



The determinants and evaluation of merger success[☆]

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Abstract Many decry the preponderance of merger failures and conclude that mergers and acquisitions (M&A) are failed strategies. However, analysis of the causes of failure has often been shallow and the measures of success weak. The research reported here focuses on what makes a merger successful and what is the appropriate manner of evaluating merger success. Extensive field research of the merger of J.P. Morgan and Chase Manhattan Bank in 2000 is used to illustrate the drivers of merger success and how to improve and value the contributions of mergers.

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1. Introduction

Many writers and business analysts have asserted that mergers and acquisitions (M&A) are doomed to fail and that M&A success is somehow at odds with the reality of the business world. They often point to a history of merger failures, concluding that bigger is not better and that mergers and acquisitions are failed strategies. While some studies have even indicated that 7 out of 10 mergers do not live up to their promises, the analysis of the causes of failure has often been shallow and the measures of success weak.

For decades, success and failure in M&A has been studied in terms of narrow and uninformative measures, such as short-term stock price, leading to the aforementioned claims that most mergers fail. Many have taken this finding at face value, moving on to the search for causes of failure, which include culture clash, lack of synergies, and flawed strategy. All things considered, the study of M&A desperately needs a new perspective and a new framework for analysis.

2. Mergers, acquisitions, and conglomerates

There is great need for clearer distinctions between three very different approaches to growth. Mergers, acquisitions, and conglomerates are often analyzed as if they were the same, but a clear distinction is necessary. Mergers of equals, such as

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JPMorganChase, involve two entities of relatively comparable stature coming together and taking the best of each company to form a completely new organization. Growth through acquisitions, such as Cisco's model, involves the much simpler process of fitting one smaller company into the existing structure of a larger organization. Conglomerates, such as Tyco, constitute a third type of entity in which large companies are brought together without any clear attempt to create synergies or meld strategies, keeping them separate to provide the advantages of decentralization and autonomy. To lump mergers, acquisitions, and conglomerates together prohibits a thorough understanding of either the determinants or the evaluation of success.

There are significant challenges in the integration of both the technical and human aspects of bringing another company into a large group, as occurs in acquisitions and conglomerates. However, these pale in comparison to the more common challenges faced when two similar-sized companies come together to create a new organization with significant competitive advantages. Whereas an acquisition conveys a clear sense of which company is in charge, a merger of equals often causes a power struggle as members of both companies seek control over the new organization. Every aspect of the company's business practices is subject to discussion, and the selection of best methods often takes a back seat to each company's desire to maintain their own status quo.

The lack of clarity regarding the elements of merger success and implementation, along with a plethora of measurement problems, has led to a never-ending debate as to whether mergers are generally desirable or of dubious value. Beyond that remains the issue of how to make them work. Studies of short-term stock prices have been contrasted with studies of long-range financial returns. Failure has been couched in terms as extreme as "resale" or "liquidation", or as conservative as "failing to reach certain projected growth or profit". Overpayment has been reported as the overwhelming culprit of merger failure, while less quantifiable causes, such as strategy and merger execution, have been downplayed. Without any focus or clarity, the discussion has inevitably descended into an exchange of uninformative case studies. A more complete discussion would acknowledge that mergers (rather than acquisitions) have often failed because of problems with the strategic vision of the merger, the appropriateness of the merger partner, or the deal structure. Mergers such as these faced almost certain failure even before any integration attempt had begun.

Although there have been numerous studies of the Cisco model of acquisitions integration and the G.E. model of integration of companies into a conglomerate, there is little literature and analysis of the drivers or evaluation of merger success. The research reported here focuses on what makes a merger successful and what is the appropriate manner of evaluating merger success. I have concluded that there are six determinants of merger success. It is these key success factors that should be relied upon in evaluating mergers and their long-term impact on profitability, rather than short-term indicators like current stock price as used to measure strategy and implementation success. Furthermore, my research shows that senior managers can significantly increase the likelihood of overall merger success through careful development and implementation of a merger strategy that considers these six factors. It also illustrates that commonly used narrow interpretations of merger success undervalue the contributions of mergers, and that a more comprehensive evaluation often leads to very different conclusions. Extensive research of the merger of J.P. Morgan and Chase Manhattan Bank in 2000 is used to illustrate this important conclusion.

