures that represent the extent to what those objectives have been achieved (El Zuhairy et al., 2015).

Realizing short-term goals in terms of integration is easy and generates quick wins. However, early wins could represent just 20% of all synergies since the ultimate success or failure of M&As comes in the later stages of integration (Kummer & Steger, 2008). Therefore, first steps in the M&A process could be easily done, but yet not enough to guarantee the long term success.

While the later stage is more complex and will require more efforts towards a successful realization. During this stage the internal dynamic of the organization and people could be underestimated, as some resistance might show up and delay the realization of M&A.

[2] Full version of the framework is provided in Annex 1.

In an attempt to explain the low success rate of M&As, Kummer & Steger (2008) presented what they called *The Vicious Circle of Mergers and Acquisitions*, as presented in figure7, trying to illustrate why an M&A failure happens and likely might continue reoccurring (Kummer & Steger, 2008).

Figure 7: The Vicious Circle of Mergers and Acquisitions

Pressure (Internal/External) to realize growth

↓

Overconfidence of executives and promoters

↓

Unrealistic expectation about price, speed and other aspects

↓

Commitment to M&A as an only viable choice

↓

Point of no return: Decision for/against M&A transaction

↓

Resistance, especially during the post M&A integration

↓

Failure, External and internal attributions for failure

Source: Adapted from (Kummer & Steger, 2008)

This circle shows the impact of the human aspect on the organizational behavior. The pressure to grow and overconfidence by executives and promoters (e.g., consultants, investment bankers) lead to unrealistic expectations about the speed. Ease and quick rewards of M&As might lead the company to commit to a new M&A as an only way and give it another try. With the possibility of and the decision to do, an M&A transaction produces reinforcing feelings. Successes might be realized, especially early on in the integration process where goals are relatively easily met (the quick and easy wins). Unless there have been no mistakes made at this point, like choice of the wrong target or the payment of a too high premium, etc., the integration phase is where the "make or break" takes place and resistance shows up (Kummer & Steger, 2008). Failed M&As add more to the pressure to grow profitability causing *the vicious circle* to start all over again (Kummer & Steger, 2008).

External factors like industry tends to have an impact on M&A outcomes, the following section will be dedicated to discuss this impact.

2.3.1The impact of industry on M&A

Industry has had a significant importance in shaping the M&A landscape especially when certain industry is heading towards consolidation which was the case for DaimlerChrysler merger, the selected case study for this dissertation. Therefore this section will discuss the impact of industry on M&As outcomes.

M&As represent a prominent phenomenon of the developed capitalist world, growth of the company through M&A provides access to new markets and resources, and the success or failure is of great importance not only for the companies involved, but also for the overall economy (Herd & McManus, 2012).

Internal organization variables such as strategy, structure and culture, management style and technology are typically pointed out as the most important variables that influence M&A success, while little or no attention is directed to industry structure as an external organizational variable on which company's long-term profitability depends. A study done by Accenture[3] had emphasized the importance of industry structure on the success or failure of a M&A. Less concentrated industries tend to create more value from M&A transactions than heavily concentrated industries justifying by the fact that less concentrated industries tend to be less mature and less regulated than more concentrated industries making change easier to enact (Herd & McManus, 2012).

[3] Accenture is a multinational management consulting, technology services, and outsourcing company. It is the world's largest consulting firm as measured by revenues and is a Fortune Global 500 company .

Porter (1980) defines the industry as a group of companies that produce a range of products that are close substitutes as for example all companies who produce telecommunication equipments can be grouped in the same industry because they use the same raw materials and technology (Porter, 1980).

Kandžija, Filipović & Kandžija (2014) in an attempt to identify the impact of industry structure on the target company's performance, have emphasized the necessity of defining terms such as industry and market. Although the concepts of industry and market have been identified, there is a difference between these two terms. "The industry can be seen as a group of companies that produce and sell similar products using the same technology, and that compete for production factors in the same markets, whereas markets can be viewed through geographical or product areas where the companies compete" (Wilson & Lipczynski, 2001).

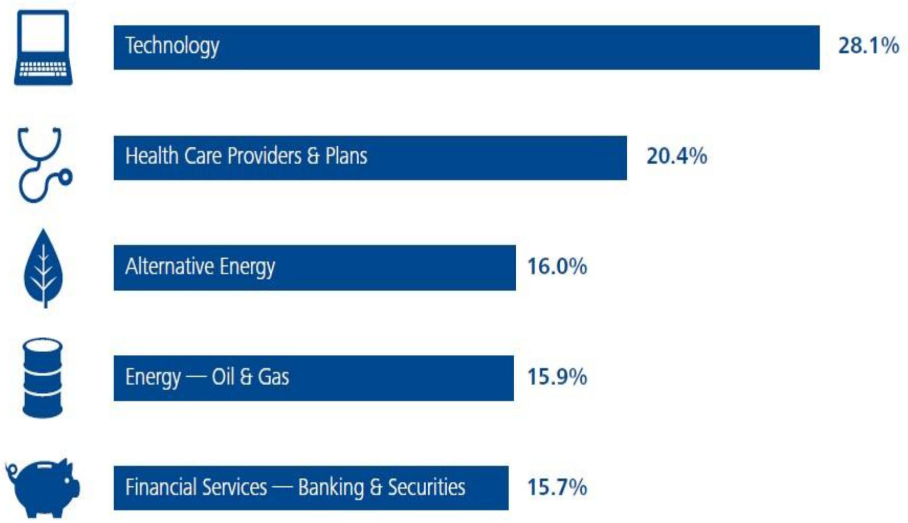
It is necessary to indicate that the market defines the place and manner of interfacing supply and demand in order to satisfy some needs, as well as all the actors involved in the process. In contrast, the industry does not consist of all the participants in the market (Kandžija, Filipović & Kandžija, 2014).

Industry structure may range from a highly fragmented to a firmly consolidated industry. The fragmented industry is an industry with a large number of small or medium-sized enterprises, none of which is in a dominant position, nor does it have the power to shape the industry events (Porter, 1980). The consolidated industry is an industry dominated by one company or a small number of large companies. The main feature of this type of industry structure is the interdependence of companies, which is reflected by the fact that the actions of one company affect the profitability of others, as well as their market shares. The more concentrated the industry, the more likely it is for the companies in the industry to recognize their interdependence and therefore avoid strong rivalry that can reduce everyone’s profitability (Kandžija et al., 2014). Kandžija et al. (2014, p. 22) in their research concluded that *"the lower the concentration ratio of the target company's industry, the more successful is the target company's performance after the takeover"*.

Changes in industry structure pose a challenge for companies that operates in this industry to take extra efforts to preserve their competitive position, some of which react by undertaking takeovers, these takeovers themselves will lead to further structural changes that other firms may react to as a "me too" move (Sudarsanam, 2010).

Given everything we have said before we can conclude that industry structure has an impact on M&A outcomes and it is necessary to analyze the ability and potential of this industry to create value from M&A. The more the growth potential or consolidation tendency of an industry, the more its potential to create value from M&A (Kandžija et al., 2014). Figure 8 represent the trends of the M&A growth by industry (Delloite, 2014):

Figure 8: M&A sectors poised for growth



Source: Adapted from M&A trends report 2014 (Delloite, 2014)

2.3.2 Cultural Distance and M&A

This section will be dedicated to an in-depth review of the literature that focused on culture as a determinant of M&As outcomes, on a domestic as well as cross border scope. Giving the fact that in the selected case study (DaimlerChrysler Merger), cultural mismanagement was a major driver for underperformance.

As highlighted earlier, the integration phase seems to be the most critical phase of an M&A deal and the human impact is more visible at this stage and critically contributes to the outcomes (Bruner, 2002; Gadiesh et al., 2001; Kummer & Steger, 2008; Rottig, 2007; Stahl & Voigt, 2004; Venema, 2012).

It is important to highlight the non-financial variables' impact on M&A success and failure in order to capture various dimensions that directly or indirectly influence M&A performance (Stahl & Voigt, 2004). Culture has emerged as one of the dominant factors that prevent or influence effective integrations (Delloite, 2009).

Cultural distance, which is measured in terms of management style, business practices or work-related values and behaviors has a significant impact on processes such as choice of foreign market entry and the perceived ability to manage foreign operations, organizational learning and knowledge transfer, longevity of strategic alliances and cross-cultural effectiveness of expatriate managers (Ahammad, Tarba, Liu & Glaister; Stahl et al., 2013; Stahl & Voigt, 2004).

In the M&A context, cultural differences can be a source of confusion and distrust between members of the merging firms. Two dimensions of culture are usually mentioned: national culture (which constitutes of values of a society encompassing languages, religions, traditions etc..) which is more relevant to international M&As, and organizational and corporate culture (defines as interdependent system of practices, norms, assumptions and beliefs that members of an organizations share) which is relevant for both domestic and international M&As (Rottig, 2007). Therefore, in international M&As, not only the corporate culture is different but also the national culture which poses higher risk in achieving fast and successful integration (Stahl & Voigt, 2004). International M&As remain the top list choice towards growth for multinationals, and yet up to 83 percent of such deals are unsuccessful (Moeller & Schlingemann, 2005).

Regarding the relationship between cultural differences and M&A performance, the results of empirical research has led to inconclusive results. Some studies found negative impact of cultural distance on international M&A performance, others identified a positive impact, and yet others indicate a non-significant impact of cultural distance on performance. All of which leads to questioning the complexity of this relationship (Rottig, 2007).

As previously indicated, M&A can be part of a strategy of related or unrelated diversification, and consequently the level of integration highly differs. As in related M&As, higher degree of operational integration is required, cultural differences seem to have a higher impact. While unrelated M&As tend to require lower level of integration due to minimal interdependencies between the acquirer and the target businesses (Stahl & Voigt, 2004). M&A integration approaches depend on the required level of integration and the extent to which the own cultural identity is valued and the desire of autonomy is present.

Recognition of multiple dimensions of culture might ease the integration process (Stahl & Voigt, 2004). Stahl & Voigt (2004) introduced in their integrative framework a conceptual split in the integration process, the task integration (value creation), measured in terms of capabilities transfers, resources and knowledge sharing, and the socio-culture integration, focusing on the human integration that lead to satisfaction, commitment and shared identity.

Other authors studying domestic acquisitions suggested managing organizational cultures differences through the process of "acculturation" (Larsson & Lubatkin, 2001; Nahavandi & Malekzadeh, 1988) which is " the outcome of a cooperative process whereby the beliefs, assumptions and values of two previously independent workforces form a jointly determined culture" (Larsson & Lubatkin, 2001, p. 1574).

Nahavandi & Malekzadeh (1988) developed a conceptual model for acculturation process in M&A, consists of four modes as presented in table 4.

