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Success and failure in M&As: Is there a place for a paradigm change? Evidence from the Israeli hi-tech industry¹

*Ofer Zaks*²

Abstract: The consistent growth of mergers & acquisitions (M&As) activity around the world in the last decade, and the volume of capital involved in such transactions, stand in sharp contrast to the high failure rates evident in M&As. The inconsistency amongst empirical findings on M&A performance is based on a variety of settings and on different measurements investigated under the generic label ‘M&As’. This paper claims that we need to differentiate between general M&As and those involving technology firms acquisition. The combination of the drive, the dynamic process and the human capital capabilities which characterize the latter, is expected to result in a more successful result than was reported. Hi-tech innovative acquirers can benefit from buying small, start-up firms by adding valuable resources, increasing market power and initiating strategic renewal. It is proposed that in addition to the traditional critical success factors (CSFs) identified as the most influential variables on M&A performance, attention needs to be given to the acquired firms’ motivation to succeed and to the performance of start-ups in the hi-tech sector. Some unique variables in that configuration need to be researched, amongst them are: trust, readiness for change, commitment, knowledge transfer and preserved autonomy. By doing that an opportunity will be given to examine if the general research paradigm of M&As fits the hi-tech’s circumstances or if a separate one is needed to measure the merger performance of start-ups. It is assumed that the Israeli’s start-ups mergers represent a more successful case and that they will perform with more positive results.

This paper presents a theoretical framework for investigating M&A performance in the hi-tech area through an interdisciplinary approach. The article is organized as follows: The first section outlines the various theoretical ideas and research done on M&As. The second part deals with some critical reviews that aim to explain the confusing data produced from that paradigm. Section three turns to the emerging area of the technological business environment highlighting the uniqueness of the Israeli start-up phenomena. The last section combines performance with hi-tech in order to provide new insights on the M&As processes for executives engaged in both planning

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and implementing M&A deals. The paper concludes with a short summary and practical recommendation for further research.

Keywords: mergers and acquisitions, performance measures, organizational performance, hi-tech industry.

JEL codes: M13, L2, J24.

Introduction

“Boom time for mergers and acquisitions” was the title of a news report in CNN- money and the report continues:” It’s only June, but already there has been \$786 billion worth of mergers and acquisitions in the United States, according to Dealogic. That’s a lot more than the past few years and not far off from the total for all of 2007, the last “big spender” year. The rush to buy is coming from the massive stock piles of cash money businesses have on hand, and there’s little sign the pace will let up any time soon” [June 16, 2014]. This “boom” atmosphere was reported even before in 2004 when 30,000 acquisitions were completed globally – one transaction every 18 minutes and with a total value of \$1,900 billion [Cartwright and Schoenberg 2006].

Simultaneously there are considerable observations on the unsuccessful outcome of many M&A transactions and they note the failure rates of between 60 and 80 percent [Marks and Mirvis 2001]. A meta-analysis of 93 studies with data on 206,910 acquisitions also revealed that the post-acquisition performance of acquiring firms fails to surpass or tends to be slightly poorer than that of non-acquiring firms [King et al. 2004]. Some more observations pointed out that fewer than 20% of business consolidations however, achieve their desired financial or strategic objectives [Davidson 1991].

It is rather SMB transactions from which this amount mainly derives. Even though SMBs play an important role in the European economy – e.g. they represent 99% of all European companies [Avram and Kühne 2008], and the last M&A wave was mainly SMB driven – they are broadly ignored in current research. If those are the failure rates an obvious question can be asked: why in the light of this do the numbers of M&As transactions still grow?

BCG’s 2005 report “The Method in the Madness” has tried to resolve the paradox that emerged from those confusing figures: “[...] we have discovered that there is a clear and replicable method in the apparent madness of the most successful serial acquirers. These companies treat the process in a systematic, “industrial” manner, pursuing a deal only when the expected returns are above the cost of capital”.

The complex phenomenon, which mergers and acquisitions represent, has attracted the interest and research attention of a broad range of management disciplines encompassing the financial, strategic, behavioural, operational and

cross-cultural aspects of this challenging and high risk activity, even though in recent years research has spread to human and psychological aspects of M&A and has increased in prominence. But even so M&A literature continues to be dominated by financial and market studies [Cartwright 2005]. The variables most frequently involved in studies of the finance and strategy literatures were found to be less influential as was thought, according to King et al.'s meta-analysis: "our results indicate that post-acquisition performance is moderated by variables unspecified in existing research. [...] An implication is that changes to both M&A theory and research methods may be needed" [King et al. 2004: 188].

The challenge in writing this article arises from my personal experience with M&A activities as a member of hi-tech firms and afterwards as a consultant. The following article aims to examine new directions in modern, hi-tech businesses, usually small size entities, and to wonder whether better performance will result as more positive transactions take place.