3. The six determinants of merger success

Achieving merger success requires accomplishment in six factors. Failure of any one of the six can impede the achievement of merger goals. Some can be controlled easily through careful design and implementation, while others are more challenging due to numerous external forces. Mergers can provide superb opportunities for profitable growth, but companies need to take great care of their performance regarding these six determinants of merger success, with any evaluation of merger success including performance evaluation of each of these factors. The six determinants of a successful merger are:

3.1. Strategic vision and fit

The strategic vision should clearly articulate a merger rationale that is centered on the creation of long-term competitive advantage rather than just short-term improvements in operational efficiency. Prominent reasons for company mergers include attempts to increase scale, geographic scope, knowledge, and cross-industry extension. If

the strategic vision focuses on scale, greater efficiency and cost cutting are high priorities, and the company tries to build advantages through size. In geographic scope mergers, two companies combine to expand geographic coverage. Talent-based mergers attempt to create advantage by improving company operations through matching people, skills, and knowledge to areas of need. Cross-industry mergers seek to combine complementary products and services and often redefine the business to better service customer needs. Whichever concepts are central to the vision, it is important that real growth is an expectation of the merger and that the entire rationale is not centered on cost cutting and elimination of redundancies. Clarity of the strategic vision is critical.

The Citibank–Travelers merger is often cited as one in which strategic vision helped overcome problems in postmerger integration (PMI) and other aspects of the deal. The strategic vision centered on the value of a diverse business platform, which included the benefits of “cross-selling” to both the company and its customers by attracting customers through assembling many products under one roof. Analysts greeted this concept with skepticism, arguing it had failed in the past, but CEO Sandy Weill insisted the vision was the “model financial institution of the future” and moved forward. Citigroup ultimately established leadership positions in nearly every product category and region, including some in which the prospects for cross-selling were questionable.

Whether the merger is designed for synergies in size, geography, assets, people, or competencies, companies must evaluate whether the entities are proper choices as merger partners and the right fit to fulfill the strategic vision. If the strategic vision focuses on scale, the companies must be confident that the cost savings and growth synergies associated with scale justify the merger costs. Participants in a geographic scope deal must be wary of too much overlap in markets and be certain that the two companies’ combined areas of concentration will form significant synergies. Participants in talent-based mergers must be confident that the acquired skills, competencies, systems, and knowledge will be applicable in both lines of business or that the combined talents of the firms will create synergies. Finally, participants in a cross-industry deal must ensure that their particular combination of lines of business will be accretive and customers will not be confused by the combination.

Leadership from both companies must carefully analyze the strategic vision, how each company fits into that vision, and their compatibility in terms of culture, systems, and processes. The Daimler–

Chrysler merger is an example of a merger whose strategic fit led to major problems. The merger was designed to provide increases in market share based on geographical fit and cost savings from sharing parts, research, and technical practices. However, the notion of sharing parts clashed with the corporate cultures and the prestige associated with the Mercedes brand. The original intent was to share research and practices, but differences in company policies and personnel made collaboration difficult. Daimler undermined this purpose even further by failing to retain Chrysler’s senior design executive. Due to technical and cultural differences that were not adequately managed in the integration process, the merger has not yet delivered on its promises. It has led to internal strife and, ultimately, the denunciation of the “merger of equals” mantra.

3.2. Deal structure

A successful merger requires careful attention to two aspects of the deal structure: price premium and financing type. Mergers often fail due to paying too high a purchase price and overburdening the new company with sky-high debt payments. The decision of whether to finance with cash, stock, or a combination depends on a number of factors, including accounting and tax implications. Stock deals have become more popular throughout the last decade as the stock market rose, but both companies must consider whether their own stock and the other company’s stock may be overvalued or undervalued at the time of the deal.