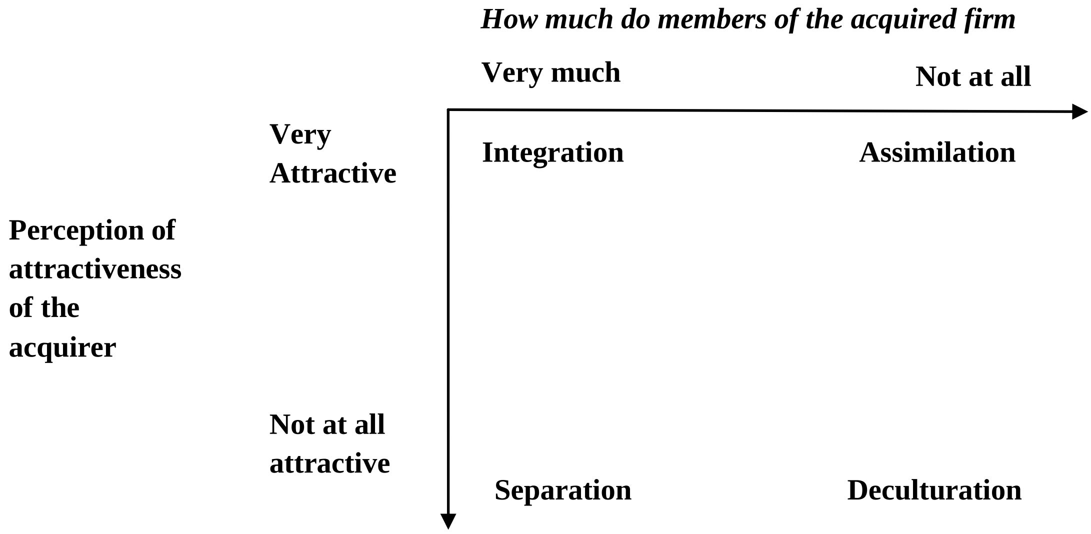
Table 4: Acculturation Modes

Acculturation Modes			
Integration	**Assimilation**	**Separation**	**Deculturation**
Structural Assimilation of both cultures involved that, yet preserves the identities and cultures of the acquirer and the target	The acquired organization willingly relinquishes its culture and identity by adapting to the acquirer's culture	Minimal cultural exchange between the acquirer and the targets that ensures both cultures remain completely separated	Happens where members of the acquired organization do not value their own culture and organizational practices, and they refuse to be assimilated with the acquirer. Resulting in the acquired company to be disintegrated as a cultural entity

Source: Adapted from (Nahavandi & Malekzadeh, 1988)

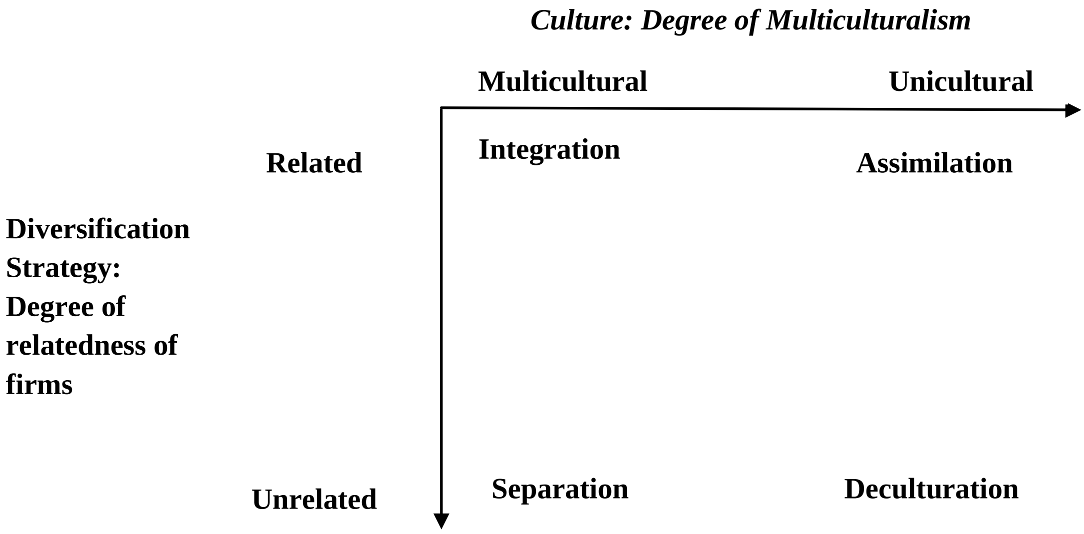
The degree to what both acquirer and acquired firm agree on the mode of acculturation the more different cultures may be made compatible during the post-acquisition integration process, and that is the case where cultural differences may not necessarily lead to integration obstacles. On the other hand, the disagreement about the mode of acculturation between both entities may rise acculturative stress that may jeopardize the post-acquisition integration process (Rottig, 2007). Figure 9 and 10 represent the modes of acculturation for acquired firm and acquirer, respectively.

Figure 9: Acquired firm's modes of acculturation



Source: Adapted from (Nahavandi & Malekzadeh, 1988)

Figure 10: Acquirer's modes of acculturation



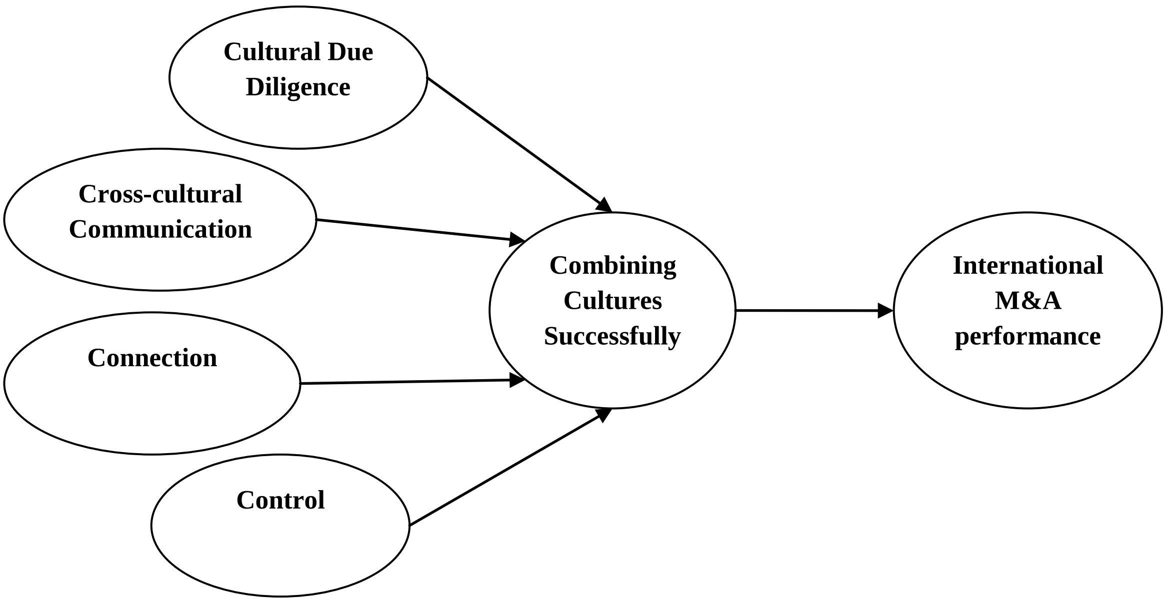
Source: Adapted from (Nahavandi & Malekzadeh, 1988)

Figure 9 above represents the attitude of the acquired firm members towards the acquirer's culture taking into consideration to what degree the acquired members value the preservation of their own culture. While figure 10 represents the modes for acculturation that the acquirer will pursue considering the level of multiculturalism of the acquirer, as well as relatedness of businesses between acquirer and acquired. The more consensus about the acculturation approach the more chances for successful integration (Nahavandi & Malekzadeh, 1988).

While the acculturation model was developed in the context of domestic M&As, international deals are often more complicated with different national cultures that embody stereotypes, prejudices and nationalism that may lead to conflicts and lack of trust and commitment (Olie, 1990), all of which imposes a higher challenge for integration and achieving consensus on an acculturation mode and suggests the limited applicability of acculturation model in international transactions (Rottig, 2007). Rotting (2007) suggested that "It is not cultural distance per se, but ineffective management of cultural differences may be the main reason for the high failure rate of international acquisitions" (Rottig, 2007). Therefore the question should be how to manage effectively cultural differences in an international context, rather than if cultural differences have a performance impact on M&As (Stahl & Voigt, 2004).

Rotting (2005) introduced a descriptive framework, presented in figure 11, "The Five C's Framework" addresses the complex nature of cultural impact on international acquisitions performance, supporting the assumption that cultural differences may not necessarily represent a detrimental force impacting international acquisitions. Instead, poor management of the cultural combination process in the post-acquisition phase may be responsible for the large number of poorly performing cross-border acquisitions.

Figure 11: Five C's Framework



Source: Adapted from (Rottig, 2007)

Combining the two cultures involved in an M&A occurs in the post-acquisition integration phase when those involved organization are forced to work together. And while in the pre-acquisition phase great effort is put to financial aspects during the due diligence, large number of acquirers fail to consider the importance of cultural analysis at this stage. Rotting (2007) in his framework, figure 11, indicated that cultural due diligence could be an effective tool towards analyzing the cultural compatibility in international M&As, giving the managers the opportunity of rethinking the chances of success for a deal when such a cultural due diligence indicates that the cultures of organizations are significantly incompatible, and therefore refraining the deal or developing a strategy where those different cultures can be best combined (Rottig, 2007).

Cross-cultural communication is an essential aspect throughout the transaction, and studies have emphasized the importance of communication on a domestic level during the post-acquisition integration process (Schweiger & Denisi, 1991). On an international level the importance of communication is even intensified. As in culturally and nationally distant organizations, and where prejudices and stereotypes are heavily present, lack of communication might be the reason why the involved workforces develop a hostile attitude preventing an effective integration process (Rottig, 2007). As acquisitions pose high level of uncertainty and fear, as layoffs for instance are often an inevitable, the management of the combined organizations should communicate its intention and strategy following the acquisition with the entire workforce. A two-way communication could ensure and facilitate that managers and employees are able to express their concerns and provide higher transparency and clarity, and might help diminish uncertainties and increase employees identification within the new combined organization (Rottig, 2007).

Furthermore, connection, representing the formal and informal channels of interaction within an organization is of importance for international M&As. As in addition to the structural formal channels, encouraging employees and managers of both organization to develop social ties and relations may facilitate the integration process (Rottig, 2007). Past studies found that relational and interpersonal networking facilitate the exchange of knowledge and information among foreign subsidiaries of multinationals which contributes to a better connection between managers and employees (Ghoshal, Korine & Szulanski, 1994). This socialization may facilitate mutual understanding and appreciation of cultural differences, reinforcing connection between workforce of the acquirer and the acquired organization and will effectively contribute to a successful cultural combination (Rottig, 2007).

An important aspect in international acquisitions is control, the perception of control and what types of control is applied seem to matter. For example the announcement of a merger as a "merger of equals" will create the expectation that power and control will be shared between the two combined organizations (Rottig, 2007). While " In reality, even when mergers are supposedly between relatively equal partners, most are in fact acquisitions with one company controlling the other " ("World Investment Report: Cross-border Mergers and Acquisitions and Development," 2000). An example of announced as "mergers of equals" is the acquisition of Chrysler by Daimler-Benz and the takeover of Telekom Italia by Deutsche Telekom. The misconception of control, in deals announced as merger of equals and turned out to be an acquisition, will have an impact on acquired employees' confidence, commitment and cooperation with the acquirer toward a successful cultural combination. Therefore, acquirers should ensure that the acquired workforce understands the nature of the deal and consequently who is in control, and that does not mean that acquirers rely on dominant approaches of control rather than developing a type that will encourage creating common values, norms, beliefs and trust (Rottig, 2007). Larson & Lubatkin (2001) found that a successful acculturation in international acquisitions could be achieved through social controls, which are defined as the amount of socialization and coordination efforts taken by a foreign acquirer to ensure a successful cultural combination (Larsson & Lubatkin, 2001). Larsson & Lubtikan (2001) indicated that “almost only one thing matters: involve the affected employees in such socializing activities as introduction programs, training, cross visits, joining retreats, celebrations and other socialization rituals and they are likely to create a joint organizational culture on their own volition, as long as they are allowed autonomy" (Larsson & Lubatkin, 2001, p. 1594).

