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A Worldwide Business Evaluation Model Proposal for M&A

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Business evaluation is related to processes which would ensure efficient handling of the causes of M&A failures researched so far. This matter has not been investigated enough and requires a more detailed study, as argued by Haleblian (2009).

This has also been substantiated on the basis of the conclusion that none of the variables (strategic or financial) can to predict variance in post-acquisition performance, according to King (2004).

The main objective of this paper is to present a Worldwide Business Evaluation Model for M&A, as general as possible, listing all the involved parameters, and to assess the variables according to its grade of impact in each case, to be used in every industry and country.

Keywords: M&A, business evaluation model.

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I. Introduction to M&A

In the current business world, it seems to be impossible for companies to survive without expanding through deals that sometimes result in M&A. An understanding of Mergers and Acquisitions turned very important, because they are occurring more and more, even between the private and public sector.

The research area of M&A is immense. A study of mergers and acquisitions can be investigated from various disciplines points of view, such as finance, accounting, management, organizational behaviour, corporation law, and social science.

A merger or an acquisition in a company can be defined as the blend of two or more companies into one new company or corporation.

The main difference between the above mentioned lies in the manner in which the combination of the companies is carried out.

When one company takes over another and establishes itself as the new owner, then this is clearly an acquisition. From a legal point of view, the target company ceases to exist. This process can be friendly or hostile.

In the case of a merger, keeping the pure sense of the term, it can be said that it occurs when two companies agree to go forward together, such as a merger of equals, although in the real world it is very rare to find similar size firms merging. Usually one company buys another one, and, as part of the contract, allows the acquired company to declare that it is a merger, because being bought often carries negative connotations and the senior managers try to avoid them.

A merger is a mutual collaboration between the two enterprises in becoming one, while the acquisition is the takeover of the weaker firm by the stronger one. Both firms gain the advantage of taxation, synergy, financial benefit, and increment in competitiveness, however some adverse effects must be considered, such as organization culture collision, an increase in employee turnover and many others.

Mergers and acquisitions not only affect the value of merging firms, but also generate a positive or negative effect for shareholders of firms involved.

The Hubris theory hypothesis that as a result of M&A the value of target firms rises, while the value of bidding firm decreases. Therefore, shareholders of the acquirer company suffer a negative wealth effect.

Several authors such as Schuler & Jackson (2001), H. Leland and J. Skarabot (2003), Frank C. Evans and David M. Bishop (2005), among many others, define "synergy value" as the additional value created as a result of the joining or merging of two companies.

Synergies refer to the expected cost savings, growth opportunities, and other financial benefits that occur as a result of the combination of two companies.

A correct estimation of synergies is needed to produce a successful transaction.

The combination of two entities will not create value if the value of the synergies is zero or negative.

The synergy from a merger or an acquisition is the value of the combined entity minus the fair value of the two firms as separate entities.

The fair value is the true or intrinsic value of the entity which is exclusive to any element of value arising from the expectation of a merger or acquisition.

The gain in value of the combined entity is the present value of the synergy cash flows.

The synergy creates opportunities that would not be available to the acquirer and to the target firm operating separately.

Kode, Ford and Sutherland (2003) have been motivated to create a framework for synergy realization, when they found out that M&A failure were mainly a

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consequence of unrealized synergies and lack of integration planning.

The realization of perceived synergies is to justify the premium paid and this remarks the importance of a successful implementation phase.

To reach the desired success, Kode, Ford, and Sutherland highlight three techniques of realizing synergies: planning of the integration process, establishment of efficient and effective incentive schemes, and founding the acquisition premium compared the expected synergies between the firms involved.

There are various sources of synergy and they can be categorized into operating and financial ones.

Operating synergies affect the operation of the post-merger firm and include economies of scale, increasing pricing power and higher growth potential, expecting higher cash flows as well.

Financial synergies are more focused and include some tax benefits, diversification, a higher debt capacity and even uses for excess cash. They sometimes result in a higher cash flow and sometimes take the form of a lower discount rate.

One school of thought argues that synergy is too hard to be valued and that any systematic attempt to calculate it is useless. Therefore, large premiums for synergy should not be paid.

On the opposite side, there are many supporters of the idea that we have to make the best effort to estimate how much value can synergy create in any M&A, (although it is necessary to make some assumptions regarding an uncertain future), and then decide how much should be paid according to that.

The value of synergy can be calculated in 3 steps: first, we value the companies separately by discounting each expected cash flow at its weighted average cost of capital. Second, we estimate the value of the combined firm, with no synergy, by just adding the values obtained previously. Then, as a third step, we introduce the effects of synergy into the expected growth rates and cash flows and proceed to revalue the resulting blend. The difference between the value of the combined firm with synergy and the company without synergy provides a value for synergy.

Up to date the impact of many variables on the success of M&A have been examined. Some of the variables are external to the companies, and are directly related to the type of industry, the market, or the legal frame. Others are internal variables, related to the management style, to the organizational culture, the manner of performance of processes, etc.

However, the opinion of researchers regarding the variables that influence the grade of success of any M&A are up to this day very partial, due to two reasons.

Firstly, every M&A transaction is unique, since each firm involved in the process is different from other companies. Secondly, there are many variables that influence the degree of success of the M&A, but their outcome depends also on a combination that is comprised among them, so that the isolation of just one variable without also examining the other ones does not always describe the whole picture.

On the opposite side, for instance, the Edinburgh Business School quantitative approach sustains that M&A is a discipline closely related to the *Strategic Focus Wheel*, developed by Prof. Alex Roberts, to explain that M&A represents a major source of organizational change.

Additionally, many variables influence the M&A process. Therefore, it is required to examine the impact of at least a number of them: First, the type of M&A: is it an international one or is it domestic. Second, the combination of the different characteristics of the companies involved in the M&A, such as: cumulative and relative firm size, acquired age, level of relatedness between the firms, previous M&A acquisition experience, organizational and cultural differences, acquirer nationality. Finally: the integration approach.

Over the recent years, the lack of theories in M&A research has been notorious, and calls to develop them have been made. This argument has been raised in conference panels such as the *Strategic Management Society Special Conference Finland 2010*, quoted by Cartwright (2012).