Federated and Fingerhut is an example of a merger that had major problems due to deal structure. Most observers agree that Federated overpaid in the deal, hoping to land a partner with direct-marketing experience to pass on to its stores, such as Macy’s. Fingerhut had just such experience from its catalog sales and nascent Internet business. The 30% premium price paid by Federated was especially high considering that Fingerhut’s price had been bid up fairly recently before the merger. This, in part, led Federated to shut down Fingerhut and ultimately sell the operation for less than US\$800 million in 2002, after originally purchasing the company in 1999 for US\$1.7 billion.

3.3. Due diligence

Merger partners must exercise care to ensure that the potential deal can succeed in implementing the proposed strategic vision. The due diligence team should comprise members from both companies

across a number of different functional areas and include accountants, lawyers, technical specialists, and other experts.

Due diligence includes the formal financial review of assets, liabilities, revenues, and expenses and substantiation of the financial records. It also includes numerous nonfinancial elements, including the investigation and evaluation of organizational fit, ability to merge cultures, and the technological and human resources capabilities and fit. Other considerations include comparisons of accounting and budgeting practices and examination of employment contracts and labor union relations. The cultural aspect of due diligence must make certain that the differing cultures can be effectively integrated. This includes an examination of business philosophies, work practices, leadership styles, customs, expectations, and facilities. Companies need to devote effort to due diligence in order to ensure that there are no disruptive surprises in the integration process. Merger failures often result from a lack of careful evaluation of both the hard financial and soft personnel and organizational issues that are critical to organizational success.

The consequences of incomplete due diligence are demonstrated by the ongoing problems of Halliburton, which became embroiled in asbestos claims against Dresser, the company with which it merged in 1997. Although the extent of the due diligence process remains disputed, court documents allege that information on Dresser's situation, including a letter from a complainant, was available during the due diligence period and not uncovered by Halliburton. The cordial nature of the merger talks and friendship between the two company leaders is cited as a possible reason for this laxity. The cost to Halliburton for this liability is generally estimated at more than a half billion dollars.

3.4. Premerger planning

The preparation during the period leading up to the merger announcement is vital to success since it is critical to present the merger to key constituencies with confidence. During this period, the integration process is formulated and key decisions are made in the areas of leadership, structure, and timeline for the process. It is important to establish clarity in roles and responsibilities for those involved in the integration process, versus those in operating businesses. Communication efforts must be coordinated, widespread, and quickly developed. Both speed in decisions and planning and overcommunication to all stakeholders is critical.

A new leadership team must be selected immediately and guidelines for lower levels of personnel decisions must be established. Selection of the new CEO and board can be particularly difficult in mergers of equals, creating hostilities and becoming extremely time-consuming. Shared responsibilities can be a solution, but power-sharing creates its own challenges, including a lack of clarity at the top of the organization. The source of final authority, direction, and responsibility must be clear. The new company's structure, as well as the structure of the integration management team, must also be planned before the announcement. In true mergers of equals, creating an entirely new organization is preferable to being constrained by either of the previous structures. The integration management team should be in place immediately and have full-time contributions from at least one prominent member of senior management. Early dates should also be set for making key decisions and establishing metrics and targets. If the premerger planning process is not completed effectively, merger integration and success are typically unachievable.

3.5. Postmerger integration

Companies often destroy mergers during the integration process. If the previous five keys have been executed properly, the company is positioned for a successful merger. The strategy of both the new company and the integration process must be clear and the new organizational structure must be well defined. During postmerger integration, processes including the management of human resources, technical operations, and customer relationships must be carefully blended and important decisions made.

The postmerger integration (PMI) process begins with proper premerger planning, but good planning does not guarantee good execution. After the announcement, a successful PMI can only be achieved if all parts of the organization have the knowledge, resources, and commitment to move forward at an often blistering pace without destroying value in the process. Key implementation decisions must be made rapidly. Early wins must be achieved to build momentum and attention must be paid to both cost reduction and revenue growth synergies. Measures and milestones for the PMI must be balanced both in terms of financial and nonfinancial indicators, and between leading and lagging measures.