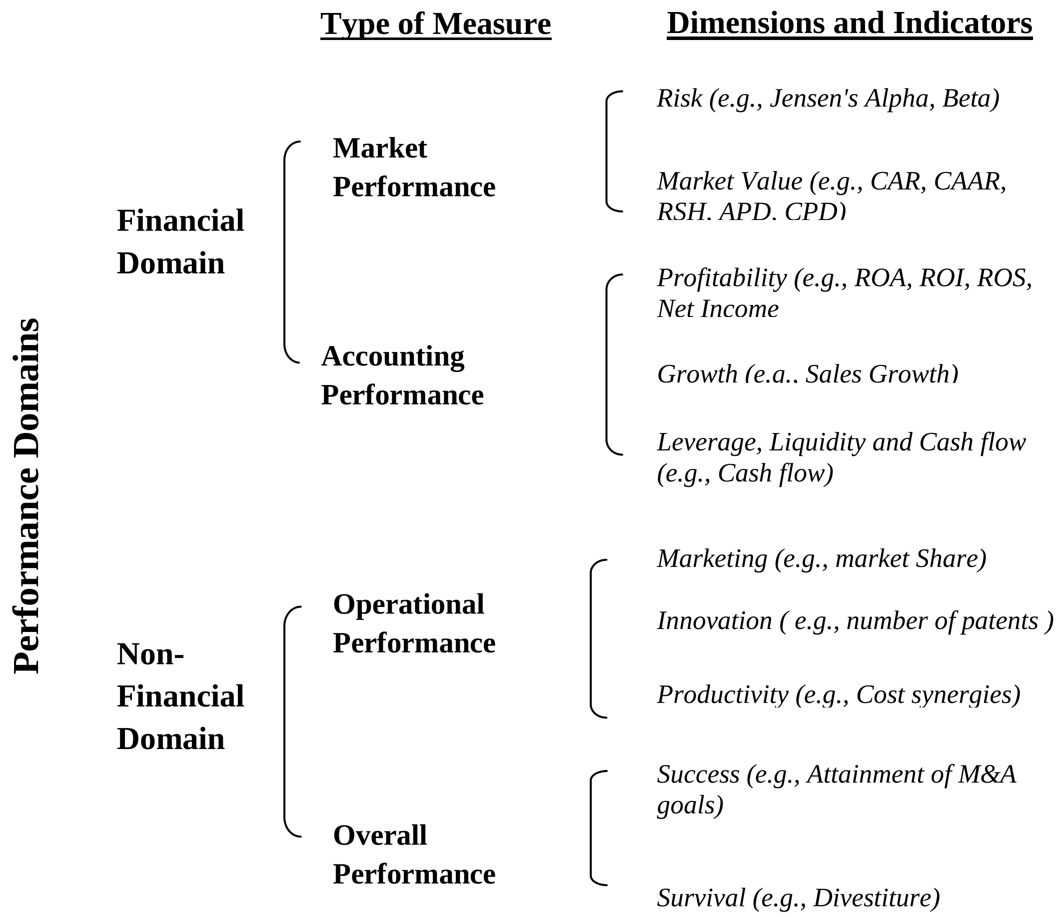
2.4 M&A performance measures

This section will discuss the various measures of M&A performance. Inconsistency is what seem to characterize some of the research findings when it comes to M&A performance, which could be justified by the various ways to measure performance (Meglio & Risberg, 2011). Some explained that as M&A is unique and complex phenomena, the findings are not comparable (Bower, 2001; Calori, Lubatkin & Very, 1994).

We can look at a deal from different perspectives, for instance increased growth and turnover, increased margins, what a deal can contribute to the balance sheet whether increase or decrease leverage, what this deal had contributed to the brand perception and sales, the firm competitive position in the market and whether it is on the track to dominate its market segment, bearing in mind that long term objectives take time to be apparent. Value related indicators is what grasp attention as the purpose of two companies marriage is to deliver market share growth and add value to shareholders, however, and even if M&A may be a quick way to bolster market share, it might not be the only best method to measure a deal's performance (Janicki, 2002). Motives behind the deal could indicate what measures should be used to track performance and to what extent the objectives have been realized.

M&A performance is identified within two domains, financial and non-financial nature. The financial domain comprises market and accounting measures of performance. While the non-financial domain includes operational and overall performance measures. Each type of measures is reflected in different dimensions and key performance indicators. Meglio & Resiberg (2011) proposed a scheme, as shown in figure12, which categorizes M&A performance measures within the financial and non-financial domain.

Figure 12: classificatory scheme of M&A performance measures



Source: (Meglio & Risberg, 2011)

Market performance measures indicate the changes in market value of the company whether on the announcement day or the closing date where the reaction of the market will be observed and reflected on the share price. However, market measures are available only for listed companies. Studies show that the acquirer in many cases receive negative or zero abnormal return while target share price shows positive abnormal return. One of the explanations is that when the merger creates value thanks to a good strategic and resources fit between the target and acquirer, the market allocates the full synergistic gains to the target shareholders, through the acquisition premium, rather than to the acquirer shareholders (Capron & Pistre, 2002; Meglio & Risberg, 2011; Motis, 2007).

While accounting measures are dependent upon financial information and records and expressed as values or ratios. One way to go for instance would be by comparing the financials of acquirers with non-acquirers based on industry and size of the firms in order to answer the question whether the acquirer outperformed their non-acquirer peers (Bruner, 2002; Meglio & Risberg, 2011; Motis, 2007).

Non-financial measures are reflected in operational measure and overall performance measures. The operational performance can be measured by market share and power, innovation and novelty as well as productivity. While overall performance can be traced to the level of attainment of M&A goals and the wellbeing of the company in its respective market (Meglio & Risberg, 2011)

Finally, it is important to understand what drives the firm value in a specific case as well as what was the goal behind a deal in the first place, whether it is cost reduction, increased revenues, new customers acquisition, higher market share or new market entry in order to identify what measures could be suitable to evaluate post-acquisition performance.

3. Methodology

This chapter aims at presenting the research's goal and methodology, starting by the research goals in section (3.1) and the research methodology in section (3.2), namely case study approach (3.2.1), the selected case (3.2.2), data collection (3.2.3) and analysis techniques (3.2.4).

3.1 Research Goals and Focus

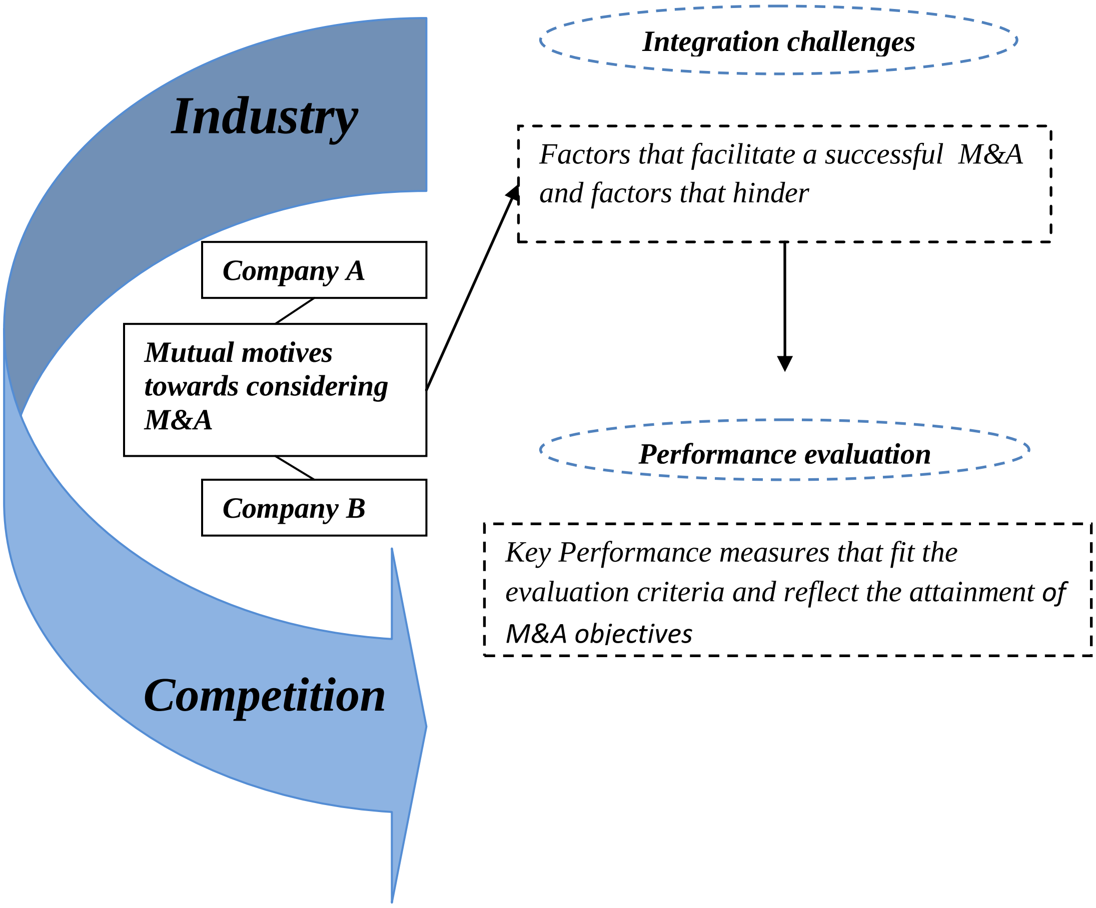
As the literature review has indicated, M&A activities have witnessed a significant rise triggered by globalization. However, success rate is considerably low (Bruner, 2002; Christensen et al., 2011; Gadiesh et al., 2001). Internationally, M&As have increased from 23% of total mergers volumes in 1998 to 45% in 2007 (Erel et al., 2012), nonetheless up to 83% of those transactions underperformed (KPMG, 1999; Moeller and Schlingemann, 2005; Sirower, 1997) cited by (Rottig, 2007).

Cross-border M&As seem to represent an unexplained paradox and despite the low success rate, it is still a popular mechanism for corporations that are looking for global reach (Rottig, 2007). Therefore, in light of the literature review that has discussed the motives of M&As, the mechanism of M&A process as well as the related success factors, indicators and variables, and by using an international M&A case, this dissertation will aim at investigating, analyzing and understanding the mechanism of this M&A transaction and its outcomes to answer the following questions:

1. *What are the motives behind M&A as a foreign expansion strategy?*
2. *What are the factors and challenges towards achieving a successful integration?*
3. *What performance measures can reflect the achievements of the objectives?*

To pursue the research goals, Figure 13 simplifies the flow of the case analysis. Starting by attribution of external factors like industry which is likely to reinforce consideration of M&A, towards more detailed analysis of the motives, the actions and integration plans and their relatedness to the initial motives, and finishing by the performance evaluation.

Figure 13: Analysis framework



Source: Own figure and Adapted from (El Zuhairy et al., 2015)

3.2 Research Methodology

3.2.1 Case Study Approach

In an M&A context, the literature has provided different approaches to evaluate M&A outcomes depending on the targeted indicators:

a- Event Studies: which examines the abnormal returns [4] to shareholders surrounding the announcement of the transaction, where the reaction of the market to this announcement will be observed and reflected on the share price.

[4] Abnormal returns are the actual returns in excess to the normal returns that those shareholders might have received except for the takeover event (Sudarsanam, 2010).