Aspects reviewed in this paper are as follow:

- M&As are a major organizational change that influence two organizations (or more: the acquirer and the acquired one/s).
- The acquired one is usually „blamed” for its resistance to change.
- Managers and core employees in start-up firms initiate and lead the process of an exit strategy, and in such cases we can assume that they are already prepared and committed to perform the change activity from day one.
- Start-ups as a small organizational entity, might probably be a proper organization to examine the influence of some CSFs on their performance during and after the post-merger integration (PMI). New findings resulting from those M&As will allow us to spread the examination into more hi-tech areas and to add new parameters to the existing knowledge base in order to improve performance, change methods and the strategic thinking paradigm.

From the above short review we can say that after decades of multi-disciplinary research, the findings are frustrating, confusing and inconsistent. Therefore the aim of this article is to address the following questions:

1. Why performance rates are so poor and represent mainly failures? Usually it is expected that the way of doing business is based on a constant improvement process and on organizational learning processes. The answers will allow us to wonder from where these disappointing results emerge.
2. How do M&A scholars measure M&A performance and what were the studied objectives that mergers and acquisitions scholars actually investigate and refer to with the generic label M&As? And finally
3. In a changing and competitive business environment maybe the time has come to change and shift the research focus from traditional large companies to SMBs mergers in the hi-tech sector? Can we anticipate better performance results because of the special characteristics resulting from their identity and dynamic activity? The idea behind this assumption is that if the main reason for failure is resistance to change then in start-ups you

may expect to find readiness and commitment to change. In such cases the perceived employees' performance and satisfaction could lead to success rather than failure.

1. The existing research paradigm

An acquisition refers to: "a situation in which two [or more] companies of different size and different qualities combine" [Jagersma 2005, p.44]. A merger occurs "when one corporation is combined with and disappears into another corporation" [Lajoux 2006]. In practice mergers often involve the friendly fusion of two equally sized firms into one new organization where practices, cultures and structures of both firms are combined. The boundaries of these terms have become blurred and they are used in referring to the same phenomenon. Most of the research findings report on both phenomena at the same time and use both terms interchangeably [King et al. 2004].

Deals are often announced as mergers to appear less threatening to the acquired organization [Vaara and Monin 2008]. In 2000 the United Nations Conference on Trade and Development estimated that only 3% of deals are actually mergers.

1.1. Main performance explanations

It was the 1999 KPMG survey that has drew our attention to the: "Soft factors" as the key success factors in M&As. They mention six factors: three "hard" and three "soft" which have an impact on value realization. The three soft factors are: management team selection, cross border cultural issues addressed and communication internally and externally.

A similar report has indicated that "A corporate that paid attention to the soft factors [...] was 26 percent more likely to have a successful deal. In our current survey the same soft factors indicate that the corporate does not give them the focus they warrant" [KPMG 2011].

1.2. M&A's as an organizational change process

Several theoretical viewpoints regarding organizational change emerged from the review of the literature using the above keywords. Much of the merger and acquisition literature examines the human impact of organizational change. Many articles addressed reactions of individual and groups to changes in authority resulting from integration or assimilation by a new organization. Although these studies relied on behavioural of economic choice theories, they serve best to create a foundation for understanding the antecedents of reaction to change subsequent of a merger or acquisition [Teerikangas 2012].

The literature indicates that PMI success is significantly dependent upon individual leadership reaction to changes in authority and decision making privilege [Stahl and Voigt 2005]. Discontinuity with former roles, decision making allocations and perceived standing amongst peers often leads to dysfunctional or unsuccessful outcomes [Krug and Aguilera 2005]. Cartwright and Cooper [1993] suggest that it is important that employees at all levels become involved in the integration or change. The large scale organizational changes resulting from mergers have serious impacts on the organizations and their employees. The effects of a merger on employees' stress and anxiety often persist over time [Schweiger and DeNisi 1991]. Recently Reynolds and Teerikangas [2015] argue that in the contemporary globalized setting, making such clear-cut distinctions between what is a domestic vs. a cross-border transaction has become more difficult, if not an illusion. Their findings posit that all M&As, including domestic ones, boast international dimensions.

Organizational scholars, in the last 30 years, published a huge number of articles and have examined dozens of variables in order to explain the inconsistency in performance by referring to poor construct measurement [Zollo and Meier 2008] or to the adoption of different performance measures [King et al. 2004] that are not comparable. Others claim that each merger and acquisition is unique and therefore, findings are not comparable across typologies or settings [Bower 2001]. In the next paragraph additional critiques will be presented.

2. M&As performance – scholars' critique

The importance of defining the scope of the conditions where the merger and acquisition performance construct does or does not apply, in order to provide a different explanation to the claimed inconsistency in M&A performance research findings, was addressed by Megilo and Risberg [2010]. By doing that they conducted a literature search based on 101 articles on M&A performance and they found a large number of indicators, 169, for M&A performance. They claim that "[...] we believe that the reason for multiple ways to measure performance is that performance, like most organizational constructs, lacks universality. The variety of measures reflects the variety of the scholars' constructions of performance and of the measurement techniques adopted. The problem is not the variety of measure, but the comparison of different measures as if they were measuring the same feature of the organization. This could be the reason for the claimed inconsistency in M&A research findings actually perform" [Meglio and Risberg 2010: 2].