Human resource management practices and candid communication focused on retaining the best people from the two companies must both be

guided by meritocracy. Technical management must minimize risks associated with major integration events and focus on choosing the best and most compatible applications for the new organization. Customer management is vital to maintaining confidence and keeping customer attrition to a minimum during the merger. Postmerger integration is not business as usual. To avoid loss of business during the integration process, the company must continue to focus on customers since competitors often look to capitalize on any merger-generated lack of focus or confusion. The process should generate a culture where employees see the merger as enabling them to develop the business rather than inhibiting them from progress. Organizational leadership, structures, systems, and substantial, open communication are necessary to encourage this attitude.

3.6. External factors

Not all factors that influence the success of mergers are under the control of the company itself. Changing economic conditions may introduce dynamics in employment and customer retention that could not have been anticipated. The company's industry or peer group may undergo drastic, unexpected change during the integration due to the success, failure, or actions of peer firms or economic conditions. In extreme cases, the company's business may be affected by the fortunes of a single client or partner. All of these factors can adversely affect an otherwise successful merger, and no amount of due diligence or risk mitigation may have foreseen or prevented such occurrences. In some cases, however, these conditions are entirely predictable, and companies that plan mergers while brazenly ignoring obvious warning

signs of changes in the economy, interest rates, competitor actions, consumer purchases, and political climate are subject to harsher judgment of their merger planning.

In evaluating most mergers, however, the effects of external factors have to be considered more carefully, especially in the case of economic factors. In a strong economy, a poor merger may appear to be more successful, while a strong merger may look weak under poor economic conditions. It is important, therefore, to distinguish between external factors that actually damage the value of the merger and those external factors that only damage perception of the merger. This distinction underlines the futility of measuring merger success with simple stock prices. In a down economy when stock prices are down throughout the market, a lower price for the merged company gives little or no information as to the real value created by the merger (see [Exhibit 1](#)).

4. The merger of J.P. Morgan and Chase Manhattan Bank

In the last few decades, the banking industry has undergone drastic changes. Securitization killed traditional banking business and commercial lending is no longer the primary engine for growth. Money management and investment banking have become the most profitable, growth-oriented businesses. Mergers of increasingly large scale have occurred and investment-banking powerhouses and diversified financial conglomerates began to corner the banking markets. The repeal of the Glass–Steagall Act (1933) in 1999 permitted commercial banks to merge with brokerages. The merger of Chase and J.P. Morgan, unthinkable not too long

Key	
Strategic Vision and Fit	Clear merger rationale articulated and focused on long-term competitive advantage and designed for synergies in size, geography, people, or services. Partners are the right choices for merger to fulfill the strategic vision.
Deal Structure	Price paid and type of financing are appropriate and beneficial.
Due Diligence	Conducts a formal review of assets, liabilities, revenues, and expenses and evaluation of culture, organizational fit, and other non-financial elements.
Pre-Merger Planning	Formulation of the key integration processes and decisions are coordinated, communicated, and completed quickly.
Post-Merger Integration	Processes including the management of human resources, technical operations, and customer relationships are carefully blended and important decisions made.
External Factors	External factors that damage the long-term merger value are distinguished from those that only damage the short-term perception due to temporary stock declines.

Exhibit 1 The six keys to merger success.

ago, became a necessity due to the rapid consolidation of the industry. Such mergers became imperative from the perspective of both the consumer and the bank. Client demands for integrated solutions provided opportunities to provide multiple products in effort to develop stronger customer relationships and better service customer needs without sacrificing either quality or convenience. Universal banking also provides an opportunity for banks to bundle products that can result in some economies of scale and scope and to capitalize on the advances in on-line technology.