As mentioned earlier, studies have shown that acquirer in many cases receive negative or zero abnormal return while target share price shows positive abnormal return (Capron & Pistre, 2002; Motis, 2007).

b- *Accounting Studies*: the examination of the financial outcomes of the acquirer before and after the acquisition to determine the changes in financial performance, and to be compared to benchmarks which are firms that match on the basis of size and industry and who made no acquisitions (Bruner, 2002; Motis, 2007).

c- *Surveys of executives*: simply by asking managers whether an acquisition has created value (Bruner, 2002).

d- *Clinical studies (Case studies)*: the focus on small sample of transactions in a greater depth. They offer a deeper insights on the returns and implications of the deal and provide a thorough understanding of a specific deal outcomes and its value drivers, as well as a possibility to find a connection between the literature and that specific sample (Motis, 2007).

In this dissertation, case study approach will be used for the investigation of an international M&A transaction's outcomes and its surrounded factors. In light of the literature review which has provided a theoretical understanding of the subject in question, the analysis of a case study will help investigating a contemporary phenomenon like M&A on a deeper level and within a real-life context (Yin, 2009). Case study approach allows researchers to reach high levels of "Conceptual Validity", as to identify and measure indicators that best represent the theoretical concepts of the researched topic (George & Bennett, 2005).

George & Bennett (2007) define a case as "an instant of a class of events". The term class here refers to a phenomenon of scientific interest. In this dissertation, the case study approach will be used to gain an in depth knowledge about an international M&A deal and the factors that contributed to its outcome, as well as the proper indicators that could represent its performance at best.

3.2.2 Case Selection

In a case study approach, the selected case is required to represent the research criteria on a wide broad (Perry, 1998). In this dissertation, the selected case is Daimler-Chrysler merger, occurred in 1998. This case represents an international transaction and one of the largest mergers at the time involving two global players in the automobile industry. Globalization and the tendency of the automobile industry towards consolidation were major forces that were pushing the companies to explore the opportunity, develop their presence on an international scope and consequently increase their market share. For these reasons, we believe that this case study fits the goals of the study. Namely it enables the identification of the motives and factors that surrounded Daimler-Chrysler deal, the analysis of the integration process and the outcome of this merger through the theoretical framework drawn from the literature review.

3.2.3 Data Collection

Evidence in case study research could be gathered from many sources like documents, archival records, interviews, observations and artifacts (Yin, 2009). Data in the research community is classified as either primary or secondary data. Primary data is information gathered by the researcher on his own by using interviews, questionnaires and tests, while secondary data is data collected by other researchers or institutions and which could be found in literature, documents, books and scientific articles (Bryman & Bell, 2011).

In this dissertation secondary data which is documents of all types such as articles, financial data sources, company reports, case studies and others will be used.

3.2.4 Data Analysis

The reviewed literature has provided a theoretical understanding of the M&A as corporate mechanism for growth, as well as an area of academic research. In order to reach the research goal which is fundamentally understanding and analyzing the outcomes of an international M&A transaction taking into account all the surrounding factors that mutually led to the failure of the selected case study (DaimlerChrysler

1988), And consequently finding the connection between the reviewed literature and its applicability on the selected case.

And as a research technique and following the analysis framework (figure 13), I will make use of the M&A framework, figure 6 (section 2.3), which aims at providing managers with practical tool that intends to ease the management of an M&A transaction and optimize performance, in order to understand motives behind the deal and their relatedness if existed to action plans that took place towards bringing those objectives to realization. Afterwards key performance indicators will reflect the attainment of the deal objectives. And towards performance measurement, figure 12 (section 2.4) provides key performance indicators for M&A performance that are categorized according to the to the targeted evaluation criteria.

4. Case Study: Daimler-Chrysler Merger

This chapter will constitute the analysis of DaimlerChrysler merger. Starting by brief profiling of Daimler and Chrysler (section 4.1), followed by the analysis of this case in light of the proposed research questions and framework (section 4.2) which will provide the analysis of the motives behind DaimlerChrysler merger to investigate the strategic fit and alignment of those motives with the overall strategy of both involved firms (section 4.2.1), the analysis of the surrounding factors and events and their impact on the outcomes of this merger (section 4.2.2), performance meaurement(section 4.2.3) discussion of the case analysis and results (section 4.3) and conclusion (section4.4).

4.1 Brief overview of both companies before the merger

Chrysler Corporation, founded in the US 1925 by Walter Chrysler. It is one of the "three big" American automobile manufacturers, known for its risk-taking strategy. Chrysler survived the edge of facing banruptcy more than once after the Second World War.

In the mid-1990s, Chrysler Corporation was the most profitable automotive producer in the world. Its U.S. market share climbed to 23% in 1997. Chrysler was categorized as highly innovative and leader in product development and design. Chrysler operated in two principal segments: Automotive Operations and Financial Services (Blaško et al ., 2000; Finkelstein, 2002; Jean & Cohen, 2000).

Daimler-Benz AG, a world class automotive company with the finest of German manufacturing and engineering quality. Known primarily for its luxury Mercedes-Benz as its iconic symbol of quality and global reach. Daimler-Benz was the largest industrial group in Germany with $68.9 billion in revenues in 1997.

Its history is rooted to 1886 to its visionary founders Gottlieb Daimler and Carl Benz, Daimler-Benz AG was officially founded in 1926. Daimler operated in four business segments: Automotive, Aerospace, Services, and Directly Managed Businesses (Blaško et al., 2000; Finkelstein, 2002; Jean & Cohen, 2000).

Both companies were in a booming position and looking for a stronger global reach. On January 12, 1998, Jurgen Schrump, Chairman of Daimler Benz Management Borad visited Robert Eaton, Chairman and CEO of Chrysler Corporation at an international Auto Show and discussed the possibility of a merger, less than four months later, a merger agreement was signed (Blaško et al., 2000).

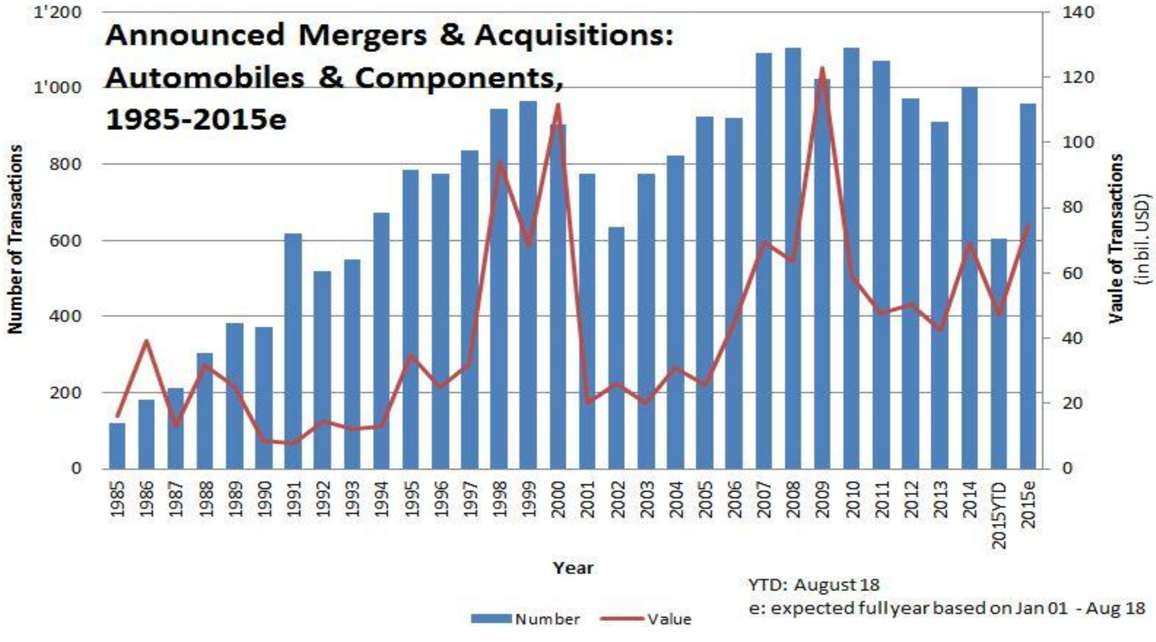
4.2 Case Analysis

To perform the analysis of this case in light of the proposed research questions and framework, the motives behind DaimlerChrysler merger will be critically analyzed, followed by the analysis of the surrounding factors, the post-merger integration and key performance indicators that reflect the financial outcomes of the deal.

4.2.1 The motivations for DaimlerChrysler Merger

The mid90s were a hard period in the car industry mainly due to overcapacities, to a strengthened position of customers and to an increased enviromental conciousness. The industry's tendancy towards consolidation started to apprear in the auto industry, figure 14 shows the increase in M&A activities in automobile industry late between 1985 and 2015. Chrysler and Daimler Benz seemed to be a promising match with high potentail synergies (Hollmann et al., 2010).

Figure 14: M&A deals in value and number of transactions in the automobile industry



Source: Institute of Mergers, Acquisitions and Alliances (http://www.imaa-institute.org)

May 7,1998, was the day that witnessed the combination of two global automakers in one of the largest international indestrial merger in history. Announced as "merger of equals". Daimlerr merger with Chrysler was regarded to shape the future of the auto industry and to trigger consolidation within this industry (Blaško et al ., 2000). For starters, such a large transaction on an international level was to face higher risks and challenges, given the differences in corporate and national cultures, currency, compensation plolicies, ownership structure and legal environment (Blaško et al ., 2000).

The deal was greatly promising with both companies looking forward to a stronger global reach and perfect complementarity and strategic fit. As Jurgen Schrumpp stated in London at a press conference while announcing the merger, "This is much more than a merger, today we are creating the world's leading automotive company for the 21st century. We are combining the two most innovative car companies in the world" (Jean & Cohen, 2000).

Robert Eaton added that "Both companies have product ranges with world class brands that complement each other perfectly. We will continue to maintain the current brands and their distinct identities" ("Merger agreement signed," Canada Newswire, May 7, 1998) cited by (Blaško et al., 2000).

As the literature has showed, the primary motivation for M&A is the quest for rapid growth (Kummer & Steger, 2008). Daimler sales in Europe represent 63% of total sales, while Chrysler depends highly on North America where 93% of sales are realized. Both companies were trying to expand geographically, and immediate growth opportunities would exist by using each other's facilities, capacities and infrastructure (Blaško et al ., 2000).

With $2.8 billion in annual profits, remarkable efficiency, low design costs and extensive American dealership network, Chrysler appeared to be a perfect fit for Daimler-Benz who was looking for a partner to have a bigger share of the American market (Finkelstein, 2002).

There were various reasons that made DaimlerChrysler an appealing and promising strategy for both companies' shareholder and the industry as a whole (Blaško et al ., 2000; DaimlerChrysler, 1998; Finkelstein, 2002; Jean & Cohen, 2000):

1- The tendency that the automotive industry will experience significant consolidation, resulting in a smaller number of larger companies.
2- Both companies strategic and complementarity fit, Daimler-Benz being a leader in luxury and high end cars and Chrysler being strong in sport vehicles and minivans. Daimler's stronger presence in Europe and Chrysler in North America. Moreover Daimler's reputation for engineering and Chrysler's reputation for product development and innovation, all of which framed significant strong strategic fit and complementarity for both companies.
3- Potential synergies arise from high cost efficiency and shared technologies, distribution channels, purchasing, R&D, and know-how. Both companies promised to deliver synergies totaling $1.4 billion in 1999 and more than $3 billion by 2000. Table 5 indicates areas where synergies were expected.