Scholars usually use the sentence: "in this research dealing with either mergers or acquisitions, the two terms are generally used interchangeably". In understanding how mergers and acquisitions actually perform, one could be

misled by the generic term “M&A” when they actually study different types of deals. The idea that there is no major difference between mergers and acquisitions was put forward by Haspeslagh and Jemison [1991] when they mentioned that a distinction between the two categories is not relevant when discussing the implications of mergers and acquisitions on the organizations involved. According to them, mergers as well as acquisitions produce, at different paces and levels, turmoil and integration problems once the deal is completed. The need to focus attention on the necessity of making a distinction between mergers and acquisitions was mentioned by Epstein [2004]. Mergers of equals, Epstein claims, involve two entities coming together and taking the best of each company, whereas an acquisition involves a much easier process of fitting one smaller company into the existing acquiring firm.

Under the label ‘M&As’, scholars investigate different industries, different merger waves, and different typologies. Moreover they frequently investigate large or small deals. Labelling all these research settings ‘M&As’ increases the possibility that the label itself becomes ambiguous as it may refer to completely different deals. This issue is not simply a matter of language; it brings with it implications in terms of the relevance of empirical research.

Meglio and Risberg [2012] have reached the conclusion that: “fragmentation entails a different meaning when seen outside the positivistic paradigm, it being an outcome of the fact that researchers with different ontological, epistemological, and methodological stances investigate different mergers and acquisitions” and “this is what produced the apparent paradox of studying completely different mergers and acquisitions, but referring to them as a unitary phenomenon in the quest to generalize research results. This is one of the reasons why scholars have not yet been able to develop and test a grand theory about mergers and acquisitions; it would be impossible to generalize research results to such a wide set of research settings” (p. 14).

A similar critique on the phenomena of the large number of variables used was published in an article by Gomes, Angwin, Weber, and Tarba [2013]: “Important variables highlighted in some M&A literature are omitted and the connectedness among key variables and different stages of the M&A process are not clearly articulated. A multi-disciplinary review examining key success factors in the M&A process needs to consider the links between these variables at different acquisition stages as well as along the M&A process” (p. 14). In their article they clearly articulate these connections.

The methods used in M&A research were summarized by Cartwright et al. [2012]. They came to the conclusion that: “research on M&A should: 1) move from the study of single to multiple levels of analysis, 2) move from a focus on focal firms as the unit of analysis to the study of the firm network within which any transaction takes place [...]. Given the rapidly shifting corporate and global landscapes, if we are to keep pace with the speed of change, learning and innovation occurring in the companies that we study, we need to be

ready to manoeuvre ourselves as researchers engaged in studying one of the most prevalent forms of change in modern corporate history: M&A” (p. 103).

At this point, intermediate conclusions can be drawn: almost 60 years of research has been done and it involves all disciplines working in parallel without any integrative theory. Therefore consultants and companies use their own models and methods (e.g. “The path finder model” created in GE Capital by Ashkenas, DeMonaco, and Francis [1998]). Scholar research has tested a variety of definitions and variables. They were measured in different ways and this could lead to misunderstanding and misinterpretation. Most of the research was based on large data and on historical bases from large companies in US and Europe.

The next paragraph will review the uniqueness of the hi-tech sector with an emphasis on the Israeli experience in establishing start-ups.

3. Characteristics of start-ups and entrepreneurial businesses in the hi-tech arena

Since 1990 there has been a significant expansion of M&A activity in the hi-tech sectors. Acquisition of external technologies is an essential means by which established firms add to their technical capabilities and products, enhance their market power and achieve strategic renewal [Agarwal and Helfat 2009].

Indeed, acquisitions are a prominent feature of the strategies of many technology firms, including Cisco, Google, Nokia, SAP, and Lilly. Technology acquisitions have helped Cisco to strengthen its video-conferencing products and drive demand for networking equipment, Oracle to broaden its business software offerings and Dell to gain expertise in computer services [Sorkin 2009].

There are many operations involved in the acquisition of small and young start-ups. The principal driving force behind these acquisitions was the need of the acquiring firms to obtain new skills and new technical and technological knowledge. Buyers often pursue technology acquisitions to tap the innovative potential of entrepreneurial firms, which are an increasingly important engine of new technical knowledge. The acquired firms are often young companies, underfunded, and without any prospects for generating any cash flow in the near future [Benou and Madura 2005].