Chase Manhattan traces its roots back to Aaron Burr's Bank of Manhattan, although the direct lineage of the company traces back to 1877. John D. Rockefeller brought Chase National into prominence in the 1930s as the world's largest bank, and Chase merged with the Bank of Manhattan in 1955. In 1995, it merged with Chemical Bank, which had earlier merged with Manufacturers Hanover in 1992 in a union that kept the prestigious Chase name, but in which Chemical was the dominant power. J.P. Morgan was founded in New York in 1861 and gained a reputation by rescuing Wall Street from a financial panic in 1907. Forced to split off its investment bank in 1935, J.P. Morgan became a world-class commercial bank known for its loans to governments and corporations and was, in fact, the first bank permitted to underwrite corporate bonds.

The merger between Chase and J.P. Morgan was a deal of great significance, creating a new company that ranked second among banks in the United States in size of assets, combining what were then the third and fifth largest entities. Each company had a long history but faced an uncertain future, which necessitated the merger. In terms of size and scope, the merger was one of the largest in the history of the banking industry. Chase had operations in 65 countries and nearly 80,000 employees, while J.P. Morgan had about 30,000 employees. The merger was planned in a series of meetings that were conducted under a high level of secrecy outside of firm facilities at the Waldorf-Astoria Hotel and in legal offices. Only a select handful of top management was present, code names were used, the people involved did not use their own secretaries and staff, and lawyers and their employees did all the typing.

The JPMC merger was guided by the vision of an integrated platform and touched on all four of the major merger concepts. Scale would allow for both cost cutting and the efficient development of new capabilities. In terms of geographic scope, the companies covered each others' weaknesses to command a strong worldwide presence. Talent

was a primary rationale in the investment banking area, where the new company was envisioned to have among the deepest talent pools in the industry. Although the deal was not technically a cross-industry deal, it shared many of those characteristics in that Chase and J.P. Morgan represented different strands within the banking industry. Despite surface similarities with Citigroup's cross-selling concept, the integrated platform concept was client-centered rather than product-centered.

JPMC CEO Bill Harrison described the mission of the new company as "delivering our broad, deep, and integrated global capabilities in a timely, efficient, and creative manner...to create exceptional value for our shareholders, clients, and employees". From the client perspective, the goal was to gain a larger portion of a client's business by offering the ability to receive a wide variety of banking services through a single bank.

JPMC believed the strategic fit of the merger was strong due to company complementation and shared key characteristics that highly valued consensus building and teamwork. Each company's strengths matched well with the other's needs in terms of capabilities, product offerings, and geographic markets. Chase had strong technology, which was one of J.P. Morgan's weaknesses. J.P. Morgan had a broad overall equity business, which included strength in Europe, while Chase had focused on the United States. Chase saw J.P. Morgan as a far superior alternative to DLJ, a rejected merger target, with whom synergies were fewer and cultural clashes were likely to have been numerous. J.P. Morgan, which had previously believed strongly in organic growth, found the merger fit compelling enough to abandon that strategy. The combined company had leadership positions across a broad range of capabilities.

J.P. Morgan merged with Chase for about US\$36 billion in stock, which meant that each share of J.P. Morgan was exchanged for 3.7 shares of Chase. The price was 3.5 times J.P. Morgan's book value. Banks have traditionally sold in the range of 2 to 3 times book value, although some recent deals have pushed that number upwards.

Due diligence requires establishing a protocol for a careful evaluation of both the hard financial and soft personnel and organizational issues that are critical to organizational success. This includes both a formal financial review of assets and liabilities and an evaluation of culture, organizational fit, and other nonfinancial elements. Although the merger between J.P. Morgan and Chase was completed quickly, the review of both the hard and soft issues went smoothly. Since the

deal centered on human capital and capabilities, much of the focus of due diligence was on assessing key people and their concentrations so that retention decisions could be made quickly. Budgeting practices, financial management, compensation practices, and credit risk processes were also analyzed and reconciled early in the due diligence process.