Companies that decide to engage in M&A can be motivated by several different objectives. Some of them, as presented by Sudarsanam (2003), are cost savings, increased growth, efficiency and synergies. Synergie clearest definition is when the combined power of a group of things working together is greater than the total power achieved by each working separately. In addition to these motives, decreased transaction costs, increased knowledge, and so forth, might also be included. Not only the reason as to why a company decides to engage in mergers or acquisitions affects the type of merger, but also the industry in which the company operates. The motive for the M&A in the case of a mature industry could be quite different from the motive which is prevalent in an immature one. Paying attention to the motive that drives the acquisition and the industry in which the acquirer is located increases the importance of the strategic rationale for M&A.

It is well known that for any company it is decisive to set up a strategy to face the threats from competitors and from a quickly changing environment. The strategy a company chooses to follow should be one that allows it to achieve value creation. A decision to expand through acquisitions has to be aligned with the strategy of the firm. In line with this, the strategy or the motivation behind an acquisition is, according to Bower (2001), an important factor in the decision making process, whether or not an acquisition becomes a success, meaning that value is created.

It is more necessary than ever before for companies to maintain and sustain a competitive advantage in today's dynamic, global market. In fact, business world is characterized by an increase of M&A. Through this kind of transactions, companies can enter new markets, incorporate new technologies, reinforce their competitive position and acquire new competencies, according to Jackson and Schuler (2001). As quoted by Leroy (2003), today, mergers and acquisitions are happening across diverse industries, ranging from bank and insurance sectors to oil, aeronautic, high-tech, and automotive industries.

For this research, it is remarkable that Leon-Darder (2011) found that, in international business, environmental and behavioral uncertainties are considered core attributes.

Villar (2012) has suggested that knowledge regarding overseas markets evolves in a very dynamic way. Therefore, the ability to learn and apply knowledge is crucial for the success of international M&A.

Particularly with reference to the knowledge transfer in emerging economies, in the context of rapid globalization in the form of FDI and international trade, Barber and Camps (2012) have emphasized on the "springboarding concept" for the success of business geographical expansion, including M&A's. They are referring to the complex environment where investing firms deal with issues for which they don‘t have proper knowledge. They investigated that such knowledge related to potential customers, competitors, and market conditions in a particular country can be acquired through the firm‘s direct experience in the target country, through their subsidiaries in the region having direct business connections with the country where target business exists.

The literature suggests that the underlying motivation to merge is motivated by a series of rationales and drivers. Rationales consist of the higher-level reasoning that represents decision conditions under which a decision to merge could be made.

For example, a strategic rationale is when one company acquires the other due to its over-capacity in the market sector where both operate. The underlying driver for acquiring the company is the desire to control a larger capacity in this sector.

There are some underlying *rationales*:

Management failure rationale: M&A is forced as a result of management failures when the outcomes cannot be achieved without merging with or acquiring another company that will assist in correcting the path.

Strategic rationale: It makes use of the merger or acquisition in achieving a set of strategic objectives.

Speculative rationale: The target company is viewed as a commodity by the acquirer. For instance, when the candidate to be purchased is a player in a new and developing field. The idea is to buy the company and to sell it later with a potential profit.

Political rationale: For example, when the government instructs to rationalize the operation cost of several departments to reduce their cost. As a result of this, several public departments were absorbed by others.

Financial necessity rationale: Frequently, M&A is required for reasons of lack of capital. One solution is to merge with a more successful company or to acquire smaller more successful companies.

Regarding merger *drivers*, we can list several ones:

Globalization drivers: Since distance is no longer an obstacle, synergies and opportunities can be found across the entire world.

National and international consolidation: When compatible companies available for merger operate within the same geographical area.

Due to the need for special skills and/or resources: For instance, when a small company has developed high-value, specific skills. It is cheaper and faster to acquire the company than investing resources and time to developing that skill.

Diversification drivers: A company wants to diversify its investments to balance its portfolio's risk profile.

National and international stock markets: Variations in share processing can explain several mergers and acquisition. A stock market boom tends to make acquisitions more attractive since it is easier to use the acquirer´s shares as the basis for a transaction. On the other hand, a falling stock market value can be viewed as an opportunity to purchase stock cheaper than before.

Industry and sector pressures: For instance; the case of oil exploration.

Capacity reduction: When a given sector exceeds or is close to filling the demand, then the price of the product is low. The idea is to merge with or to acquire a competitor towards securing a greater degree of control over the sector.

To enter or grow a market or sector: If the acquirer expects a market or sector expansion in the future to provide profits.

Vertical integration: To integrate with a supplier to ensure continuity of supply.

New market or consumer base: For instance, when a multinational group acquires a foreign company because it provided a direct and fast route to a lower risk level.

Management efficiency: Some companies are very attractive due to their management expertise. It's a similar case for developing a skill. By replacing inefficient management with an efficient one, savings might occur. The principal-agent problem is another example of asymmetry of information, because the managers know more about the company, but the owner may not have enough information to monitor the manager´s decisions.

There are three basic types of merger: Vertical integration, horizontal integration and conglomeration.

The first case is an integration along the supply chain, supplier or customer.

Two firms are merged along the value-chain, such as the case of a manufacturer merging with a supplier. Vertical mergers are often used as a way to gain a competitive advantage within the marketplace.

Horizontal integration is when one company acquires another one which operates in the same area or sector, frequently a competitor. This kind of integration occurs when two companies engaged in the same service or product merge to improve their combined value.

A conglomerate is when unrelated companies continue to produce in unrelated sectors as they did before the transaction. This type of integration is often a result of the intention of minimizing business risk across different areas. This aim is not always achieved because that the acquiring company is entering an unfamiliar market and industry. Therefore, the risk increases rather than decreasing. Conglomerates are usually used as a way to smooth out wide fluctuations in earnings and provide more consistency in long-term growth.

The first step for M&A is to assess your situation and determine if a merger and acquisition strategy should be implemented. If a company expects hard times in the future when it comes to keeping its core competencies, market share, return or capital, or other key performance drivers, then M&A is necessary.

The second step is to search for candidate firms to be acquired.

Target companies must fulfill a list of variables to fit with the acquiring company. For example, the target´s drivers of performance should complement the acquiring's. Compatibility should be assessed across a range of criteria: type of business, size, capital structure, organizational culture, core competences, market channels, organizational strengths, etc.