The knowledge that hi-tech buyers hope to gain through acquisition is often complex, tacit, based on accumulated experience and embedded in relationships and ways of communicating amongst multiple individuals [Ranft and Lord 2002]. These characteristics amplify the strategic advantage that knowledge can provide [Eisenhardt and Martin 2000], but make it difficult to transfer through more arm’s-length relationships such as alliances. Internal development has its own limitations. Thus acquisition may be superior to internal de-

velopment when the desired resources are distant from the firm's current areas of expertise [Capron and Mitchell 2009] or when speed is important. Moreover, large, established firms may choose acquisition over internal development as a means to build technology resources because smaller, younger firms are often more innovative. It was found that some acquisitions yielded "serendipitous" sources of value such as unexpected knowledge and capabilities, fresh market intelligence information, innovative strategic ideas, or opportunities to combine technologies in unanticipated ways [Graebner 2004].

3.1. Start-ups and entrepreneurs. The 'targets' and the 'sellers' driving forces

Entrepreneurial passion is at the heart of entrepreneurship as it fosters the entrepreneur's creativity, recognition of new opportunities [Baron 1998], and the entrepreneur's ability to generate funds from investors and to employ and motivate workers [Cardon et al. 2005]. The three distinct components of effective entrepreneurial commitment is conceptualized as entrepreneurial passion, values and personality, where all three shape the desire to perform entrepreneurially and somehow empowers the entrepreneur in the form of emotional attachment to his/her entrepreneurial goals.

During the initial stage of start-ups, trust between entrepreneur and start-up team members is generally based on social networks or personal relations such as friends, family ties or classmates [Steier 2007]. That is, entrepreneurs with new business ideas find their management team members through personal networks to start a firm together [Bruderl and Preisendorfer 1998]. Friendship relationships between start-up team members and the entrepreneur facilitates communication and is one of the building blocks of culture. A second factor that influences start-up team member commitment during the initial and growth stage is the profit potential of the start-up. To be more specific, team members commit to the start-up with expectations of economic reward in the future. Trust is also a key for hi-tech start-ups to build team member commitment. Trust enables hi-tech start-ups to obtain necessary resources and thus improve their competitiveness.

Finally, although identifying attractive targets and negotiating favorable deal terms can be helpful, implementation remains a substantial challenge in technology acquisitions. As noted earlier, buyers struggle with creating synergistic value through integration whilst still offering autonomy to motivate and retain acquired employees. One proposed solution is to delay the integration process until mutual learning and trust have developed between the two firms [Haspeslagh and Jemison 1991].

Buyers' motives tell only half the story in technology acquisitions. Since technology firms often have considerable discretion to determine whether, when, and by whom they are acquired [Coff 2003], sellers' motives and preferences

are also pivotal in these deals. At least two factors contribute to sellers' influence. First, technology acquisitions are not typically an emergency or a must-sell as in distressed cases. Attractive technology ventures often have alternatives to being acquired, such as remaining independent, raising private capital, and going public [Graebner and Eisenhardt 2004]. Second, technology buyers rely on cooperation from target leaders to accurately value and effectively integrate target firms [Coff 2003]. Consistent with this observation Dalziel [2008] found that sellers in the telecommunications equipment industry considered the acquisition of their firms to be successful if the deal had a positive influence on their own firm's strategic goals, such as having their technology broadly deployed in the market. However, sellers do not view acquisition as the "end of the road" for their firms and many continue to feel responsibility for their employees' welfare. Beyond achieving strategic success, selling firm leaders are often looking for a matching culture for their employees and hope to maintain their firms' autonomy, protect their employees from layoffs and relocations, and if leaders plan to stay after the deal closes, receive interesting and important job responsibilities in the combined firm [Dalziel 2008; Graebner 2009]. Overall sellers' interests in synergistic value creation and cultural fit align with the interests of buyers motivated by resource acquisition and strategic renewal.

Another post-deal challenge in technology acquisitions is the trade-off between integrating the acquired firm and leaving it autonomous. Integration and resource reconfiguration may be necessary in order to exploit potential synergies between the acquired and acquiring firms [Larsson and Finkelstein 1999], but the loss of autonomy that typically accompanies integration can itself be detrimental to acquisition performance [Very et al. 1997]. Balancing integration and autonomy is an issue in many types of acquisitions, but it is especially critical when the target is a technology firm. Because the tacit, socially complex forms of knowledge that motivate technology acquisitions are difficult to transfer, a high degree of post deal integration may be required in order to realize an acquisition's potential value [Puranam, Singh, and Zollo 2006]. However, integration may ultimately lead to the destruction of the acquired firm's knowledge based resources and innovative capabilities by triggering employee turnover and disrupting organizational routines [Ranft and Lord 2002]. Similarly, Puranam and Srikanth [2007] observed a tradeoff between integration and autonomy in pharmaceutical and information technology acquisitions. Integration stimulated more innovation by the buyer, yet autonomy fostered independent innovation by the acquired firm (more on autonomy in the forthcoming paragraphs).