Once preparations were completed, work began on the organizational structure and leadership for the new company. Sandy Warner of J.P. Morgan became chairman of the board and Chase chairman William Harrison became chief executive, with the two serving as coheads of the executive committee. Warner's position, however, was well known to be temporary and essentially a merger accommodation, and he left the company by the end of 2001. Eight directors from Chase and five from J.P. Morgan were named to the board and 11 members from Chase and four from J.P. Morgan were named to the management board. The first 25 to 50 positions were selected right away and coheads were avoided as much as possible, as JPMC managers regarded this as a key mistake of the Citigroup deal. In some cases, however, coheads were instituted, at least temporarily, to preserve revenue.

Top management teams were established immediately following the agreement and the business model was completely defined before the announcement. Communications to employees, clients, shareholders, regulators, and the media were coordinated to guarantee rapid diffusion of information following the announcement. For example, on the day of the announcement, all employees from both companies simultaneously received letters containing the information, while the morning edition of the New York Times featured the merger as a front-page headline.

The postmerger integration process at JPMorganChase was driven by a merger philosophy that started with a commitment to creating a true "merger of equals". Keeping the names of both companies in the new company's name and using the JPM stock symbol reflected this philosophy, as did the maintenance of separate brand names in certain lines of business. The postmerger integration was based on a process that had been developed and refined over 10 years through previous mergers with Manufacturers Hanover and Chemical and was designed around a number of guidelines and priorities with overcommunication as a central unifying theme.

The project management approach was followed and the integration team was a discrete, full-time function with ample resources. The process was

decentralized with focal points for integration team work identified along three lines: lines of business, geographical areas, and functional areas. The PMI process was not totally balanced in terms of contributions from the two companies, as J.P. Morgan deferred to Chase in many of the key structural decisions due to their experience in PMI.

JPMC placed a premium on conducting the merger quickly and set forth an ambitious timeline that would make critical enabling decisions early (see [Exhibit 2](#)). Integration teams were fully operational and second-level management decisions completed within four weeks. Two weeks later, milestones, targets, and scorecards were prepared for use by the integration team. The merger of the holding companies was completed less than four months after the announcement.

Recognizing the very different mind-sets of the two previous organizations, JPMC worked diligently to convey an entirely new set of values for the new organization. First and foremost, JPMC was to be a global, "world-class" organization with a client-centric rather than product-centric focus. This overall mission was supplemented by a list of eight missions and values, which were widely distributed and whose importance was consistently communicated. (see [Exhibit 3](#))

The primary tools for measurement at JPMC, Key Performance Indicators (KPIs), were grouped into four categories (financial, technical, client, and people), with the team for each line of business (LOB) or functional area deciding the specific metrics within each category. The first category, financial measures, included revenue and pricing measures, profitability, expenses associated with the PMI process, productivity measures, and other traditional financial measures. The second category, risk management, process, and control, focused on maximizing efficiency and minimizing problems associated with the processes themselves and the rapid correction of those problems. The third category, internal/external client-focused measures, included client retention and acquisition measures, client satisfaction, and status of new program implementation. The fourth category, employee-focused measures, included measures of employee retention, training, diversity, and resolution of differences between the two companies.

Finally, the PMI process included a number of systems to guide, focus, and discipline aspects of the integration. Management of the merger relied not only on the formation of the various merger teams and offices, but also through coordinating the specific roles of each team and keeping information flowing through a well-coordinated