The third step is to perform a more detailed analysis of the target company.

This phase is usually followed by a feasibility stage, where the financial, commercial and logistical considerations are taken into account. Confidentiality is required and it is signed for an N.D.A. (non-disclosure agreement) It is not uncommon for many conditions to remain open and, thus, the M&A may require amendments to cover the results of future due diligence. Investment bankers now enter into M&A process to assist with the evaluation.

The due diligence is an effort to identify issues that must be resolved for a successful merger to occur. This process must be intensive, collecting as much information as possible on the target company, taking anywhere between four to six months. Undercover work is not uncommon. This information includes: corporate records (minutes of meetings, shareholders list, meeting regulations), financial records of the last 5 years, tax records, regulatory records (for instance: licenses and permits), debt records, employment records, property records (insurance policies, trademarks) and miscellaneous agreements (contracts, and others).

A key part of the due diligence is the evaluation of the target company. In the preliminary phases of M&A, we will calculate a total value for post-merger company. Therefore, it is necessary to evaluate the acquiring firm as well to reach the combined value. This is the sum of the value of the acquiring company, plus the value of the target firm, plus the value of the synergies minus the legal and other costs involved in any M&A.

In the case of compatibilty, when the feasibility phase is completed, the next stage is to sign a commitment to the merger and to allocate funds and resources for it.

Then, the pre-merger negotiation step begins. The senior managers of both firms enter firmly into the negotiation process to reach an agreement on the structure and format of the resulting company.

A negotiation plan is required, considering: resistance level from the target company, bidding strategy, gradual increase of price, etc.

Once the negotiation phase is completed, a formal and detailed contract is signed. This is the fifth and last step: the post-merger integration.

The implementation process (a stage that often represents the failure of the merge) starts immediately after the monetary transaction occurs, and it consists of actually making the merger happen.

Every company is different (culture, information systems, strategies, goals, structures, etc). A successful blend of two companies into a new one requires extensive planning and design throughout the entire organization.

Analyzing in advance both companies' characteristics is a crucial task to forecast the post-merger scenario and, therefore, the level of success of the transaction.

There are several sources of failure for M&A. When one of these components is individually or jointly mismanaged it fails.

The four arenas of mismanagement, according to Dr. Bjorn Bjerke, is cultural mismatch, missed synergy, weak leadership, and conflicts of interest between partners.

The sheer difficulties in obtaining data from managers and honest answers on their true motives and thoughts tend to overcomplicate empirical M&A studies

Global Journal of Management and Business Research (A) Volume XIX Issue VI Version I Year 2019

since researchers must rely on relatively small samples and unknown data quality. This point precisely was mitigated in this project, because the author was directly and personally involved in the negotiations, and now decided to show all of the cards.

II. The Researcher

Serving for several years as General Manager, Executive Director and Board Member at the multinational Bidvest/Bidcorp Group, has taught the researcher that any performance can never be assumed as being good enough in a long term perspective. Therefore, change is always required.

Both organic and non-organic growth are essential for company sustainability in a quick changing and very competitive scenario. By organic we mean internal growth, while non-organic refers directly to acquisitions. Therefore, to look for companies as potential candidates to be purchased is a never-ending task for Directors, at any subsidiary across the world.

The author holds a B.A. degree on Political Sciences and Labour Studies from the Tel Aviv University (Israel), and his M.B.A. with honors received the highest qualification at the Universidad de Santiago (Chile) in 2005. His Phd Business is issued by The Institute of Management Greater Manchester, The University of Bolton (United Kingdom).

Additionally, the author has published several research papers in indexed Journals from the United States, United Kingdom, Ukraine, India and Chile.

The researcher was directly involved in many M&A processes in Chile, Argentina, United States, Peru and Uruguay. This training allowed him to face firm acquisitions as a routine task, making them as common as the daily negotiation with suppliers and customers.

This represents an existing knowledge base relating to this matter from which to draw on new aspects of related subjects by undertaking an updated literature review expanded in scope.

III. The Significance of Business Evaluation

Business evaluation is related to processes which would ensure efficient handling of the causes of M&A failures researched so far. This has not been investigated enough and requires a more detailed study, as argued by Haleblian (2009). This has been substantiated on the basis of the conclusion that none of the variables (strategic or financial) can predict variance in post-acquisition performance, according to King (2004). Remarking the significance of business evaluation in the M&A transactions, Chase (1997) has also argued that well-evaluated mergers enhance the value of the firm and the value of the firm to society, whereas not properly planned mergers or undesired takeovers not only damage the acquiring firm but also the whole of society due to external costs not borne by the acquiring company. This remarks on the role of managers undertaking business evaluation and how they should consider the direct and collateral effects of the merger/acquisition on all stakeholders.

Studying the concept of evaluation of targeted business, Gande (2009) has analyzed that, just like for any other business proposition, successful transactions should show a reasonable proportion between the return/gain likely to incur and the investment amount. Overpayment has been reported among the main reasons of M&A failures.

Child (2001) wrote that significant part of the literature explains failures as the result of paying excessive premiums or unavoidable problems associated with post-acquisition integration.

Astrachan (2008) argued that business evaluation, is normally conceived as a calculations exercise based on a method which suitable to the cases, involving a large number of intangible factors. Reuer (2003) sustains that in most of the cases it is not being carried out in a way that would deliver reliable results, varying from a case to case basis due to the fact that either the sphere of valuation process is not clearly defined or it's not in accordance with the merger's objectives, or the factors involved are not given their required weight. As per Basu´s (2008) argument, the process should, however, start from the stage of selection of a business.

The first objective pursued through the acquisition is that the final profit must be higher than the sum of each part individually, usually called "*the bounty*", which is the goodwill.

This study presents a research in the field of business strategy and focuses on the strategy of mergers and acquisitions (M&A), at the stage of the target firm selection.

The research is supposed to add knowledge in this field for managers who are facing a decision in the stages of selecting, evaluating, and negotiating the integration between companies.