3.2. The new role of the hi-tech acquired firm in M&As

The acquisition literature unexpectedly rests on a few common assumptions. First, it is almost universally assumed that it is the buyer's perspective that

leads the whole process. Most acquisition studies have focused on the acquirer as the decision maker of importance [Beckman and Haunschild 2002]. The seller implicitly has little discretion over the acquisition decision. Related is the assumption that being acquired is a sign of weakness. The limited organizational literature, on the seller's perspective, has recently recognized the important role of the acquired company to the synergy realization and that – “It takes two to tango”. As a group, acquisition targets are more, not less, successful than their industry peers [Walsh and Kosnik 1993]. On the contrary, the ability of target firms to exert considerable leverage over these firms is not passive failure. Whether and by whom they are acquired may have a significant influence on buyers' success. Managers may prefer to be acquired for a variety of reasons and the attempt to do so in the perspective of the seller is both crucial and poorly understood.

Acquisition success from the seller's perspective was analyzed by Dalziel [2008]. He used the seller's criteria of acquisition success to interpret the acquisition event. Based on interviews and survey data about the seller's perspective on acquisition success of 33 acquisitions in the communications equipment industry, the author found that sellers that used strategic and social criteria to appraise acquisition success interpret acquisitions as partnerships, whereas sellers that used financial criteria to appraise success interpret acquisitions as sales. Despite the great amount of theoretical and empirical studies, mergers and acquisitions are still opaque to academics and practitioners.

3.3. Prior experience in technological M&As

M&A experience has been shown to have a significant influence on the performance and management decisions during integration [Zollo and Singh 2004]. Following the learning curve argument, the acquirer's experience in undertaking mergers & acquisitions should allow for better planning of the transaction and should help to deal with the problems and difficulties occurring during the integration process. Surprisingly the results indicate the opposite: Only 11% of the studies find a positive learning effect of M&A experience, whilst the majority of 56% percent finds no significant effect and another 33% find a negative effect. Struggling to come up with an explanation of this rather counterintuitive result most authors follow Chakrabarti, Hauschildt, and Suverkrup [1994] who refer to the adoption of standardized procedures and a high degree of formalization that ignore the individual character and unique circumstances that characterize every deal. However, as argued earlier, even behaviour in previous acquisitions was not a particularly reliable guide to a buyer's future actions, given the heterogeneity of acquisition events [Graebner 2009].

Most organizations have little experience in planning and executing M&A transactions. They treat the integration process as a one-off project and learn as they go. Very few organizations view the ability to integrate organizations

as a core competency and even fewer have systematized the integration process to make it replicable. Some exceptions include GE Capital and Cisco which have completed hundreds of acquisitions in the last 10 years [Jackson and Spence in Booz Allen's Web site]. Cisco believes in early, honest and clear communication to employees in the target company about their future roles in the merged organization. By this Cisco tries to ensure that top people in the target firm are given key positions in the new organizations in order to make them stay [Goldblatt 1999].

3.4. The Israeli hi-tech case: what does it consist of?

PWC Israel in "2015 Hi-Tech Exit Report" stated: "The growth of M&As this year was robust, with an increase from \$5bn in 2014 to \$7.2bn in 2015 [...]. The increase in M&A deals is virtually fully explained by an increase in the number of deals, from 52 to 62. This increase is driven by continued appetite by large multinationals to use their massive cash holdings to acquire innovative future technologies as the best way to preserve value in the current environment of super-low returns [...] Israeli hi-tech remains a focal point for international M&A deals. We have grown accustomed to the presence in Israel of global giants like Facebook, Apple, IBM, Qualcomm, Microsoft, Intel and more, which is actually far from being obvious. This year we have seen some new players in the local M&A market such as ARM, Amazon and Zynga. Israeli companies, such as Checkpoint, Mellanox, IronSource and Wix are also actively or potentially in on the action. The most active buyer by far is Microsoft with 5 acquisitions in 2015. The amounts currently invested in Israeli high-tech are unprecedented, and it seems that this will bear fruits in the form of more innovative companies that will keep Israeli hi-tech rolling forward. The bottom line is that at this juncture, Israeli high-tech has all ingredients to continue producing larger than ever exit" [PWC 2015].

Israel has become a global force in hi-tech engineering since the 1990s. In 2015 it has the highest number of hi-tech companies in the world outside of Silicon Valley as well as more scientists and technicians per capita than any other economy (Grant-Thornton global dynamism index 2015). At the beginning of 2016, the Israeli hi-tech industry has numerous mature and innovative market leaders. The largest international buyers have R&D outposts in Israel and are scouting for their next acquisition. Changes in markets can be summarized as follow:

- The Israeli market has opened up to foreign competition and investment.
- A considerable wave of immigration, primarily from Russia, with many educated people in the fields of science and technology has been absorbed.
- Government and private support in know-how infrastructure has increased.
- Shrinkage of the defense industry which had been the main driver of the civil Israeli high-tech industry.

