ADVANCES IN MERGERS AND ACQUISITIONS

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ADVANCES IN MERGERS AND ACQUISITIONS

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INTRODUCTION

As global business moves out of recession into slow growth in most of the developed and emerging economies, we are seeing an expansion of strategic alliances, mergers and acquisitions. The contributions, in this 16th annual volume of research/theory/practice on M&As, reflect this trend and explore the issues pre-merger/acquisition, strategic decisions, post-merger/acquisition, and ethical issues.

The first chapter highlights one of these trends, when some firms with strategic alliances are moving into acquisitions. As more and more firms during the recession developed synergistic alliances with other businesses as an intermediate strategic option, and found that it worked for them, the movement has been toward solidifying this relationship through acquisition. The next chapter explores one of the often forgotten factors in considering a merger, the management styles of the respective organizations. The author argues that what successful mergers and acquisitions require are "behavioral due diligence" of the leaders in the pre-merger stage of the process, to ensure either compatibility or what needs to be done to ensure success if the styles are fundamentally different. This "people orientation" pre-merger is the focus in the next chapter, where the authors suggest that the new organizations have the right mix of human capital; so the decisions about who to retain or not need to be done to ensure the right human resource mix for the merged organization.

In addition to these issues are those to do with strategic considerations, like strategic investment appraisals, which feature in our fourth chapter. This chapter explores how an organization might appraise an M&A as a strategic investment, highlighting a number of possible approaches and theories. One of these is the "special purpose acquisition company" (SPACs), which are set up to acquire a potential target. This follow on chapter suggests that SPACs, as they are currently configured, do not necessarily produce successful M&As but could be redesigned to do this and ensure more sustainable businesses. And finally in this strategic arena is the notion of "business model relatedness," where both an acquirer and target have relatively common business models, there will be less identity conflicts that could harm post-acquisition performance.

In terms of the post-merger or post-acquisition period, there are important issues to smooth the inevitable potential cultural difficulties. Training during this transition stage is critical to minimize the stress of uncertainty and feelings of alienation, as the subsequent chapter highlights. There is a substantial literature on the perceived effectiveness of training during this transition period and employees level of commitment to the newly merged firm. And finally, the next chapter explores the PMI risk framework for classifying and identifying the potential risks that might inhibit post-merger success. This chapter identifies the relationship breakdowns that can occur in the post-merger integration phase. And finally, the last chapter explores the topic of ethical evaluations of the impact of M&As. This involves a stakeholder framework for evaluating M&A beyond just does it provide financial value: its ethics, governance, and desirability.

Although these chapters were standalone contributions, and not structurally integrated, you can see some themes from pre- to post-merger/acquisition on how we can be more systematic in our approach to M&As rather than a "fly by the seat of our pants" attitude to M&As. A more strategic approach is necessary in considering likely partners, in communicating when implementing, along with training and development; and in the post-merger phase an honest appraisal about 'what's not working' rather than a corporate or PR cover-up. We hope you will find nuggets of useful research and advice to ensure a more successful M&A.

Cary L. Cooper
Sydney Finkelstein
Editors

ALLIANCES TO ACQUISITIONS: A ROAD MAP TO ADVANCE THE FIELD OF STRATEGIC MANAGEMENT

Rimi Zakaria and Ömer F. Genç

ABSTRACT

Although primarily treated as two distinct research streams, strategic alliances and mergers and acquisitions together occupy much of the strategic management discourse. Alliances, in many cases, end in acquisitions as firms use alliances as intermediate strategic options to eventually acquire a partner. As the discipline of strategy matures and the frequency and the volume of inter-firm cooperation continue to rise, it is imperative to integrate these two research streams for a holistic understanding of the theory of the firm. The purpose of this conceptual piece is threefold. First, we review the extant studies that combine these two governance modes: alliance and acquisitions. Second, drawing on the dominant strategic management theories, we highlight how prior inter-firm alliances inform future acquisitions in terms of (a) pre-combination decisions, (b) post-deal integration processes, (c) alternatives and strategies, and (d) performance outcomes. Finally, in view of the emerging trends and evocative gaps, we offer a conceptual road map to encourage future theoretical development and empirical research.