Research carried out over some time has analyzed the reasons for the failure of M&As in the context of varied management, organizational, social, political, and geographical issues. But the business evaluation process, adopted by the acquiring firms while undertaking such transactions, as a reason, were not thoroughly investigated, and required detailed study. To emphasize the significance of business evaluation while carrying out M&A transactions, Chase (1997) has planned and executed mergers that increase the value of the firm and the value of the firm to society. Well-planned means proper assessment covering the choice of a target firm and an analysis about how possible benefits (tangible and intangible) can be derived. This creates an issue, because it is an attempt to include intangible benefits in an economic model.

The scope of this research is, accordingly, related to addressing the question of the business evaluation process, covering selection of target firm (based on a well-defined merger objective), basis adopted for the evaluation of selected firm (covering all related subjective and objective factors), and how the performance assessment mechanism has been defined to ensure that the merger objectives have been achieved.

The research has been designed on a case study basis covering, primarily, internal information handled by key persons involved in the process of evaluating the target firm for M&A transactions. Additionally, information publically available as well as documents and record pertaining to the events surrounding the transactions, maintained by the acquiring firms, when available, were also examined.

It is remarkable that only an insider can explain the reasons why some decisions were made among many available unknown others, because managers usually don´t unveil to researchers the entire list of options that was available when they made the decision, mentioning just a few among them, mainly the most convenient to justify their election.

The outcome of the study would help not just the investors and sponsors, but also the management to carry out a more trustworthy business evaluation process. It will develop a better understanding of its scope. More importantly, this would also help to unveil the relationship and behavior between different components and related factors of business evaluation.

While understanding strategy as the plan of action designed to achieve a long-term or overall aim, it could be said, on the other hand, that a theoretical model gives an abstract description of a given system. A model usually contains enough formalism such that it is not ambiguous. As a consequence of this characteristic, theoretical experiments can be designed to estimate the performance of the system within different environments. Given a good theoretical model, the performance of a strategy can also be evaluated. A model can be considered a theoretical construct and it attempts to capture the essence of an underlying situation.

M&A research, in general, uses either a qualitative or quantitative research design.

This study is focused on the qualitative method, while some quantitative analysis has been done by using secondary data; publically available and internal (but non-confidential) as well. This combination led to a triangulation, enriching the study to and giving it a clear advantage, including more valid results, as sustained by Ghauri and Gronhaug (2005).

Therefore, the study focuses on the qualitative method, which is designed to describe and interpret the experiences of research participants in a context-specific setting and information is gathered by having a personal interaction with the participants, by discussing in detail how things happened, and gathering from such deliberations information on the issues directly or indirectly connected with the various research areas.

IV. Case Study

Quoting Llewellyn and Northcott (2007), Yin describes the case study as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used”. For this research, case studies have been chosen to analyze two aborted M&A attempts and, lastly (it might be a little bit influenced by what was previously mentioned), a successful one. Through these cases, data has been collected and analyzed to clarify the criteria the acquirer company used to make decisions regarding wether or not to engage in a merger and acquisition process.

Furthermore, we have used a number of cases that allows for more general results, as opposed to just one. It is more appropriate, according to Yin (2003), because it allows to have a more robust conclusion and the obtained analytical benefit is more substantial. Not to mention that every part of the process interferes with each other, and also how dynamic the development of the research is.

One concern of the case study method is that it gives limited basis for scientific generalization, as argued by Yin (2009). A simple answer to this is that case studies are able to generalize with regards to theoretical propositions and not with entire populations or universes. As such, the case study research does not represent a sample and the aim, when performing a case study, is to expand and generalize theories.

Yin (2003) argues that case studies are often applied to understanding the areas of organizational functioning that are not well documented and which are difficult to investigate through distant contact with organizations.

This particular research is aligned with Ghauri´s opinion (2004), because it is expected to provide insights into an issue or a particular management situation.

Accordingly, it requires insight of the situations accruing at the time when the particular event took place by interacting with those involved in the processes.

With this backdrop, a comparative case study method has been applied in this research, evaluating different companies, with a similar aim and approach.

Silverman (2017) sustains that an adequate selection of cases ensures the possibility of legitimate generalization and theory development.

Representative sampling is an available method within the qualitative framework for the selection of cases that contain related characteristics. Therefore, the sample must be representative or typical, as described by Merkens (2004).

The researcher will present three cases of similar companies, all of them focused in the foodservice industry and located within the same market.

Reliability is the level of consistency with which instances are assigned to the same category by different observers or by the same one in differents moments. In this research, the procedure was properly documented and the categories have been used consistently to maximize credibility.

According to Helen Simons (2009), the use of these kind of documents in case study research (such as memos, mails, audit reports, and reviews) enriches the context and contributes to the analysis, providing clues regarding the participating firms.

Despite the former, since the researcher is the main instrument for data gathering, it should be acknowledged that the author is in an inescapable part of the study. The researcher's world view, predilections and values influence the research. Subjectivity is inevitable in research, and, therefore, it isn't something that can be eliminated. The researcher should be permanently acutely aware of this. To minimize personal influence, the researcher did his best to keep emotions from affecting the project, asking several of his peers to review it during the entire writing process.

The author has avoided the use of fragments, informal information, temporary notes (such as work in progress reports) or conversations, in an attempt to make this study as representative and as general as possible.

V. Aims and Objectives of this Study

This study focuses on the strategy of M&A, at the stage of the candidate´s election.

Considering the previous statement, the research area is related to the M&A business evaluation with reference to the evaluation of target firm.

The objective is to add managerial knowledge in the field for M&A, when the assumption is that the business evaluation influences M&A success. The research is supposed to add knowledge in this field for managers who are facing M&A processes.

VI. Research Questions

The research questions are:

1. What is the role of the business evaluation in the M&A success?

The research assumption is that business evaluation has a crucial influence on the M&A's success.

The above discussion can lead to the following research questions:

2. What is the role played by the business evaluation process in the outcome of a merger or an acquisition?
3. How M&A performance can be better assessed by using a different business evaluation model?

VII. Significance of the Study

To emphasize the significance of business evaluation while carrying out M&A transactions, Chase (1997) has planned and executed mergers that increase the value of the firm and the value of the firm to society.

The outcome of the study would help not just the investors and sponsors, but also the management to carry out a more trustworthy business evaluation process.

It will develop a better understanding of its scope, particularly with reference to the evaluation method. More importantly, this would also help to unveil the relationship and behavior between different components and related factors of business evaluation.