- Technological education levels have continued to improve.
- Changing lifestyle of the young generation and the computer era have attracted many youngsters into computer science, electronics and IT fields.
- The high-tech industry has raised more capital than any other sector in Israel.
- R&D takes advantage of the unique technologies existing in Israel and the skilled workforce available in the market.
- Core team expertise, diversified knowledge and harmony are essential for success. Many angels and VCs highlighted the assessment of the core team in investment decision making.

The attempt to establish a practical model of critical success factors for application by nascent, emergent and growing companies in the hi-tech sector appears to have been successful. Whilst the model is based on the Israeli environment and experience, many other countries geographically distant from their main markets share many of these characteristics, so the model may have general utility [Chorev and Anderson 2006].

As opposed to the American culture of individualism, in which the individual is more important than the group or the nation, Israel is more of a collectivist society, although this is changing. One of the principal institutions that foster collectivism is the military, through the experience of compulsory military service. They learn to work with a team of companions and develop strong loyalty towards their companions. The implication for high-tech firms is a low turnover rate. Another significant implication of Israeli collectivism is that Israelis are more comfortable working in teams, helping each other for the good of the group or the firm, to assume complete responsibility for their unit or domain, to work long hours, to respond quickly, to be flexible, to improvise, to do whatever it takes to get the job done, to think about the strategic objectives rather than about their specific job description. As a result they develop a strong sense of responsibility. They are often given very challenging, sometimes impossible tasks, and learn to appreciate a challenge. They learn to work in a hierarchy, but with informal communication, so that they can communicate their opinions to their superiors. They learn to work in teams and form early skills in coordinating and managing within a team. Thus they learn team leadership skills at an early age. All of these organizational skills are similar to the desired characteristics of a hi-tech startup employee. Israel therefore finds itself in the unique situation where most of its technically trained workers also have sound “startup-like” experience before joining the workforce [Fontenay and Carmel 2001]. Finally, many of the organizational skills described above have an entrepreneurial aspect, which suggests that the military is developing an abundance of entrepreneurs. Israeli university graduates are twice more likely to form or join startups than their American counterparts [Gordon 2000].

Amongst the success stories of Israeli acquired firms, three examples were chosen: The first one – **Intel**: In 1974, Intel established its first development campus in Israel with an initial investment of \$300,000 and a team of five work-

ers. Intel purchased two local Israeli companies, DSPC for \$1.6 billion cash and Dialogic for \$780 million. In addition, during 2004 Intel purchased Envara and in 2005 Oplus. Intel's first design and development campus outside the US. Intel Capital has invested over \$100 million in dozens of Israeli start-up companies which benefit from valuable strategic cooperation.

The company has seven R&D units in different locations throughout Israel and employs 6,100 Israelis in two manufacturing sites and five research and development campuses. Over the last five years, Intel's Israeli plants export goods worth nearly US \$8 billion and its design centers develop many of Intel's processors including Intel's Centrino mobile technology, a worldwide leading technology for laptops.

The second one: **Facebook** bought mobile analytics company Onovo in 2013 for more than \$100 million. It was the first office of Facebook in Israel. The rationale for the deal was to buy an advanced platform for developed markets that use social networking services. The technology can also be used by Facebook itself to optimize what it offers its users. Onovo is not the first acquired firm in Israel. Two firms: Snaplu in 2011 and Face.com in 2012. All three are serving as Facebooks' R&D facility and as its long arm campus where the expertise is in mobile apps.

The last example: **Google**, which acquired Waze, an Israeli mapping service in 2013 for 1.3 \$ billion. Google already offers some of what Waze provides (e.g. the Android installed mapping software with reliable information about traffic congestion and updates on average travel time on roads). Four reasons why Google has made this deal: (a) Waze has created a culture of user engagement with an ability to update the information online. The idea is that you can rely on others for help and vice versa. Google may spread this culture to its other services; (b) Keep Waze away from Facebook, Apple; (c) Waze adds features that Google Maps lacks; (d) Use Waze as an alternative to Google Maps or even replace it. All of those reasons could boost the long term value of Google customers' ties. Getting a company the size of Google to adopt the innovative idea of a small start-up like Waze is by itself a great achievement.

Now let's summarize the added value that variables have when it comes to start-up mergers. It was assumed that if resistance to change is low (or does not exist) then we might expect higher performance results than was announced in previous mergers.

4. The hi-tech environment as a reason for a paradigm shift

What are the special building blocks of the hi-tech sector that may drive performance improvement in M&As? The core unique factors might be the following:

- **Leaders.** Leadership is blamed as one of the main reasons why M&As fail after the deal is signed. Papadakis [2007] has mentioned the lack of lead-

ership; poor internal communication and lack of involvement of middle managers. In hi-tech the leader is the founder and the “engine”. He established the company’s vision and agenda and creates the innovative technology. He is the one that hired the top management team (TMT) and the core employees from amongst his friends. In the process of acquiring a startup firm with the founder in place, the founder is an essential component in the challenge to reduce staff turnover.