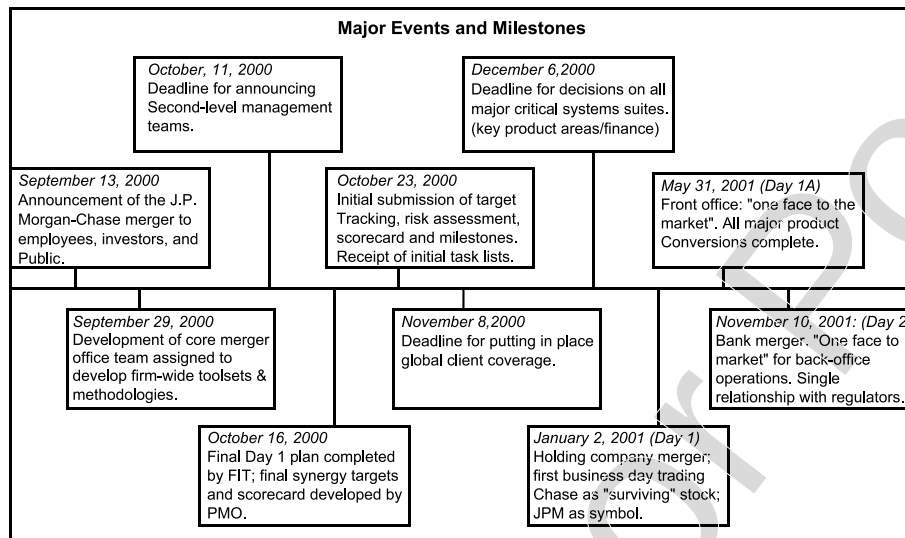


Exhibit 2 JP Morgan chase integration timeline.

communications process. The Firm-Wide Merger Office (FMO) also held weekly meetings to evaluate the overall status of the merger through a firm-wide integration scorecard. In particular, there was a focus on progress reporting with regards to milestones, giving consideration to both those accomplished and missed.

External environment factors ended up causing the most difficulties during the merger. Among the key external factors that affected the prospects of the JPMC merger were the economy and the troubles of some large Chase and Morgan clients, including telecommunications companies, Enron, and Argentina. The economy, of course, had entered its downturn before the completion of the merger agreement. The tragedy of September 11, 2001 had another major impact on the economy in general and the banking community in New York in particular. The effects of the global recession on the investment banking industry were more drastic than expected. Although major corporate collapses did have a big impact, the fact that JPMC had a banking relationship with 90% of Fortune 1000 companies meant that any large downturn would cause significant impact on corporate profitability.

5. Evaluation of the JPMC merger

As discussed previously, media reports and financial analysts have often evaluated the success or failure of mergers based solely upon short-term stock price changes, with these narrow and incomplete measures telling us little about the true success of the merger. I have examined the internal data related to inputs, processes, and results of the merger, along with public data. Providing a thorough review of a company's performance on the determinants of success leads to a richer analysis of success or failure than short-term stock price alone. Although JPMC's stock has lost more than half its value since the merger, the economic downturn is a primary cause, and no merger during this time period could reasonably be expected to have led to a rise in short-term stock price.

Would Chase have been better off waiting to merge with Morgan until later? It is unlikely to have made a difference. The merger was an exchange of stock and it is not clear whose stock would have fallen further. Morgan was hurt by the general collapse of investment banking and Chase was hurt by some significant loan defaults. If the transaction

Integrity	Set the Standard
Clients	Build relationships they value
Excellence	In our people and what we deliver
Leadership	In everything we do
Diversity	Respect for all
Teamwork	Deliver the global network
Quality	Get it right
Initiative	Find a way

Exhibit 3 JP Morgan chase mission and values.

had happened a year later, both stock prices would have been down, but the transaction exchange price might have been the same.

One setback related to the original strategic vision has been in centering the new company around the investment bank, while investment banking is currently in its worst position in decades. Although the downturn in investment banking would seem to be an unpredictable external factor, some analysts believe the change should have been anticipated and considered in developing JPMC's strategic vision.

On the other hand, the universal banking or integrated platform model for JPMC reaped some immediate dividends, as clients, including new unsolicited ones, latched on to the idea of one-stop shopping rather than dealing in different financial instruments with different firms. The complementary aspects of the firms allowed them to increase leadership positions in derivatives and loan syndication. JPMC also has a scale advantage that can be credited both to the strategic fit of the merger and the new company's superior risk management system. The company has a strong capital position and an impressive depth of talent, despite losing more top personnel than desired during the PMI. In short, the strategic vision and fit of the merger have been largely achieved as conceived.