VIII. Proposal of a Worldwide Business Evaluation Model for M&A

Author's intends is to present a Business Evaluation Model for M&A as useful and general as possible, attempting to list all the involved variables, and to assess them according to its grade of impact in each case, to be used in every industry, market and country.

The Model is divided in 3 steps: The first one is the national level, therefore is general, not influenced by researcher's (or manager´s) point of view, and no related to the acquirer firm or the targeted company. This step is the first one, because the country at the specific moment of the M&A must be convenient for this kind of investment. This step is calculated separately since it is independent of the firms involved in the M&A process. Anyway, for corrupted firms or very risky transactions, a poor national percentage could be the opposite: a very attractive deal. Therefore, must be remarked that this Model is intended for legal, formal and "normal" companies.

The second step is related exclusively to the targeted firm.

The third step is the evaluation of the possible combination between the acquirer and the targeted firm. That´s the reason why the percentage of the second and the third steps are calculated together: both steps refer to the M&A involved firms.

The last two stages are calculated in one total percentage, since the pro and cons of each targeted company are according to the acquirer's point of view.

The positive impact range is between +5% to +10%, the negative impact goes from -5% to -10%, and a neutral variable is considered 0%.

The assumption is that the first 3 columns of the table should be completed in a very similar way by any expert at the specific moment of the study, but since they are comparatives, might be one manager consider a variable as medium level instead low/high, or low/high instead medium, but the grade of discussion will not be between high and low.

The last four columns are dependent on the point of view of the acquirer firm managers, because for some companies, for instance, a very concentrated market might be seen as an opportunity instead as a threat. Internal discussions are expected related to the consideration as a positive or negative situation and its relevance (%) due personal interests, but only the final decision is relevant.

Therefore, the acquirer firm Board of Directors decides, but being very influenced by the presentation of the managers who lead the possible M&A.

The following Business evaluation Model for M&A was developed by the author, and shall add more variables in the future as a result of peer's feedback and a deeper research.

Table N°1: Author's Business Evaluation Model for M&A

Proposal of a Worldwide Business Evaluation Model for M&A								
	Variable	Low	Med	High	Pos	Neut	Neg	Relevance
1	The country							
a	Clear and stable commercial rules							
b	Technological development							
c	Communications development							
d	Infraestructural development							
e	Justice courts independence level and stability							
f	National political stability							
g	Macroeconomic stability							
h	Local corruption level							
i	Protective laws and/or importation barriers							
j	Unemployment rate							
k	Local currency stability							
l	Rigid labour rules							
m	Investment trend							
n	Incentives for foreign investment							
o	Free access to foreign currency exchange							
p	Dividends taxation or limitations for foreign firms							
	SUBTOTAL 1							%
2	The targeted firm							
a	Eco-sustainable							
b	Level of dependence on imported raw goods							
c	Use of very specific supplies							
d	Level of dependence on limited natural resources							
e	Patents or royalty payments							
f	Grade of dependence on expert staff							
g	Customer's concentration grade							
h	Product concentration level							
i	Suppliers concentration grade							
j	Relevance of the exportations in the total revenues							
k	Feasibility to import its procurements							
l	Local grade of maturity of the industry							
m	Capital requirements							
n	Local market size							
o	Level of accurate data availability							
p	Level of accounting formality							
q	Competitors formality level							
r	Cost dependence level on foreign currencies							
s	Statistical records availability							
t	Targeted firm market atomization grade							
v	Ownership (public, private, one partner, or just a few)							
x	Global situation of its industry							
y	Regional growth of its industry							
z	Managers can be retained?							
	SUBTOTAL 2							%
3	Acquirer´s M&A scenario							

a	Presence of global competitors in the region							
b	Organizational culture similarity							
c	Similar size							
d	Incremental profits in acquirer hands							
e	Plug & play post-acquisition							
f	Organigram similarity							
g	Horizontal/vertical integration							
h	Indirect additional benefits for the acquirer							
i	Acquirer presence in the region							
j	Current presence in this industry							
k	Acquisiction impedes competitor's strategy							
l	Corporate reasons for this acquisition							
m	Distance to acquirer headquarters							
n	Language and cultural gaps							
	SUBTOTAL 2							%
	GRAND TOTAL 2+3							%

National percentage (Subtotal N°1) should be as higher as possible, assuming any percentage above 65% as a medium-risk country, therefore attractive to invest expecting an average profit for the specific kind of business considered.

If the Grand Total is, for instance, up to 65%, since it is the sum of Subtotal N°2 and Subtotal N°3, (each Subtotal is calculated separately in the Model), a poor result in Subtotal 2, or even worst in Subtotal N°3, is a clear warning signal suggesting to abort the M&A process.

IX. The Proposed Business Evaluation Model Used in Three Cases

I´m presenting three case studies allows to obtain more general results. It is more appropriate, according to Yin (2003), because, after conducting and analyzing each case study, it allows to draw more robust conclusions and the obtained analytical benefit is more substantial.

a) First Case Study: The aborted acquisition of "B".

This case study is related to an acquisition of 100% ownership of a bakery-pastry & raw goods distribution company, oriented exclusively to the food service market in Chile, mainly in the city of Santiago and the near shore.

This company was founded in 1990, achieving market leadership in terms of prices and share in just two years.

As a result of synergies reasons, it became very attractive to acquire this firm, because there was a complete similarity in terms of customers, suppliers, and goods offered.

To acquire this competitor will allow to the acquirer to capture more than 80% of the fresh bakery-pastry available for offer (therefore controlling market prices too, under one administration (app. 40% less than the prior M&A payroll of both companies), making transport more efficient, achieving lower costs due to a stronger power of negotiation with suppliers as a result of a greater volume, and an inferior cost of premises rent (just one production plant and one distribution center and headquarter). Additionally, revenue level, size, and structure of both firms were very similar.

The target company was a familiar one, managed by one of the two partners serving as general manager. There was no board of directors.

Daily management was carried out also by a second manager in charge, but is only involved in matters regarding sales.

The number of employees, including the external transport crew, was around 80 people.

Once the NDA was signed, the first obstacle was presented: they carried out their purchases and sales in black. That means that there was no formal accounting.