- **Communication.** The earlier assumption in start-ups is that: If the entrepreneur is as influential for the corporate identity formation, as Krake [2005] argues, s/he would employ team members with similar values and beliefs which strengthened the corporate communication construct. This also suggests that communication in startups could be considerably clearer than in big companies as employees would have homogeneous culture, values and beliefs. The number of employees in a startup can be beneficial for clear corporate communication as suggested above.
- **Trust.** Usually, with a new organization, a new top management team and a new supervisor, there is little trust initially and employees are left wondering what the next wave of change will bring and whether they should leave the organization or stay. This is not the case when start-up teams are informed from the beginning and they are involved formally and informally on the company’s intentions and plans. Trust evolves over time through repeated interaction between partners [Zaheer, McEvily, and Perrone 1998]. Like romantic relationships, inter-firm relationships mature with interaction frequency, duration and the diversity of challenges that partners encounter and face together [Lewicki, McAllister, and Bies 1998].
- **Readiness and commitment vs. resistance to change.** Employee reaction to change can be positive (e.g., expressions of commitment and receptivity to the change), or negative (e.g., expressions of resistance, stress or cynicism regarding the change) [Armenakis and Bedeian 1999]. The notion that negative employee reaction tends to be blamed for unsuccessful M&A, has historically been based on evidence that is more anecdotal than empirical [Larsson and Finkelstein 1999]. At the organizational level it was proposed that CEO readiness for change will be positively associated with collective beliefs that change is needed and will increase the likelihood of experiencing positive collective emotions associated with a change event. All this will contribute to a positive evaluative judgment that the organization is ready for change.
- **Knowledge transfer.** In recent years researchers in business administration have focused their interest on the importance of “management of knowledge”. The basic premise is that the way in which the firm’s knowledge resources are configured and deployed influences its competitive results and its commercial success [Teece 1998]. Despite firms’ potential for transforming and increasing their knowledge base, very few empirical studies [Ranft and Lord 1998,] have examined the factors that facilitate or inhibit the transfer of

knowledge in acquisitions and the influence of the nature of the knowledge to be transferred. The transfer of capabilities and knowledge will not take place if the integration of the firms is low or they remain separate. However, a high level of integration may cause disruption of existing resources and routines [Haspeslagh and Jemison 1991] and increase the tendency for acquired managers and employees to leave the firm [Hambrick and Cannella 1993]. The literature on human resources and organizational behaviour warns that integration, which involves reconfiguration and change in the acquired unit, may cause major upheaval amongst personnel, as well as cultural conflicts [Castro and Neira 2005].

- **Retained autonomy.** Not all firms are acquired with full integration as a strategic objective [Ellis et al. 2012]. The degree of integration is also dependent upon values assessed about the human capital and organizational relationships of the target firm during the due-diligence stage. The degree of integration is important to successful acquisitions [Whitaker 2012]. High levels of integration may theoretically enhance synergistic potential, but can also result in negative outcomes in the form of increased coordination costs and it is not uncommon for pre-acquisition leaders to be retained during a transition period to support the specific business and interpersonal relationships acquired by the new firm [Graebner 2004]. The perceived capabilities of the acquired management team have great bearing upon the level of autonomy and freedom of decision-making power allowed to the acquired leaders [Walsh 1989]. The founder owner-operator is also the person who develops and carries out visions and controls activities demanding a high need for independence and autonomy [Filion 1990]. The dilemma of post-acquisition integration level vs. anticipated synergy potential exploitation may be especially salient in the acquisition of hi-tech firms that are often motivated by the desire to obtain and transfer tacit and socially complex knowledge based resources [Ranft 2006]. Staff losses are frequently related to the integration of firms [Weber, Tarba, and Rozen-Bachar 2011], and many researchers suggest autonomy to keep the acquired firm innovative and retain its staff. One more recommendation is that if the acquirer aims to transfer knowledge whilst keeping the acquired party innovative, it may attempt to imitate the innovative firm's network interaction and establish a separate unit that interacts with the innovative firm [Oberg 2013].
- **Performance in the hi-tech environment.** Performance analysis of M&A's in technology driven sectors concerns both the economic and innovative post-acquisition performance. Moreover, the time frame of the expected returns is critical. In addition acquisitions of small technology based firms may also provide acquirers with an opportunity to acquire an organizational unit that is capable of producing further innovations. There are some examples of giant companies acquiring Israeli start-ups which became later their R&D facility abroad (Cisco, Google, Microsoft, Siemens and more).

Recently in an attempt to define what could be termed a success, Israeli IVC research centre and ReversExit (2015) report that there are different perspectives on how success is defined. According to most entrepreneurs, success is the realization of a business idea, a dream or technological innovation and its concrete implementation into a real business. Amongst younger entrepreneurs, the wish to 'hit it big time' that is, to build a start-up and sell it for a significant profit, although this view did not represent the majority. For investors a real positive return on investment determined a success, whilst for the government and state, success was measured in terms of exports, job creation and tax payments, such as income tax and company tax.