The integration process was also a success in almost every measurable category. Financially, merger expense synergies were exceeded and headcount reductions surpassed targets. The technical side of the integration experienced no major operational problems, no significant delays, and no client-side issues, despite the massive number of applications and operations centers involved. Employee satisfaction was measured at 68% in internal merger polls, and senior management reported a successful merging of cultures and rapid disappearance of "us vs. them" attitudes throughout the company.

The merger between Chase and J.P. Morgan must clearly be evaluated beyond a simple short-term financial analysis. Although there are both positive and negative aspects, the company performed well on the first six determinants of merger success. JPMC's earnings, default rates, and underperforming assets are all consistent with results to be expected in a down economy. In some merger cases, economic and industry conditions should have been foreseen. In others, various events occur that dramatically impact the success of the merger and the company that could not have been anticipated. For JPMC, external factors have created an environment where the company's significant achievements

on the first six keys to merger success are overshadowed by a terrible economic climate.

On balance, the merger appears to have been a stabilizing force for both companies and presents stronger opportunities for future growth than would have been available to the two companies on a separate basis.

6. Evaluating merger success

In this study, I have outlined six determinants of merger success that emphasize the importance of both strategy and process. Thus, our evaluation of merger success must be much broader than a simple change in stock price, which often tells us little about the merger and more about external factors. We must instead ask what the strategies were for the merger, and whether the goals were achieved. At the same time, we must ask whether the strategy and vision were well conceived and whether the merger's conception was superior to possible alternatives. Finally, we must be prepared to disaggregate the economic context from the results of the merger in order to ascertain which changes are truly attributable to the merger. Only then can we be less constrained by the notion of labeling every merger as a complete success or failure, which is characteristic of too many studies in this field. In this article, we cited major problems with the mergers at Federated, DaimlerChrysler, and Halliburton. Yet the degree of failure associated with each of these mergers is highly variable. Federated has been forced to divest its interest in Fingerhut, DaimlerChrysler has abandoned much of its strategic vision, and Halliburton has accrued major losses. Branding each of these deals equally as failures is uninformative and not entirely accurate.

It is not that mergers cannot succeed. However, there are many barriers to merger success. Mergers can create significant value if companies successfully execute the six keys to merger success. Failure in any of the six can impede the achievement of merger goals. JPMorganChase did a very good job regarding the first six keys to success, although many companies do not. Chase was hurt by a series of external factors that have caused current stock price to be devastated. However, that is not a commentary on the success of the merger or the strategy of an integrated platform for both commercial and investment banking. The merger made sense and the execution was excellent. The external factors in the economy have caused the company significant short-term challenges. When a merger succeeds in each of the first six keys and

short-term financial indicators represent its only criticism, one must ask whether it is the merger or the definition of success that is truly flawed.

Evaluating merger success based on short-term changes in stock price is ridiculous. Mergers should not be completed to impact these short-term changes and should not be evaluated on that basis. Successful mergers develop a clear strategic vision that leads to the creation of significantly higher long-term value. Mergers should, then, be evaluated on the same basis. Thus, we look at whether goals have been achieved and whether the new company is better positioned for long-term success. Short-term evaluations based on stock price or other narrow financial measures tell us little about the true value of a merger. Often, merger strategies require years of integration and synergies before the benefits are reflected in earnings and stock price.

Narrow definitions of merger success and failure must be replaced by broad and complete measures that take into consideration company goals and performance, as well as the economic and industry context. Both financial and non-financial measures should be considered. Leading indicators of performance that are predictors of future success must be evaluated in addition to historical results.

Inevitably, some mergers succeed and some fail. Those who automatically reject mergers and acquisitions as important vehicles for growth and profitability are relying on flawed evaluations and definitions of success. In fact, M&A is a perfectly viable business strategy if the blueprint above is followed, the design is well-conceived, and the postmerger integration is executed with strong leadership, communication, and alignment.