The acquirer company, a multinational corporation, cannot accept any grade of informality. Only the formal part of the business can be considered, not to mention the risk of future labor, legal, or tax contingencies. Therefore, only formal transactions can be considered, which means missing out on great part of the "B" firm's earnings.

An additional issue was labor because their payroll was undervalued by approximately 40% because they used to pay half of the salaries "under the counter", avoiding having to pay a big amount of taxes and labor duties, such as2000 health, pension, vacations, seniority, etc.

The first decision that was made was to not purchase the tax id, not to hire managers or employees from the target firm.

Table N°2: "B" Business Evaluation using Author´s Model

"B" BUSINESS EVALUATION								
	Variable	Low	Med	High	Pos	Neut	Neg	Relevance
1	The country							
a	Clear and stable commercial rules			x	X			10
b	Technological development			x	x			5
c	Communications development			x	x			5
d	Infraestructural development	x					x	-5
e	Justice courts independence level and stability			x	x			5
f	National political stability			x	x			10
g	Macroeconomic stability		x		x			5
h	Local corruption level	x			x			5
i	Protective laws and/or importation barriers	x			x			5
j	Unemployment rate	x			x			5
k	Local currency stability		x		x			5
l	Rigid labour rules			x			x	-5
m	Investment trend		x		x			5
n	Incentives for foreign investment			x	x			10
o	Free access to foreign currency exchange			x	x			5
p	Dividends taxation or limitations for foreign firms	x			x			10
	SUBTOTAL 1							80%
2	The targeted firm							
a	Eco-sustainable	x				x		0
b	Level of dependence on imported raw goods	x				x		0
c	Use of very specific supplies		x			x		0
d	Level of dependence on limited natural resources	x			x			5
e	Patents or royalty payments	x			x			5
f	Grade of dependence on expert staff		x				x	-5
g	Customer's concentration grade	x			x			5
h	Product concentration level	x			x			5
i	Suppliers concentration grade	x			x			5
j	Relevance of the exportations in the total revenues	x			x			5
k	Feasibility to import its procurements			x	x			5
l	Local grade of maturity of the industry		x		x			10
m	Capital requirements			x			x	-5
n	Local market size	x					x	-5
o	Level of accurate data availability	x					x	-10
p	Level of accounting formality	x					x	-10
q	Competitors formality level			x	x			5
r	Cost dependence level on foreign currencies	x			x			5
s	Statistical records availability	x					x	-5
t	Targeted firm market atomization grade		x		x			5
v	Ownership (public, private, one partner, or just a few)			x	x			5
x	Global situation of its industry		x		x			5
y	Regional growth of its industry			x	x			5
z	Managers can be retained?	x			x			-5
	SUBTOTAL 2							30%
3	Acquirer´s M&A scenario							
a	Presence of global competitors in the region	x			x			5
b	Organizational culture similarity	x					x	-5
c	Similar size	x				x		-5
d	Incremental profits in acquirer hands	x				x		0
e	Plug & play post-acquisition	x					x	-5
f	Organigram similarity	x					x	-5
g	Horizontal/vertical integration	x				x		5
h	Indirect additional benefits for the acquirer		x		x			5
i	Acquirer presence in the region	x			x			5
j	Current presence in this industry			x	x			5

k	Acquisiction impedes competitor's strategy	x				x		0
l	Corporate reasons for this acquisition			x	x			5
m	Distance to acquirer headquarters	x			x			5
n	Language and cultural gaps	x			x			5
	SUBTOTAL 2							20%
	GRAND TOTAL 2+3							50%

As shown in the table, at National level all the variables are positives, therefore Chile seems like a very attractive country to invest achieving 80%, but "B" only got a Grand Total of 50%.

b) Second Case Study: The attempt to acquire "A".

This company was a familiar, medium sized one, owned by people (father & son) that were known to both of the Chilean partners. This firm was founded in 2000 and was completely focused on sea food, mainly prawns.

They were oriented towards hotels, restaurants, caterers and resellers, managing four small vehicles in Santiago and near the coast, and were outsourcing fleets for more distant locations.

Premises' rent was very cheap, but the lack of space prevented any organic grow. That was one of the reasons they accepted at first: To discuss a partial acquisition.

Their accounting was formal (there was no black transactions or black payroll), but it did not follow GAAP (generally accepted accounting principles) criteria.

For the acquirer company, "A" was very attractive since it was mainly focused on foodservice, covering the same geographical area. The administration and operational processes were very similar to the acquirer subsidiary in Chile, as well as the commercial approach. Additionally, post-acquisition drop on sales would have been less than 10% because that the former owners would continue serving their customers.

On 2013, the frozen sea food category in the Chilean foodservice market was atomized and poorly exploited.

This category was continuously growing, not just in terms of volume, but also quality, incorporating added value goods and not just commodities.

The potential acquisition could bring to the acquirer firm a new integral specialization identity.

In the hands of the acquirer firm, import cost would decrease because of the multinational group power of purchase, maximizing the profit margins.

Their lack of sufficient working capital was also a clear obstacle for growth, not to mention that a new potential, bigger competitor was a permanent threat.

The previous comment doesn't argue that, for a successful transaction to happen, there weren't few disadvantages and weaknesses to be dealt with.

At first, the integration process would last six months, due to premises contracts, sanitary requirements, permits, etc.

Additionally, it became known that 40% of their sales were concentrated in only two products: tuna and prawns, both with a very unstable supply chain (frequently sold out) and depending on just a few suppliers.

Resellers (high credit risk, low margin) represented almost 40% of their sales. Without the total sales credit coverage, it could not continue under acquirer´s firm management.

Finally, acquirer firm total lack of expertise in the local sea food market would also require a learning period to take place.

"A" impressive growth on sales (which might not sustainable), with an economy of scale focused on imported goods (under a very volatile foreign currency exchange scenario), encouraged them to assume a revenue growth of 60%, with no drop for the next year, and keeping the same growth rate using current customer base.

This position made it impossible to convince them to calculate the Ebit using (at this moment) the available figures.

On the acquirer side, due to the strong growth based on large imports, it is important to acknowledge that frozen fish and seafood market depends mainly on product availability and price opportunity. At "A", they have taken inventory positions and has released them when the product was not available at the market.

As per their explanation, the business can afford up to 15% extra growth, with no incremental expenses. Purchasing the right products on time made them reach over 21% at the bottom line (Ebit/Sales), with the same infrastructure up to date.