Keywords: Strategic alliances; mergers and acquisitions; behavioral theory; transaction cost economics; resource-based view; real options theory; network theory

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INTRODUCTION

Firms seeking to strategically combine their resources and capabilities with those of other firms often follow two alternative inter-organizational governance structures: strategic alliances (alliances hereafter) and mergers and acquisitions (M&As) (Wang & Zajac, 2007). Until very recently, strategic management literature addressed alliance and acquisition activities as two discrete and parallel streams of research (Reuer & Ariño, 2007). Decades of studies in strategic management indicate a substantial degree of similarities and differences in the antecedents, processes, and outcomes of alliance and acquisition activities. For example, a handful of recent studies (Agarwal, Anand, Bercovitz, & Croson, 2012; Chang & Tsai, 2013; Niyamikeh & Mensa, 2013; Ragozzino & Moschieri, 2014; Zaheer, Hernandez, & Banerjee, 2010; Zakaria, 2013) illustrated that these two corporate development activities show a substantial degree of overlap. Overall, these studies reveal that these parallel forms of inter-organizational activities point toward inconclusive empirical evidence for theory building.

We believe that the symbiosis in alliances and acquisitions is pivotal to explaining inter-firm competition, organizational growth, profitability, and survival. As strategic management grows as a discipline, it is important to integrate theories, parallel streams of research, and management practices for a holistic understanding of the firm (Dess, Gupta, Hennart, & Hill, 1995; Mahoney & Sanchez, 2004). This chapter takes an integrative approach to examining the interdependencies within the governance modes of alliances and acquisitions. Despite the rise in the number of recent articles focusing on alliances and acquisitions, there have been very limited efforts to combine these two governance mechanisms. While some studies document a positive impact of prior alliance experience for future acquisitions, Anand, Mulotte, and Ren (2016) demonstrate that the alliance experience itself does not have a significant effect on alliance or acquisition success after accounting for experience endogeneity. They argue that firms choose to repeat activities that are effective and will likely yield positive results. According to this argument, the success in these activities does not come from the experience of learning, instead it is a result of having necessary capabilities for those activities.

Building on the theoretical developments and empirical analyses synthesizing these two inter-firm governance mechanisms, we propose that this emerging stream of research (e.g., Agarwal et al., 2012; Anand et al., 2016; Zaheer et al., 2010; Zakaria, 2013) has the potential to move the field of strategy forward by contributing to a variety of dominant theories. The rest of this paper is organized as follows. First, we present a literature review of the extant academic studies integrating alliances and acquisitions. Second, drawing on various prevailing theories within the field of strategic management, we develop a conceptual framework highlighting the inter-firm mechanisms of alliances that inform the acquisition processes and outcomes. Third, we offer key insights on how this important yet underdeveloped area is ripe with opportunities for future theoretical development and empirical testing.

COMPARING ALLIANCES AND ACQUISITIONS

Alliances and acquisitions are two inter-firm governance mechanisms that have been studied extensively and separately in strategic management literature. Alliances are formed by two or more independent firms willing to collaborate on projects by sharing capabilities and resources (Dussauge & Garrette, 1997; Dussauge, Garrette, & Mitchell, 2000). In acquisitions, on the contrary, a firm (acquirer) fully or partially purchases equity in another firm (target), which allows them a greater degree of control. Despite their similarities, the antecedents, processes, and outcomes of these two mechanisms have been studied extensively as two discrete or parallel research streams (Reuer & Ariño, 2007). They have been frequently compared as alternatives for entry modes (e.g., Anderson & Gatignon, 1986; Hennart & Reddy, 1997). The choice between alliances and acquisitions in foreign markets is influenced by knowledge-intensity (Ranft & Marsh, 2008), speed of entering markets (Shimizu, Hitt, Vaidyanath, & Pisano, 2004), competitor moves (Moatti, 2009), industry characteristics (Xiaoli & Shanley, 2008), location of partner/target (McCann, Reuer, & Lahiri, 2016), availability of financial resources (Lungeanu, Stern, & Zajac, 2016), and institutional differences between home and host countries (Ang, Benischke, & Doh, 2015).

Despite being two alternate governance structures, alliances and acquisitions have many similarities in terms of antecedents, partner/target selection process, success factors, post-deal organization, and coordination (Wang & Zajac, 2007; Zeira & Newburry, 1999). The same units in the firm that create know-how and experience regarding various governance structures commonly manage both alliances and acquisitions. Because the main motivation for both alliances and acquisitions is synergy creation, there is a similar search and evaluation process for selecting partners and targets (Zollo & Reuer, 2010). Successful recombination, complementarity of resources of target/partner (Kim & Finkelstein, 2009; King, Slotegraaf, & Kesner, 2008), and organizational fit (Datta, 1991) are important factors when selecting partners for alliances and targets for acquisitions. Experience gained from collaborating with both partners and targets helps firms develop relational capabilities (Dyer & Singh, 1998; Gulati & Sytch, 2007, 2008; Kale, Dyer, & Singh, 2002; Lorenzoni & Lipparini, 1999). These capabilities are found to increase the likelihood of success in subsequent alliances (Anand & Khanna, 2000) and acquisitions (Chang & Tsai, 2013).