Table 5: Synergies expected of unification (in millions of US $, at 1.78DM/$1)

	For 1999	**By 2001**
Purchasing	$506	$1,517
Integration/Financial Services	$202	$506
R&D Platforms	$101	$506
Sales Increase	$303	$786
Distribution/Dealership	$303	$303
Total	$1,415	$3,618

Source: DaimlerChrysler Unification Report/ www.Autointell.com

4- Strengthened competitive position through geographic expansion for both companies.
5- Reduced risk for Daimler which is associated with its high dependency on the premium segment of automobile market.

6- Enhanced liquidity by creating the third largest automobile company in the world in terms of revenues, market capitalization and earnings.
7- The potential long-term synergies in development and growth of markets.

Nevertheless, and despite the perfect fit that this deal has proposed, several potential risks were outlined (Blaško et al., 2000):

1- The difficulties in integrating two large companies with distant national and corporate cultures and geographically dispersed operations.
2- Expected synergies might not be fully achieved.
3- Different legal environment and legislations.
4- Uncertainty regarding the long-term performance.
5- Potential agency conflicts.

4.2.2 DaimlerChrysler Merger and Post-Merger Integration

DaimlerChrysler was announced as "merger of equals", noticeably no merger has ever happened. That was apparent due to few signals that indicated the nature of this deal to be an acquisition of Chrysler by Daimler-Benz (Blaško et al., 2000; Finkelstein, 2002):

1- A premium was paid to Chrysler which is atypical in merger of equals. Chrysler shareholders received a premium of 31% over the closing prices of their shares (annex 2 explains the shares' exchange rate).
2- A 30.9% abnormal return upon announcement for Chrysler's shares, reflecting the market reaction and expectation of this deal and the premium paid, while Daimler-Benz shares realized a positive return of 4.6%.
3- Daimler-Benz dominated the combined organization board of management, in less than a year DaimlerChrysler board of management consisted of nine former managers of Daimler and only five of Chrysler, and three years after the deal the representatives of Chrysler decreased to two.

In an interview with the *Financial Times* at the end of October 2000, Jurgen Schrempp stated he had never intended a merger of equals but instead always aimed to acquire Chrysler.

This unbalanced control and power which contradicted the expectation of a "merger of equals" deal will have a significant impact along the integration process adding more challenges to what it already has (Finkelstein, 2002). Stating clearly via the German financial daily *Handelsblatt*, "The merger of equals statement was necessary in order to earn the support of Chrysler's workers and the American public, but it was never reality" (Handelsblatt. Frankfurt, Germany, (10/30/00), p. 3) cited by (Finkelstein, 2002).

Nevertheless, the deal showed a great potential and the market had positive expectations about the deal, giving the positive abnormal return, as well as the combined market capitalization being $95.2 billion at the close of NYSE trading on 7th May, 1998, which is $10.2 billion greater than the combined market value of both firms before the announcement of the merger (Blaško et al., 2000).

DaimlerChrysler was regarded to be the first automotive company with a genuinely global ownership structure at the time of the merger, stockholders were located equally in the US (44%) and Europe (44%), with German stockholders holding 37% of the shares.

Following the merger there were some major events that seemed to have an impact on the merged entity (Blaško et al., 2000), a brief of those events will follow:

1- October 1998, the decision of Standard & Poor not to include DaimlerChrysler in the S&P 500 index, justifying their decision that "It's a German company, it pays taxes in Germany, it's incorporated in Germany. Our long-standing policy is that non-U.S. companies will not be added to the S&P U.S. indexes" (Blaško et al., 2000). The market reaction was negative and Chrysler shares suffered an abnormal return of -14.6% on the announcement day. And as a consequence the DaimlerChrysler shareholders in the US fell to 25% by March 1999.
2- The rumored merger with Nissan while DaimlerChrysler was searching for a suitable partner to expand the Asian operations. Consequently DaimlerChrysler shares (DCX) fell by 6%, till an official announcement of "no merger" was made giving an abnormal return to DCX by 5%. That would be explained that the

market seem to think of that move as a bad idea giving the troubled case of Nissan at the time (Vlasic & Stertz, 2000).

3- The departure of 7 key executives and engineers of Chrysler between 1998 and 1999, indicating more and more the cultural clash and integration obstacles which led to loss of key assets on the management level. Jurgen Schrempp when asked about the defection at a news conference in Stuttgart, he said " we don't need their know-how, you can quote me" (Blaško et al., 2000).

This merger seemed to be in favor of both companies and aligned with their strategy towards a global reach, strategically and financially fit, significant potential synergies and growth opportunities, moreover, the market seemed to be in favor of this deal. However, the challenges to integrate such large corporations would require tremendous efforts to bring two entities with a very distant corporate and national culture into one functional entity which could bring these synergies to realization.

As several studies showed, organizational culture and behavior tend to rooted and influenced by the nation's culture, and sometimes it may differ within the same nation. In a cross-border M&A context like this case, values, principles and norms are fundamentally different giving the distant countries where these two companies belonged (Hollmann et al., 2010). A brief comparison of both cultures will follow, United States of America is known as a nation of diversity or as called a "melting pot" and diversity management seems to play a role in the corporate world. Americans are individualistic, pragmatic and goal oriented as what matters are the results, not how those results are delivered. Equality and small power distance is what characterize the Americans, with willingness to take risks and show more flexibility (Hollmann et al., 2010). On the other hand, the German shows higher power distance, and hierarchy plays a role in the organizational model. Less individualistic and more risk averse and consequently avoidance of novelties (Hollmann et al., 2010). In light of that the merger was seen as "marriage of opposites". Daimler embraced formality, hierarchy and structured decision making, while Chrysler promoted cross-functional teams and free form discussion. German executives spoke English while none of the Americans spoke German (Jean & Cohen, 2000). Moreover the organizational structure was an issue as

Chrysler operated more as a strategic business unit, while Daimler had more of a traditional structure with autonomy of its 23 business units.

Regarding the management structure, Jurgen Schrumpp and Robert Eaton were to be Co-Chairmen and Co-CEOs for the new entity. DaimlerChrysler was required under the German law to have a board of management and a supervisory board. The board of management consisted of sixteen members, eight of Chrysler and eight of Daimler Benz. The supervisory board comprised of ten shareholders' representatives and ten employees' representatives, five members of the supervisory board of Daimler Benz and five member of Chrysler board of directors formed the new supervisory board. Thomas Stallkamp, president of Chrysler from January 1998 and in charge of the integration once commented " All 420,000 employees need to know we've left Chrysler behind and we've left Daimler Benz behind, we will all be working for new company" (Jean & Cohen, 2000).

The difference in the compensation schemes was obvious with Eton paid at a high CEO rate with stock options, and Schrempp at much lower German salary. Furthermore Chrysler executive had a very rich termination contracts (golden parachutes), a practice was not used in Germany (Blaško et al., 2000; Jean & Cohen, 2000).

The success of this deal would essentially depend on the management's ability to create single corporate culture and to get both workforce to see the benefits of operating in a new way where both brands could stand out and synergies could be achieved (Jean & Cohen, 2000). And as the literature proved, managing cultural distance is one of the major obstacles to overcome in the context of M&A and it can highly jeopardize the future of a deal, and DaimlerChrysler was no exception. Paul Ballew, Chief Economist at J.D. Power asserted that "the greatest challenge of any major merger is the culture. It probably will or should be the number one topic on their agenda for the next 3-5 years" (Jean & Cohen, 2000).

The early stages of integration emphasized the necessity to identify a best way that this new company can adopt. However, and instead of embracing each other strengths and trying to formulate a common ground and best fit process that can be built on the best of both companies, both sides were trying to prove their system as a best way wasting time and resources and slowing the integration process (Jean & Cohen, 2000).

The brand identity became a debate, as Germans regarded their iconic Mercedes as associated with luxurious and high end car and somehow superior to those from Chrysler. For instance, Mercedes Chief Juergen Hubbert once commented "Would never drive a Chrysler". And with such words among others, the tension, disconnection and distrust started to run deeper internally highlighting more and more the challenge bringing these two companies together (Finkelstein, 2002).

Moreover, financial reporting and investor relations brought another debate. Chrysler over the years had established itself as a world-class benchmark with high recognition from the US business community, and surviving bankruptcy more than once has led Chrysler to disciplined cash management approach. While Daimler started reporting according to the US GAAP in 1995, it was still developing especially in the cash management function, for example the difficulty to trace cash to its resources and uses for Daimler's business units as all cash was pooled. Moreover, Chrysler had skillful expertise with the investment community dealing with analysts, Wall Street and institutional investors, contrary to Daimler approach with only reporting the required numbers, all of which added more heated debates to the conflict leading Jurgen Schrempp to declare once that "he wouldn't bother with trying to please young, immature MBA analysts" (Jean & Cohen, 2000).

On an operational level, Daimler remained committed to its philosophy "quality at any cost", while Chrysler aimed at producing price-targeted vehicles, which resulted in a fundamental disconnect in supply-procurement tactics and reassuring the brand image clash with Chrysler as an American risk-taking status and controlled-cost atmosphere, and Daimler the disciplined German engineering and uncompromised quality. And due to a brand bias, Mercedes Benz dealers for instance refused to include Chrysler vehicles in their offering, keeping distribution and retailing largely separate (Finkelstein, 2002).

The imbalanced power contradicting the expected characteristics of a "merger of equals" made it hard to enact change. The Germans dominated the management scene after Robert Eaton has left the company leaving the leadership to his German counterpart. Late 2000, James Holden, who had been appointed CEO of Chrysler after the acquisition, was replaced by the German Dieter Zetsche, shifting the leadership of Chrysler division to the German management and making it more and more apparent that this deal was never a "merger of equals". One of Dieter Zetsche's first decisions as the new CEO of Chrysler concerned a layoff of 26,000 Chrysler employees, which consequently created more skepticism, distrust, feelings of insecurity among Chrysler employees and their future in this company (Finkelstein, 2002). This cultural clash and continuous disconnection on the management level as well as on the operational level doomed this promising deal to failure and decreased any possibility of synergies realization. All ended up by Cerberus Capital Management, a private equity firm, buying 80.1% stake in Chrysler for $7.4 billion (FinancialTimes, 2007).

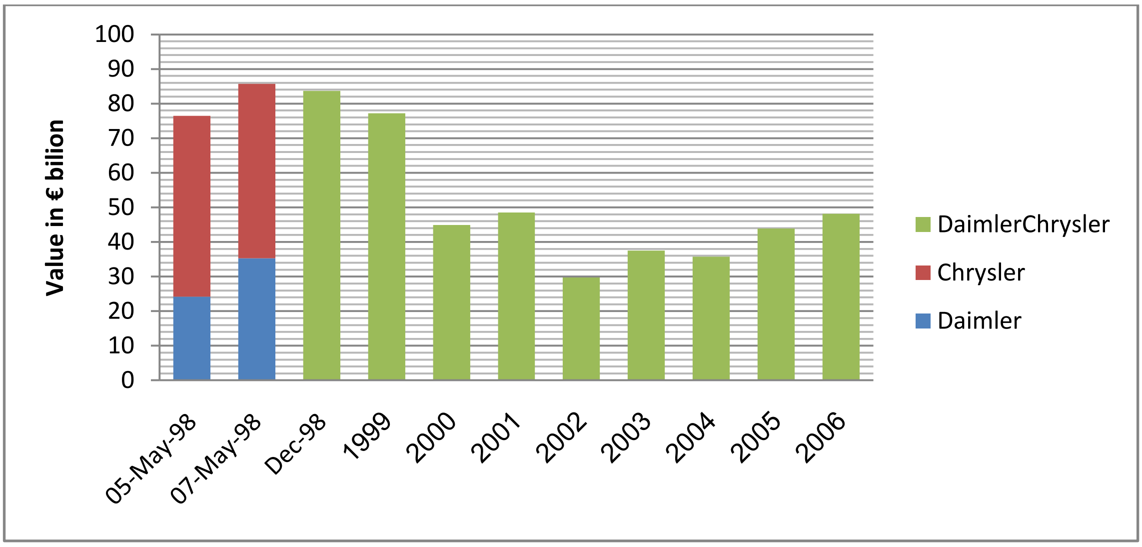
4.2.3 Performance measurement

DaimlerChrysler merger failed on many scales. The merger objectives were not attained, loss of competencies with departure of key executives from Chrysler, disconnection between the two combined business on management and operational levels, decreased market value and profitability, ending the merger with the sale of 80.1% of Chrysler for 7.4 $ billion (FinancialTimes, 2007), compared to Chrysler market value at 26.8$ one day before the announcement (Blaško et al., 2000). Some key performance measures can reflect the financial outcomes of DaimlerChrysler merger.