Sales track has shown strong growth since 2011 (70% 2012/11 and 67% 2012/13).

However, margin improvement was shown only in 2013.

Chile is not a developed country, local foodservice market is very small, and there are no similar companies to compare or even statistical data to use.

The final decision that was made was to leave the negotiations table, informing to the target firm that this was a direct consequence of the absence of strong statistics background capable of supporting the owner´s forecasted organic growth. Another justification was that their supplier's portfolio was too concentrated and the range of products was very narrow as well, not to mention the 40% reseller's sales. After this, the acquisition became quite risky.

Table N°3: "A" Business Evaluation using the Model

	"A" BUSINESS EVALUATION							
	Variable	Low	Med	High	Pos	Neut	Neg	Relevance
1	The country							
a	Clear and stable commercial rules			X	x			10
b	Technological development			X	X			5
c	Communications development			X	X			5
d	Infraestructural development	X					x	-5
e	Justice courts independence level and stability			x	x			5
f	National political stability			X	x			10
g	Macroeconomic stability		x		x			5
h	Local corruption level	X			x			5
i	Protective laws and/or importation barriers	X			x			5
j	Unemployment rate	X			x			5
k	Local currency stability		x		x			5
l	Rigid labour rules			x			X	-5
m	Investment trend		X		x			5
n	Incentives for foreign investment			x	x			10
o	Free access to foreign currency exchange			X	x			5
p	Dividends taxation or limitations for foreign firms	x			x			10
	SUBTOTAL 1							80%
2	The targeted firm							
a	Eco-sustainable	x				X		0
b	Level of dependence on imported raw goods			X			x	-5
c	Use of very specific supplies			X			X	-5
d	Level of dependence on limited natural resources			x			X	-5
e	Patents or royalty payments	X			X			5
f	Grade of dependence on expert staff		x				X	-5
g	Customer's concentration grade		x		x			5
h	Product concentration level			x			x	-10
i	Suppliers concentration grade			X			X	-5
j	Relevance of the exportations in the total revenues	X				X		0
k	Feasibility to import its procurements		x				x	0
l	Local grade of maturity of the industry	X			X			10
m	Capital requirements			x			x	-5
n	Local market size		x			x		0
o	Level of accurate data availability			x	X			10
p	Level of accounting formality			x	X			5
q	Competitors formality level			X			x	-5
r	Cost dependence level on foreign currencies			X			x	-5
s	Statistical records availability		X				x	-5
t	Targeted firm market atomization grade		X			X		0
v	Ownership (public, private, one partner, or just a few)			x	X			5
x	Global situation of its industry		X		x			5
y	Regional growth of its industry			x	X			5
z	Managers can be retained?		X		X			5
	SUBTOTAL 2							15%
3	Acquirer´s M&A scenario							
a	Presence of global competitors in the region	X				x		0
b	Organizational culture similarity			X		x		0
c	Similar size			x	X			5
d	Incremental profits in acquirer hands			x	X			10
e	Plug & play post-acquisition			X	X			5
f	Organigram similarity			X		x		0
g	Horizontal/vertical integration			X	X			5
h	Indirect additional benefits for the acquirer			X	X			5

i	Acquirer presence in the region			X	X			5
j	Current presence in this industry	X			x			5
k	Acquisiction impedes competitor's strategy	X			X			5
l	Corporate reasons for this acquisition			x	X			5
m	Distance to acquirer headquarters	X			X			5
n	Language and cultural gaps	X			X			5
	SUBTOTAL 2							60%
	GRAND TOTAL 2+3							80%

As shown in the table, at National level all the variables are positives, therefore Chile is seemed like a very attractive country to invest achieving 80%.

"A" got a total of 80%, but just a remarkable poor subtotal 2 of 15%, as a result of its risky dependence on imported goods, product high concentration grade, excessive dependence on just a few suppliers, and competitor's informality.

c) The Acquisition of "C".

This firm was founded in 2010 and was completely focused in the foodservice industry, mainly specializing in the fast food niche. Their sales continued to grow from the very beginning. The logistical issue was crucial because this segment requires heavy transport of commodities with poor added value, but permanent and stable consumption.

"C"´s customers were usually located at the same shopping centers where the acquirer firm (gourmet level) attended its restaurants daily, where they didn't serve high-quality brands, but had similar suppliers (manufacturers and importers as well). The synergie in procurement, sales, and logistics were obvious.

"C" had only 39 employees (half of the acquirer firm staff), and very similar revenues.

Its structure was very simple, just as the acquirer one, and quite similar.

Some opportunities were found while analyzing the pros and cons of an eventual acquisition, such as: low customer cross-selling, because their major clients were fast food resellers and caterers, not hotels, restaurants or cafeterias (which was the acquirer´s firm niche). Despite this, more than 35% of their sales were in the acquirer company geographic area of coverage.

After a short inspection it was noted that not only the administration was very similar, but also the operations. A very similar administration and operational process, with the same commercial approach.

The expected drop on sales was estimated at less than 10% as consequence of a merge, because their strong categories were, coincidently, our weak ones.

This acquisition would certainly provide a new nationwide identity for the acquirer firm

Like in the previous two cases, once the acquirer firm was incorporated into the imports world, it would maximize margins and take advantage of the multinational network.

Even if it was a total acquisition, the former general manager and owner would join acquirer´s firm management for at least one year, bringing not just expertise, but contributing greatly with the managing of the newly acquired business and command the veteran staff's loyalty and commitment, mitigating any traumatic process. It can be said it was a "plug & play" M&A.

A regionalization (first stage; maximum 200 km distance to Santiago) that grows not only in size but also in quality (specialized, not just commodities) would allow the use of better tools to compete for a better post-acquisition scenario. They also had a stronger distribution service than the acquirer's firm.

It was detected that their lack of working capital for growth and a reduced organization restricted potential deals. Deals that under acquirer firm hands would surely come to fruition.

In any case, there were also some threats and weaknesses: it would take not less than 6 months to operate under the same management. Their DC was better than the acquirer´s one. It had enough room for the post acquisition headquarters. Therefore, the raw goods would operate separately for one month after the merge, but the bakery would remain in the current premises till the next stage, which could be more than a year away.