Synergy is a magic word after the deal is closed. Many corporations announce wonderful expectations with inter-firm synergies. But the central question remains: How to integrate two companies to realize outcomes and which levels of integration to choose? Synergy is present when value of the newly-combined firm exceeds the sum of the two merging firms when acting independently [Capron 1999]. Organizational integration is found to be an essential determinant for synergy success [Larsson and Finkelstein 1999]. We have to note that technology acquisitions often involve targets that are quite small relative to their buyers and so these transactions may have little or no immediate influence on buyers' stock prices.

Many questions linger regarding the performance of technology acquisitions. One fundamental issue that is still unresolved is how the performance of technology acquisitions should be measured. As Zollo and Meier [2008] have noted, no single measure captures all the important dimensions of acquisition performance. There are a lot of open and unresolved parameters in the linkage between M&A and performance such as: time of measurement, in which phase, how much time passed etc., size of the two companies, nationality and culture, sector in which they operate and many more open questions. Those variables could be moderators or mediators and it depends on the researchers' decision.

Conclusions

Despite the great amount of theoretical and empirical studies, mergers and acquisitions are still opaque to academics and practitioners. Two fundamental questions were addressed and remain unresolved: How do we explain the great variance of acquisition performance? In other words, why do some prominent acquirers, such as GE and Cisco, perform better than others? Is it due to previous experience and expertise? And how do we measure acquisition performance?

Most M&A research to date has highlighted the negative stigma surrounding M&As. In the light of the significance of M&A as corporate phenomena and continued reports of their high failure rates, the intent of this article has

been to shed further light on the organizational and human dimensions of those activities from two points of view – the hi-tech (mainly start-ups) and the acquired contribution to mergers' success.

M&As in technology driven sectors are characterized by a high growth level of creative technology and high uncertainty. For these reasons it is difficult, and in some cases impossible, to define the future development of technology based firms and therefore what success means. Another characteristic of technology driven sectors is the large number of SMBs, which are generally underfunded, with minimal prospects for generating cash flow in the near future.

With these observations in mind we have tried to integrate the research evidence related to the hi-tech sector in this article. The evidence can be summarized in the following remarks:

1. The degree of acquired firm managerial involvement in the pre-deal phase has the greatest predictive power on the direction of employee reaction.
2. Target firm managers became involved if they perceived an opportunity in the acquisition. Organizational identities prioritized during M&A integration process may be positively influenced by the leader's communication.
3. It is in the interest of acquiring firms' managers to ensure that their counterparts have an active involvement and interest in the acquisition.
4. The heterogeneity of scholarly contributions in this field is also related to the difficulty of defining the subject of investigation. All these considerations can explain only partially the excessive fragmentation of the literature.
5. Trust is a key for hi-tech start-ups to build team member commitment during both the initial or growth stages. Trust enables hi-tech start-ups to obtain the necessary resources and thus improve their competitiveness.
6. Smaller technology based firms have received little attention in research on inter-organizational relationships, although these firms may have different viewpoints and face distinctive risks in acquisitions. The role of the seller is a difficult one with no obvious solution.
7. The definition of "M&A success" is very broad, caused by the several measurement approaches to M&A performance. Considering the multiple combinations of how performance is measured it seems difficult to make meaningful comparisons across studies, which explains why findings strongly deviate from each other.
8. Most studies treat "integration" as an umbrella term for different acculturation strategies, which reflect completely different processes.
9. M&As models have been developed almost exclusively from the study of large deals by large firms. In this paper we argue that the success of M&As in which small and medium sized enterprises (SMEs) are involved may result in a significantly different manner.

This article has focused on general M&A variables together with those that are more related to start-ups' mindset, reactions, attitudes and managers' perception. The call for change in the research paradigm or in the research mindset

was based on the assumption that logically and economically it is impossible to understand that the M&A trend is growing in spite of those higher failure rates. The hi-tech sector is only one area of somewhat different environmental aspects that scholars can focus on more specifically with unique variables. By exploring those variables, practitioners in the hi-tech sector could benefit in their M&A strategic thinking and decision making processes and carefully involve the target firm's consideration in their process. It is recommended that further research should examine whether the hi-tech arena is a trigger for a separate M&A methodology in order to support managers with a „tool box” that will reduce the failure risks.

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Aims and Scope

Economics and Business Review is the successor to the Poznań University of Economics Review which was published by the Poznań University of Economics and Business Press in 2001–2014. The Economics and Business Review is a quarterly journal focusing on theoretical and applied research work in the fields of economics, management and finance. The Review welcomes the submission of articles for publication dealing with micro, mezzo and macro issues. All texts are double-blind assessed by independent reviewers prior to acceptance.

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