Market value:

Figure 15 shows the decrease in market cap. The joint market capitalization after the announcement of the merger was 95.2 $ billion (85.76 € billion) compared to the market value of Daimler 58.1 $ billion (52.43 € billion) and Chrysler 26.8 $ billion (24.14 € billion) one day before the announcement (Blaško et al ., 2000). May 2007, 80.1% of Chrysler shares were acquired by Cerberus Capital Management for 7.4 $ billion, indicating market value of Chrysler at 9.24 $ billion.

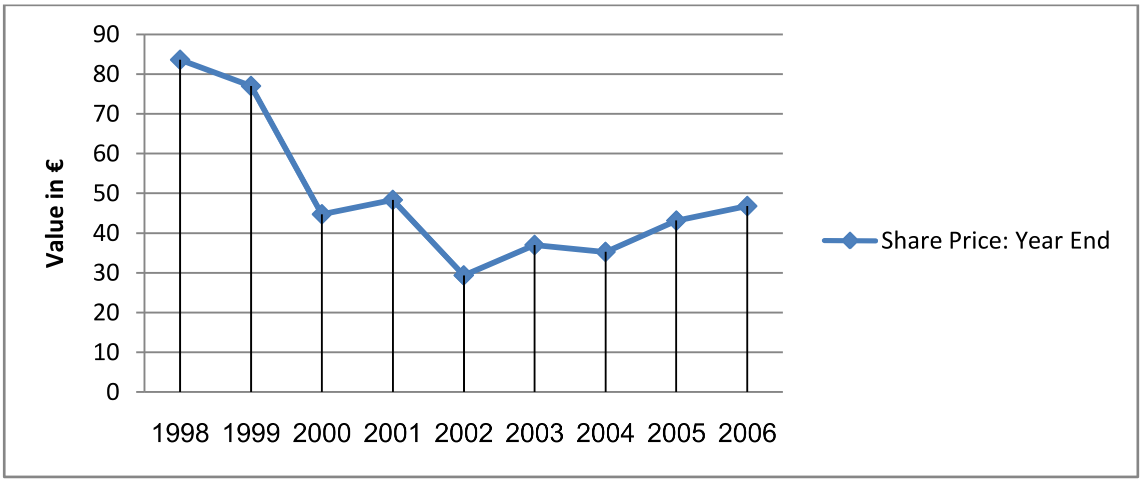
Figure 15: Market capitalization



Source: DaimlerChrysler's annual reports between 1988-2006/ (http://www.daimler.com/investor-relations/reports-and-key-figures/reports)

Additionally, figure 16 illustrates the decrease of DaimlerChrysler's share price.

Figure 16: DaimlerChrysler Share Price

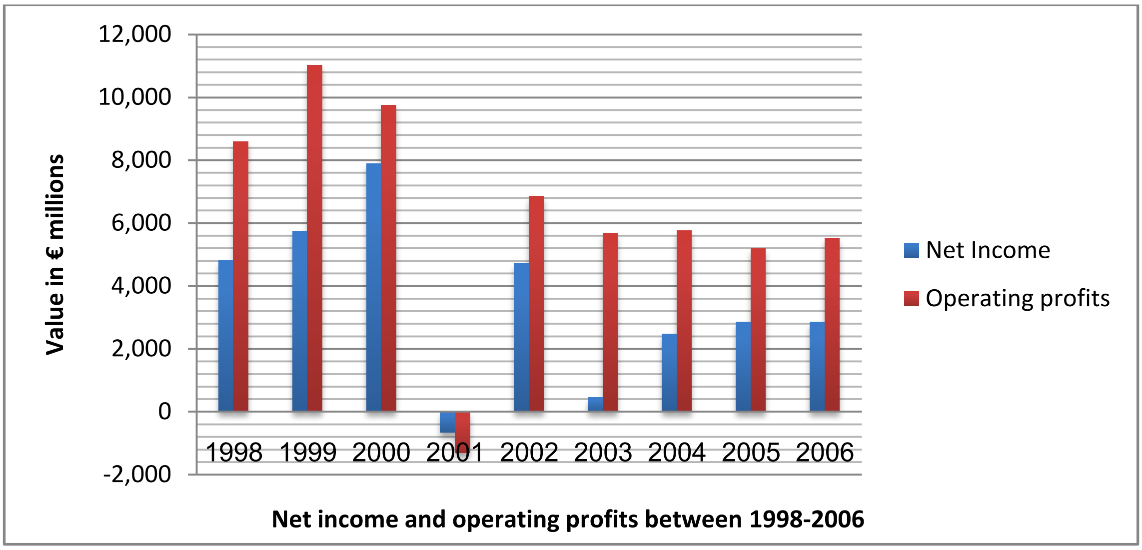


Source: DaimlerChrysler's annual reports between 1988-2006 (http://www.daimler.com/investor-relations/reports-and-key-figures/reports)

Profitability:

Figure 17 represents the operating profits and net income of DaimlerChrysler from 1998 up to 2006, with losses in 2001 mostly originated by Chrysler division as the annual report shows.

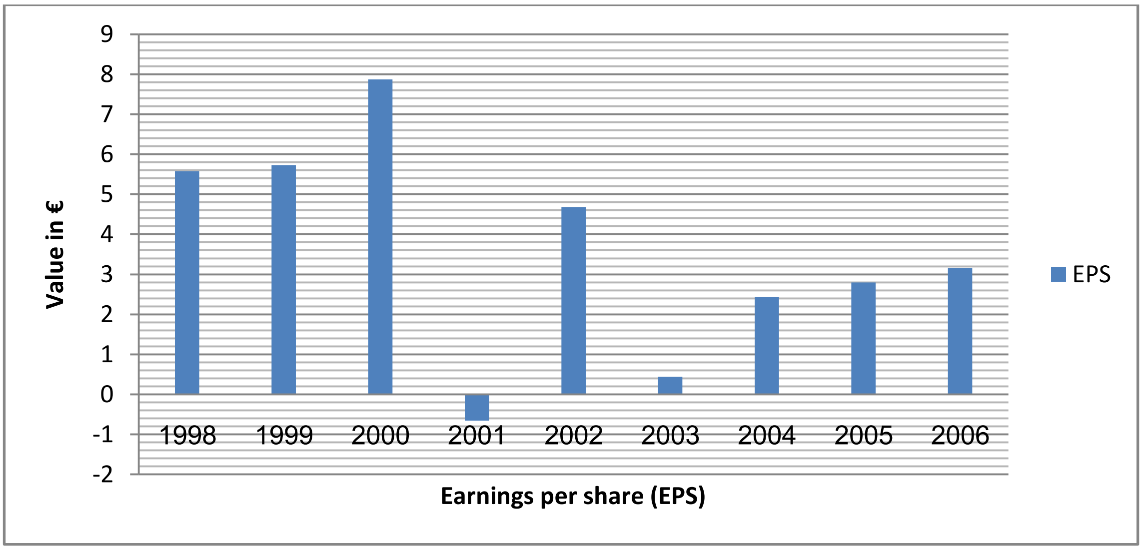
Figure 17: Net income and operating profits between 1998-2006



Source: DaimlerChrysler Annual reports between 1988-2006/ (http://www.daimler.com/investor-relations/reports-and-key-figures/reports)

While figure 18 shows the changes in EPS (Earnings per share).

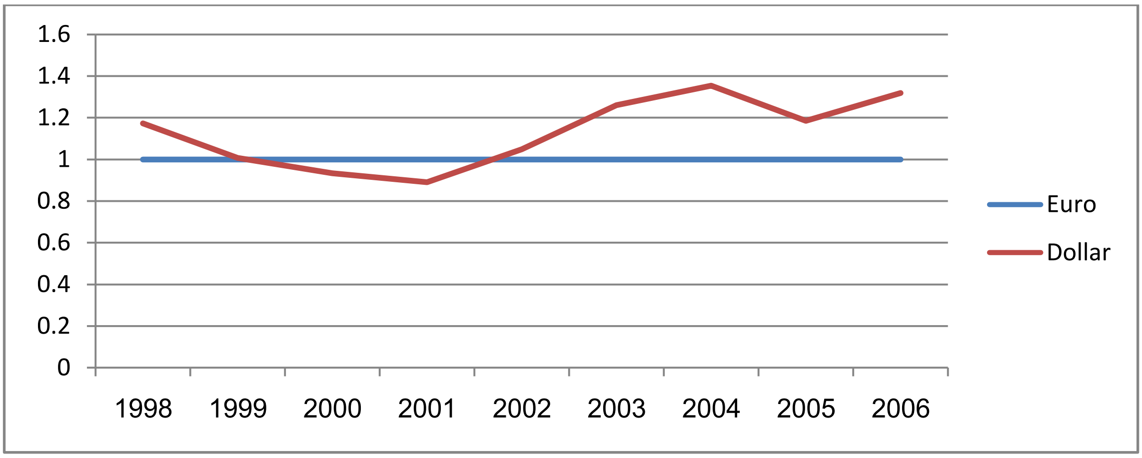
Figure 18: Earnings per share for DaimlerChrysler



Source: DaimlerChrysler Annual reports between 1988-2006/ (http://www.daimler.com/investor-relations/reports-and-key-figures/reports)

The impact of currency difference could be seen in annual reports as exchange rate didn't show high stability, figure 19 shows the fluctuation of the euro-dollar exchange rate.

Figure 19: Euro-Dollar Exchange rate 1998-2006



Source: DaimlerChrysler Annual reports between 1988-2006/ http://www.daimler.com/investor-relations/reports-and-key-figures/reports

The preceded indicators can illustrate the poor financial performance and the loss of value during the merger life.

4.3 Discussion of the case

Starting by the industry, as the literature indicated (section 2.3.1), the more the growth potential and tendency of the industry towards consolidation the higher its potential to create value from M&A (Kandžija et al., 2014). And that was the case in the automobile industry at the time of the merger which would justify the decision of Daimler-Benz and Chrysler for considering M&A towards market share growth and global reach. Moreover, Motives behind this transaction relate positively to both companies' vision and growth strategy and indicate a significant strategic fit. All of which would frame this deal as the perfect strategy to adopt.