There were few, yet crucial weaknesses: "C"´s rigid administration model faced acquirer´s firm very flexible one. The risk of inherited managers resigning shortly, a very poor margin of commodities sold due to a large number of competitors in a small market, among others.

The researcher has developed his own M&A post-merger procedure, called "The Three Sacred Steps Process". First, it requires not losing any customers for 60 days, mitigating any traumatic change to the company, and keeping the purchased company's staff working through the acquisition. Only after this stage, the implementing of synergie in procurement and logistics should be carried out, and the purging of low contribution products and customers should follow suit along the following 60 days. The last step is to decide who should remain with the company, from either of the companies (only by considerations of merit), and to begin working under the same management.

As it had occurred in previous cases, the Board of Directors of the multinational Group allowed exclusively an Ebit valuation method, although Chile was not a developed country. Local foodservice market was very small and there were no similar companies to compare, or even statistical data to use. Additionally, local companies had fixed assets (not as this multinational foodservice style), which were not included or were even being considered in the Ebit method (depreciation is not included), and the audited Ebit does not consider trend growth or projected target firm incremental earnings when valuing a recently founded start-up or immature company.

Table N°4: "C" business evaluation using the proposed Model

"C" BUSINESS EVALUATION								
	Variable	Low	Med	High	Pos	Neut	Neg	Relevance
1	The country							
a	Clear and stable commercial rules			X	X			10
b	Technological development			X	X			5
c	Communications development			X	X			5
d	Infraestructural development	X					x	-5
e	Justice courts independence level and stability			x	X			5
f	National political stability			X	X			10
g	Macroeconomic stability		X		X			5
h	Local corruption level	X			X			5
i	Protective laws and/or importation barriers	X			X			5
j	Unemployment rate	X			X			5
k	Local currency stability		x		X			5
l	Rigid labour rules			x			X	-5
m	Investment trend		X		X			5
n	Incentives for foreign investment			x	X			10
o	Free access to foreign currency exchange			X	X			5
p	Dividends taxation or limitations for foreign firms	X			X			10
	SUBTOTAL 1							80%
2	The targeted firm							
a	Eco-sustainable	X				X		0
b	Level of dependence on imported raw goods		x				x	-5
c	Use of very specific supplies	X			x			5
d	Level of dependence on limited natural resources	X				x		0
e	Patents or royalty payments	X			x			5
f	Grade of dependence on expert staff			x			x	-5
g	Customer's concentration grade	X			x			5
h	Product concentration level	X			x			5
i	Suppliers concentration grade	X			x			5
j	Relevance of the exportations in the total revenues	X			x			5
k	Feasibility to import its procurements			x	x			5
l	Local grade of maturity of the industry		X		x			5
m	Capital requeriments			x			x	-5
n	Local market size		X		x			5
o	Level of accurate data availability			x	x			10
p	Level of accounting formality			X	x			5
q	Competitors formality level			X	x			5
r	Cost dependence level on foreign currencies			X			x	-5
s	Statistical records availability			X	x			5
t	Targeted firm market atomization grade		X		x			5
v	Ownership (public, private, one partner, or just a few)			x	x			5
x	Global situation of its industry		X		x			5
y	Regional growth of its industry			x	x			5
z	Managers can be retained?			X	x			5
	SUBTOTAL 2							75%
3	Acquirer´s M&A scenario							
a	Presence of global competitors in the region	X			X			5

b	Organizational culture similarity			x	X			5
c	Similar size	X					x	-5
d	Incremental profits in acquirer hands			x	X			10
e	Plug & play post-acquisition			X	X			5
f	Organigram similarity			X	X			5
g	Horizontal/vertical integration		X		X			5
h	Indirect additional benefits for the acquirer			x	X			5
i	Acquirer presence in the region			x	X			5
j	Current presence in this industry			X	X			5
k	Acquisiction impedes competitor's strategy		X		X			5
l	Corporate reasons for this acquisition			x	X			5
m	Distance to acquirer headquarters	X			X			5
n	Language and cultural gaps	X			X			5
	SUBTOTAL 2							65%
	GRAND TOTAL 2+3							130%

As shown in the table, at National level all the variables are positives, Chile is seemed like a very attractive country to invest achieving 80%.

"C" got an impressive 75% outcome as targeted firm, and a 65% as Acquirer M&A scenario, due its similarity to the acquirer firm, the synergies and mainly because all the negatives variables shown in "A" and "B" cases turned to positives.

X. Conclusions and Recommendations

The criteria used to select a candidate company depends on the market´s characteristics: how concentrated is the industry in that region, the grade of informality (for instance: non-billed sales, staff hired without formal contracts), market growth trends, availability of accurate and updated data, the degree of strategic fit with the acquirer, the threat of a foreign investor entry, the total amount required for the acquisition, among others.

Knowledge is power to take time might even help to reduce the final price and to obtain better conditions. Despite the previous, sometimes to move quickly is the best procedure when the preparatory work was properly done. Therefore, manager´s expertise is fundamental. To walk away from a bad deal might be the best step, but a rookie never will do so.

To spend time with shareholders when they sale only partially the company is crucial. In these cases the negotiation is just a mean, the future convivence is the real challenge. Never can be assumed that everything regarding the target firm can be known before the acquisition.

To implement any business evaluation model for all of the companies across the world seems logic to unify criteria, but it must recognize local market and industry differences. The western world isn't always synonymous with the developed world (for instance, South America).

This paper pretension is to help decision makers know exactly why they are buying a company and to evaluate the deal properly because this is crucial.

Many variables must be taken in consideration, such as culture, market size, industry, macroeconomic policy, national level of development, organizational structure, synergies, leadership, kind of political regime, level of technological development of the country, ownership, accurate data availability, statistical records, communications, level of target´s firm market atomization, the existence of similar companies competitors, national legal and economic stability, grade of maturation of target firm industry, local corruption level, the existence of protective laws and/or importation barriers, the use of local natural resources and sustainability, among many others variables detailed in the proposed Model.

This research adds further information to the limited available knowledge of the field of M&As, and it focuses on the impact of the business evaluation in an M&A process. In light of the research results it is necessary to emphasize the business evaluation as a crucial parameter that should be taken into consideration when any M&A process between companies are planned and performed.

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