

Contributions to Management Science

Stefano Garzella
Raffaele Fiorentino

Synergy Value and Strategic Management

Inside the Black Box of Mergers and
Acquisitions



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Preface

Synergy management is an important challenge for firms, advisors, and practitioners involved in mergers and acquisitions (M&A). Synergy plays a key role in mergers and acquisitions (M&A), first, in the decision-making process and, then, in the integration step. However, despite the synergy value is commonly regarded as one of the M&A success factors, scholars show that firms generally fail in the achievement of expected synergy. There is a lack of comprehensive models of synergy management in the literature: the assessment of synergy value is a “black box” for both scholars and practitioners. Our aim is to provide a comprehensive framework of synergy management by the integration of findings from prior research and several disciplines. This framework highlights the main dimensions of synergy management in mergers and acquisitions, the common pitfalls, and new models and tools to overcome these pitfalls. Therefore, the book, on one hand, enriches M&A literature and suggests insights for scholars and, on the other, provides guidelines for practitioners involved in synergy management.

These findings are the result of a complex research project, begun some years ago, developed through the literature analysis and empirical research discussed and shared with various academics and practitioners and colleagues and friends. Each of them has provided useful advice and suggestions.

Then, we would like first to acknowledge our colleagues of the Universities of Naples “Parthenope,” Pisa, and Rome “La Sapienza” for useful exchange of views. We are also grateful to the members of the research project on “Growth Strategies, Corporate Governance Processes and Value Creation” funded by the PRIN Program of the Italian Minister of Education, Universities and Research. This study was also supported by the research funds of the University of Naples Parthenope. Finally, thanks to reviewers and participants to conferences and workshops where we discussed prior versions of this work for advice and insights.

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Chapter 1

Introduction

Abstract There is a lack of comprehensive models of synergy management in the literature: the assessment of synergy value is a “black box” for both scholars and practitioners. Our aim is to provide a comprehensive framework of synergy management by the integration of findings from prior research and several disciplines. This framework highlights: the main dimensions of synergy management in mergers and acquisitions, the common pitfalls, and new models and tools to overcome these pitfalls.

In order to reach our aim we have articulated the book in three chapters analyzing: the role of synergy in M&As; the synergy assessment process; the management of synergy pitfalls.

Keywords Synergy • Pitfalls • Blackbox • Framework

Synergy is back at the top of the corporate agenda in M&A processes. However, the success of external growth strategies has been limited and the most recent deals do not show any meaningful difference with respect to M&A failure rates (Bruner 2004; Cartwright and Schoenberg 2006; Hitt et al. 2009; Thanos and Papadakis 2012). Unidentified mediators seem to drive variance in M&A performance (King et al. 2004).

Most of the deal’s announcements with high synergy expectations are often followed by disappointing performance. Each M&A initiative embarks on the same enthusiastic quest for synergy achievement and faces the same challenges. Harding and Rovit (2005), building on the results of a research conducted by Bain & Company, affirmed that two-thirds of the executives responsible for acquisitions believe to have overestimated the synergic potential and underline the relevance of this error for the deal failure.

Consistently, the study of M&A is an established body of literature in management research (Bertini 1990; Collis and Montgomery 1997; Galeotti and Garzella 2013; Keil et al. 2013; Halebian et al. 2009; Onesti et al. 2012; Porter 1980). M&A research, specifically in accounting and finance, largely focuses on value creation issues. However, published results are often divergent and measurements incomplete (e.g., Bruner 2002). For instance, although there is some evidence that M&A deals create short-term value for shareholders in target firms, the empirical support for the creation of long-term value in acquiring firms remains ambiguous (Agarwal