However and what seemed to be underestimated or maybe neglected was the impact of the dispersed and distant cultures as well as the organization structure and mechanism. In other words both organizations have nothing in common in terms of corporate and national culture, brand image, compensation schemes and legal formalities (Blaško et al., 2000; Finkelstein, 2002; Jean & Cohen, 2000). The mismanagement of this cultural clash rather that the cultural differences themselves might be what had jeopardized the potential of this deal(Rottig, 2007), creating a void between what should have been done towards goals realization and what was actually done taking into consideration the events like the decision of S&P 500 not to include DaimlerChrysler in their index and the departure of key executives of Chrysler leading Daimler to continuously take over the management. All of which had led DaimlerChrysler to underperform and delay synergies realization and what supposed to bring positive financial synergies ended up with significant decrease in market value and profitability as the analysis showed.

As the M&A framework (figure 6) has suggested, specific related success factors (being the actions and implementation plans from management which need to be aligned with the motives) had to take place in order to bring motives into actual realization (El Zuhairy et al., 2015) which contradict what was done here as explained in the following.

- Towards bringing the financial synergies into place:

Financial Synergies as Cost efficiency, shared controlled-cost product development, innovation and distribution channels

What was actually done towards that:

- *Daimler preserved their philosophy " quality at any cost" neglecting the benefits of Chrysler model in priced-targeted product development*
- *Distribution channels and brand offering remained disconnected*
- *Differences in financial reporting remained unsettled*

- Towards capitalizing on integration:

The rapid required integration towards a highly integrated merged entity and consequently value creation mechanism

What was actually done towards that:

- *Both sides were trying to prove their system as a best way instead of seeking one best way*
- *Continued disconnection between both brands*
- *Chrysler operated as a strategic business unit, while Daimler had a traditional structure with autonomy of its 23 business units*

- Towards higher integration on the management level and consequently an efficient management of the cultural clash:

Bringing the two companies who are geographically and culturally distant with a different organizational structure towards one integrated global company

What was actually done towards that:

- *Daimler gained more power on the management level and contradicting the characteristic of the deal as a merger of equals*
- *Different compensation schemes remained unsettled*
- *Different operational mechanisms remained in place*
- *Departure of key executive from Chrysler causing tension among Chrysler workforce and shifting more management power to Daimler*
- *Poor management of cultural differences slowing the integration and triggering underperformance*

we can conclude that the management practices towards a successful transaction were not exactly in accordance with what the M&A framework (figure 6) has suggested, which could be an evidence about the link between motives and their related success factors.

4.4 Conclusion

In light of the events that followed DaimlerChrysler deal, and the factors surrounding the 10-years life of this, failure seemed to be inevitable. From a strategic and long-term perspective, the deal was promising with high potential and significant expected synergies, both companies perfectly complementing each other's strategy in foreign market expansion, cost saving, technology and product development. Additionally, both companies were among leaders in their respective market with long history of success. However, once the deal closed, the critical part was to effectively integrate these two culturally and geographically distant business entities to function as a new global company.

Cultural clash was a major contributor for the DaimlerChrysler underperformance. However, management practices, the internal conflict and disconnection between both workforce that led to compromised decisions about what best to be done for the new company, also played a role in the failure of this deal

The announcement of the deal as a "merger of equals" which turned out not to be the case, has led both sides to misunderstand and probably mismanage the situation, which consequently had a share in cracking the deal outcomes. Bud Liebler, head of Chrysler marketing, once said, "We should have never called this a 'merger of equals' ", "It was an acquisition, and by calling it something else, we confused a lot of people on both sides of the Atlantic." (Vlasic & Stertz, 2000).

Thomas Stallkamp, in charge of integration at the time, had thrived to take what is best from both companies and what makes them both leaders in their respective market and combine those strength into one new global company, But the disconnection between management made it hard to effectively manage and enact change.

Decreased market capitalization and continuous operational losses made it inevitable that an action is needed to avoid the worst (for instance the bankruptcy of both companies), outing an end of the largest cross border M&A at the time with the sale of Chrysler to Cerberus Capital Management.

The problem, as the events had showed was not a wrong choice of a partner. Strategically both companies complemented what the other was looking for on a long term, global reach and expansion, acting upon the changes that were happening in the automobile industry, stronger competitive position and significant potential synergies, all of which gave this deal validity and approval of both companies' leaders as well as the market. The management of the cultural and organizational differences was the "make or break" for DaimlerChrysler to bring those synergies to realization, as Rotting (2007) argued that it is not the cultural differences that might jeopardize an M&A potential, rather than being the poor and mismanagement of cultural combination process in the post acquisition stage (Rottig, 2007).

The expectations that this deal would be a "merger of equals", which would have meant a balanced and distributed control and power between both companies, the perception of that by Chrysler employees that they are an equal partner and the fact that Daimler gradually imposed their management and culture along the process, led to skepticism of the workforce. These facts together with ambiguity about the future of the company were major contributors for the underperformance of the new merged company that made the objectives of the merger impossible to realize. These facts are consistent with Rotting (2007) argument that it is not the cultural differences that might jeopardize an M&A deal, rather than being the poor and mismanagement of cultural combination process in the post-acquisition stage.

5. Conclusions, Limitations and Future Research

5.1 Conclusions

This work aimed at investigating the context of M&A activities as a strategic and growth mechanism. Literature review was presented to bring a better understanding of mergers and acquisitions (M&A) as part of corporations strategy. The motives that lead a company to consider an M&A and the success and failure of M&A considering different performance measures was followed by the analysis of a case study.

As the literature has shown, the complexity of M&A requires continuous investigation. Every deal is unique and impacted by external forces like economy, industry, rivalry, customers' changing tastes and the ease of losing their royalties in addition to internal dynamics like organization's culture, efficient and reliable change management and leaders (Kummer & Steger, 2008).

And from what the case of DaimlerChrysler showed and in relation to the research questions stated earlier we can come to the conclusion:

1. Cross border M&A represents a strategic growth mechanism especially when growth is to be rapidly realized. The most significant motives behind cross-border M&A can be highlighted as:
    - new market entry leading to higher market share and power
    - financial synergies that could result from cost efficiency, tax advantages or increased sales
    - non-financial synergies that could result from access to competencies and talents, shared technologies and R&D
    - diversification strategy through new products, markets or reduced risk
2. After identifying the right fit for an M&A strategy, the challenge within cross border M&As remain in mobilizing those two distant and well established and rooted corporate cultures and norms towards creating a third culture that combine the best of what both companies have been recognized for and excelled at, and what made them an appealing target for each other in the first place, aiming at creating a new corporate culture that could be

embedded in the new founded business entity. Cultural distance poses the greatest challenges for cross border M&A, and giving more attention and advanced planning to the cultural distance is significantly needed (Ahammad & Glaister, 2013; Rottig, 2007). Where domestic deals do not necessarily mean easier or simpler integration, international transactions bring greater risk. Research suggests that the challenge is in management capabilities of successfully managing the combined cultures and not in the cultural differences themselves (Rottig, 2007).

3. M&A performance measures can be categorized within financial and non-financial domain. The choice of the key performance measures need to be aligned with the targeted evaluation criteria and related to the motives behind that deal (El Zuhairy et al., 2015).

5.2 Limitations and Future Research

One significant limitation of the case study approach is that results cannot be generalized or replicated for the wider population. Moreover, researchers bias could influence or lead to subjectivity as case study approach deals with qualitative and descriptive data which depends on individual interpretation (McLeod, 2008), Which is the case here as every M&A deal proves to be unique and success or failure in a specific case under specific circumstances would not necessarily mean that results can be generalized. However, case study approach helps at better understanding what the literature has indicated in a specific topic and give the chance to confirm or not the theoretical framework in a specific research area.

The low success rate of international M&As and yet the fact that companies still consider M&As to go global represent significant opportunities for future research aiming at better understanding what drives and lead to synergies realization in cross border M&As which could possibly lead to an improved success rate.

As mentioned earlier, Stahl and Mendenhall (2005) indicated that “despite the extensive body of research on M&A that has accumulated over the last thirty years, the key factors for M&A success and the reasons why so many M&A fail remain poorly understood” (Stahl & Mendenhall, 2005), cited by (Rottig, 2007, p. 113). Therefore, there are opportunities for further as reasons for underperformance in cross border M&As and empirical findings are mixed and inconclusive (Rottig, 2007).

Hopefully, this work could bring together a sound understanding of the researched topic and can be a slight addition of what have been done in this area. Giving the importance of M&A as value creation mechanism in the corporate long term strategy, a better understanding might lead to an improved success rate and better control towards realization of a deal's objectives.

Bibliography

Abbas, H., Aroosh, K., Butt, A., & Zafar, F. (2014). Merger Failures & Corporate Strategy: Change Management to Solve the Query. *International Journal of Sciences: Basic and Applied Research, 13*(1), 90-102.

Ahammad, M. F., & Glaister, K. W. (2013). The pre-acquisition evaluation of target firms and cross border acquisition performance. *International Business Review, 22*(5), 894-904.

Ahammad, M. F., Tarba, S. Y., Liu, Y., & Glaister, K. W. Knowledge transfer and cross-border acquisition performance: The impact of cultural distance and employee retention. *International Business Review*.

Appelbaum, S. H., Lefrancois, F., Tonna, R., & Shapiro, B. T. (2007). Merger 101 (Part Two): Training managers for culture, stress, and change challenges. *Industrial and Commercial Training, 39*(4), 191-200.

Blaško, M., Netter, J. M., & Sinkey Jr, J. F. (2000). Value creation and challenges of an international transaction The DaimlerChrysler merger. *International Review of Financial Analysis, 9*(1), 77-102.

Bower, J. L. (2001). Not All M&As Are Alike and That Matters. Retrieved July, 2015, from http://hbswk.hbs.edu/item/2123.html

Bruner, R. F. (2002). Does M&A Pay? A survey of evidence for the decision maker. *Journal of Applied Finance, 12*(1), 48-68.

Bryman, A., & Bell, E. (2011). *Business Research Methods* (3rd ed.): OUP Oxford.

Calori, R., Lubatkin, M., & Very, P. (1994). Control Mechanisms in Cross-border Acquisitions: An International Comparison. *Organization Studies, 15*(3), 361-380.

Capron, L., & Pistre, N. (2002). When do acquirers earn abnormal return? *Strategic Management Journal, 23*(9), 781–794.

Cartwright, S., & Schoenberg, R. (2006). 30 Years of Mergers and Acquisitions Research: Recent Advances and Future Opportunities *British Journal of Management, 17*(1), 1-5.

Chen, C., & Findlay, C. (2003). A Review of Cross-border Mergers and Acquisitions in APEC. *Asian-Pacific Economic Literature, 17*, 14-38.

Christensen, C. M., Alton, R., Rising, C., & Waldeck, A. (2011). The Big Idea: The New M&A Playbook. *Harvard Business Review*, 1-10.

Cordeiro, M. (2014). The seventh M&A wave. Retrieved June, 2015, from http://www.camaya.com.br/site/es/insights/52/2014/09/the_seventh_m&a_wave

Coyle, B. (2000). *Mergers and Acquisitions*: Global Professional Publishi.

DaimlerChrysler. (1998). Merger prospectus. Chrysler Corporation proxy statement and DaimlerChrysler AG prospectus. *Retrieved in August 2015 from www.globalsepri.org/uploadphotos/2008912171836151.pdf*.

Delloite. (2009). Cultural issues in mergers and acquisitions. Retrieved July, 2015, from http://www2.deloitte.com/us/en/pages/mergers-and-acquisitions/articles/cultural-issues-mergers-and-acquisitions.html

Delloite. (2014). M&A trends report 2014 : A comprehensive look at the M&A market. Retrieved March, 2015, from http://www2.deloitte.com/us/en/pages/mergers-and-acquisitions/articles/mergers-and-acquisitions-trends-report-2014.html

El Zuhairy, H., Taher, A., & Shafei, i. (2015). Post-Merger And Acquisitions: The Motives, Success Factors And Key Success Indicators. *Eurasian Journal of Business and Management, 3*(2), 1-11.

Erel, I., Liao, R. C., & Weisbach, M. S. (2012). Determinants of Cross-Border Mergers and Acquisitions. *The Journal of Finance, 67*(3), 1045-1082.

FinancialTimes. (2007). Timeline: From global merger to sale. *Financial times.* Retrieved August, 2015, from http://www.ft.com/intl/cms/s/0/6109186c-0209-11dc-ac32-000b5df10621.html#axzz3jSlVA1P2

Finkelstein, S. (2002). The Daimler-Chrysler Merger. *Tuck School of Business, Retrieved in August 2015 from: mba.tuck.dartmouth.edu/pdf/2002-1-0071.pdf.*

Gadiesh, O., Ormiston, C., Rovit, S., & Critchlow, J. (2001). The 'why' and 'how' of merger success. *European Business Journal, 13*, 187-193.

Gammelgaard, J. (2004). Access to Competence: an Emerging Acquisition Motive. *European Business Forum*(17), 44-47.

Gaughan, P. A. (2010). *Mergers, Acquisitions and Corporate Restructurings* (5th ed.): John Wiley & Sons.

George, A. L., & Bennett, A. (2005). *Case Studies and Theory Development in the Social Sciences*.

Ghoshal, S., Korine, H., & Szulanski, G. (1994). Interunit Communication in Multinational Corporations. *Management Science, 40*(1), 96-110.

Gomes, E., Angwin, D. N., Weber, Y., & Yedidia Tarba, S. (2013). Critical Success Factors through the Mergers and Acquisitions Process: Revealing Pre- and Post-M&A Connections for Improved Performance. *Thunderbird International Business Review, 55*(1), 13-35.

Graham, P. (2005). Hiring is Obsolete. Retrieved June, 2015, from http://www.paulgraham.com/hiring.html

Gupta, P. K. (2012). Mergers and Acquisitions (M&A): The Strategic Concepts For The Nuptials of Corporate Sector. *Innovation Journal of Business And Management, 1*(4), 60-68.

Herd, T., & McManus, R. (2012). Who says M&A doesn't create value? Retrieved March, 2015, from http://www.accenture.com/nl-en/outlook/Pages/outlook-journal-2012-mergers-acquisitions-create-value.aspx

Hollmann, J., Carpes , A. d. M., & Beuron, T. A. (2010). The DaimlerChrysler Merger, A Cultural Mismatch? http://www.spell.org.br/documentos/download/5150

Janicki, G. (2002). Measuring M&A Success and Failure. *Automotive Industries, 182*(12), 68.

Jean, D. C. S., & Cohen, A. R. (2000). DaimlerChrysler Merger: The Quest to Create "One Company". *Harverd Business Review*.

Kandžija, V., Filipović, D., & Kandžija, T. (2014). Impact of Industry Structure on Sucess of Mergers and Acquisitions. *TECHNICAL GAZETTE, 22*(2), 17-25.

Kummer, C., & Steger, U. (2008). Why Mergers and Acquistion (M&A) Waves Reoccur: The Vicious Circle From Pressure to Failure. *Strategic Management Review, 2*(1), 44-63.

Larsson, R., & Lubatkin, M. (2001). Achieving acculturation in mergers and acquisitions: An international case survey. *Human Relations, 54*(12), 1573-1607.

Maquieira, C. P., Megginsonb, W. L., & Nail, L. (1998). Wealth creation versus wealth redistributions in pure stock-for-stock mergers. *Journal of Financial Economics, 48*, 3-33.

Martynova, M., & Renneboog, L. (2008). A century of corporate takeovers: What have we learned and where do we stand? *Journal of Banking & Finance, 32*, 2148-2177.

McLeod, S. (2008). Case Study Method. Retrieved August, 2015, from http://www.simplypsychology.org/case-study.html

Meglio, O., & Risberg, A. (2011). The (Mis)Measurement of M&A performance, A

systematic narrative literature review. *Scandinavian Journal of Management, 27*(4), 418-433.

Moeller, S. B., & Schlingemann, F. P. (2005). Global diversification and bidder gains: A comparison between cross-border and domestic acquisitions. *Journal of Banking & Finance, 29*(3), 533-564.

Motis, J. (2007). Mergers and Acquisitions Motives.

Mukherjee, T., K, Kiymaz, H., & Baker, H., L. (2004). Merger Motives and Target Valuation. *Journal of Applied Finance, 14*(2), 7-24.

Nahavandi, A., & Malekzadeh, A. R. (1988). Acculturation in Mergers and Acquisitions. *The Academy of Management Review, 13*(1), 79-90.

Olie, R. (1990). Culture and integration problems in international mergers and acquisitions. *European Management Journal, 8*(2), 206-215.

Perry, C. (1998). Processes of a case study methodology for postgraduate research in marketing. *European Journal of Marketing, 32*(9/10), 785-802.

Porter, M. (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*.

Rappaport, A., & Sirower, M. L. (1999). Stock or Cash? The Trade-Offs for Buyers and Sellers in Mergers and Acquisitions. *Harverd Business Review, Retrieved June 2015 from https://hbr.org/1999/11/stock-or-cash-the-trade-offs-for-buyers-and-sellers-in-mergers-and-acquisitions*.

Rottig, D. (2007). Successfully Managing International Mergers and Acquisitions: A Descriptive Framework. *International Business: Research Teaching and Practice, 1*(1), 97-118.

Rumelt, R. (1993). Evaluating Business Strategy

Schmid, A., Sánchez, C., & Goldberg, S. (2012). M&A Today: Great Challenges, But Great Opportunities. *Journal of Corporate Accounting & Finance, 23*(2), 3-8.

Scholes, K., Whittington, R., & Johnson, G. (2011). *Exploring Strategy* (9th ed.): Financial Times Prentice Hall.

Schweiger, D. M., & Denisi, A. S. (1991). Communication with Employees following a Merger: A Longitudinal Field Experiment. *The Academy of Management Journal, 34*(1), 110-135.

Sherman, A. J. (2011). *Mergers and Acquisitions from A to Z* (3rd ed.). New York: American Management Association.

Snow, B. (2011). *Mergers and Acquisitions For Dummies*.

Stahl, G. K., Angwin, D. N., Very, P., Gomes, E., Weber, Y., Tarba, S. Y., . . . Yildiz, H. E. (2013). Sociocultural Integration in Mergers and Acquisitions: Unresolved Paradoxes and Directions for Future Research. *Thunderbird International Business Review*, *55*(4), 333-356. doi: 10.1002/tie.21549

Stahl, G. K., & Mendenhall, M. E. (2005). *Mergers and Acquisitions: Managing Culture and Human Resources*: Stanford University Press: Stanford, CA.

Stahl, G. K., & Voigt, A. (2004). Impact of Cultural Differences On Mergers And Acquisitions Performance: A Critical Research Review And An Integrative Model *Advances in Mergers and Acquisitions* (Vol. 4, pp. 51-82): Emerald Group Publishing Limited.

Sudarsanam, S. (2010). *Creating Value From Mergers And Acquisitions " The Challenges "* (2nd ed.): Pearson Education.

Venema, W. (2012). Integration: The Critical M&A Success Factor. *Corporate Accounting & Finance, 23*(2), 49-53.

Vlasic, B., & Stertz, B. (2000). Taken for a Ride, How the DaimlerChrysler "marriage of equals" crumbled *Business Week.* Retrieved Auguest, 2015, from http://www.businessweek.com/2000/00_23/b3684147.htm

Wilson, J., & Lipczynski, J. (2001). *Industrial Organisation: An Analysis of Competitive Markets*: Financial Times Prentice Hall.

. World Investment Report: Cross-border Mergers and Acquisitions and Development. (2000) *UN Conference on Trade and Development* (pp. 99-106). NewYork / Geneva: United Nations Publications.

Yin, R. K. (2009). *Case Study research: Design and Methods, Applied Social Research Methods Series* (Fourth ed. Vol. 5): Sage.

Annexes

Annex 1: Demonstration of the full version of the M&A Framework

	Motives	Main Success Factor	KSIs (Key success indicators)
1	Benefiting from Diversification	Communicating with Acquired Organization on Diversification Strategy (Related vs. Unrelated) and Objectives Identifying Main Diversification Areas (in Products, Markets, Suppliers, etc.) Developing Detailed Diversification Action Plan	* Ability to Add New Products and Markets * Increase in Annual Revenue
2	Reacting to Hyper-competition	Competition Analysis for the Firm Position on the Market Developing Competition Strategic Plan Developing Business Scenarios Based on Expected Competition Reactions	* Increase of Market Share * Increase in Gross Profit * Increase in Customer Satisfaction
3	Capitalizing on Integration	Communicating with Acquired Org. on Integration Strategy (Vertical vs. Horizontal) and Objectives Developing Detailed Integration Action Plan	*Securing Sources of Supply and Raw Materials *Increase in Distribution Power *High Flexibility in Supply/Distribution
4	Accelerating Growth	Developing Future Expansion Plan Aligned with Acquiring Org. Plan Securing/Expanding Sources for Growth	* Speed of Increase in Annual Revenue * Speed of Increase in Bottom Line (NP) * Increase of Market Share
5	Perceiving Underutilized and Undervalued Assets	Developing Assets Management Plan for Undervalued Assets Developing Resources Utilization Plan for Underutilized Assets	* Return on Assets (ROA) * Return on Investment (ROI) * Percent of Revenue from Utilization
6	Anticipating Synergies	Selecting Complementing Products to Ensure Synergies Identifying Key Synergies Areas (Marketing and Sales, Operations, HR, Finance) Developing Detailed Synergy Action Plan	* Optimization in Operations Cost * Employees' Productivity

7	Utilizing Financial Strengths	Conducting Financial Capacities Analysis to Explore Financial Strengths and Weaknesses	* Return on Investment (ROI) * Return on Equity (ROE)
		Developing Financial Development Plan Focusing on Financial Targets and Tools	
		Planning for the Enhancement of Borrowing and Funding Accessibility	
8	Benefiting in Tax Area	Securing Tax Exemption	Full Tax Exemption
9	Acquiring Management Team	Developing Long-term Retention Plan for Acquired Management Team	Percent of Retained Employees from Targeted Management Team
10	Accessing New Technologies and Processes	Developing Utilization Plan for New Acquired Technologies and Processes	
		Developing Investment/Enhancement Plan for R&D	
		HR Management for New Technical Team	
11	Ego - Emotional and Psychological Reasons	Developing Detailed Communication Plan	M&A Recognition from the Community

Source: (El Zuhairy et al., 2015)

Annex 2: DaimlerChrysler shares' exchange

Market Value	**Daimler-Benz Shareholders**	**Chrysler Shareholders**
May 5, 1998	$58.1 Billion (68.4%)	$26.8 Billion (31.6%)
Actual exchange for DaimlerChrysler Shares	58.6%	41.4%

Source: Adapted from (Blaško et al., 2000)

Marker value before the merger announcement was $58.1 billion for Daimler's shareholders and $26.8 billion for Chrysler's shareholders, and based on that market capitalization, Chrysler shares of the combined company would be 31.6%. The actual exchange ratio for DaimlerChrysler share was set at 1:1.005 for Daimler shareholders and 1:0.6235 for Chrysler shareholders, which rise Chrysler shares of the new company to 41.4%. Resulting in Chrysler shareholders receiving 31% premium over the closing prices on May 5, 1998.