

ADVANCES IN MERGERS AND ACQUISITIONS

ADVANCES IN MERGERS AND ACQUISITIONS

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ADVANCES IN MERGERS AND ACQUISITIONS

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INTRODUCTION

Sydney Finkelstein and Cary L. Cooper

The global economy continues to be buffeted by uncertainty, change, and trauma. The era of Covid has shifted from a pandemic to the endemic stage – or so we hope, while geopolitical forces seem to emerge regularly to disrupt business and management. The Russian invasion of Ukraine in 2022 is now at the top of the list. Throughout all this leaders need to lead, and the demand for business growth, restructuring, and even re-configuring what a company needs to be to survive and thrive is a constant. Given the central role of mergers and acquisitions to meet these challenges, the *Advances* series continues to generate interesting perspectives from scholars around the world.

In this volume, we share seven chapters, each reflecting a particular perspective on M&As, but as a group once again highlighting how diverse the research topics, questions, and answers can be. The first chapter in this volume, by Stefan Breet and Lotte Glaser, focuses on a key catalyst to merger integration – the role of boundary spanning people with social connections across both acquirer and target firms. These people are lynchpins, but there is a dark side to what these authors call “cross-legacy boundary-spanning,” leading them to propose a multi-dimensional model to explain how cross-legacy boundary-spanners can avoid the pitfalls and promote the perks of their position in support of successful post-merger integration.

In a somewhat similar conceptual vein, Elio Shijaku and David R. King argue in Chapter 2 that not all resources are created equally, and, even more intriguingly, so-called “inimical resources” in acquisitions may actually be a weakness rather than a strength. The net result is that these authors open the door to deeper thinking on the dark side of resources that are typically viewed only positively. Each of these first two chapters flips the script on how we usually think about something, and that’s interesting.

While acquisition research has often focused on either the acquirer or the target side of analysis, recent work has increasingly emphasized the need for understanding the dyadic interrelationship between the target and the acquirer. What this means for research on M&As is the subject of Di Bian’s chapter. Of special interest here is Di’s attention to attributes, connections, and interactions between buyer and seller, a conceptual structure that brings considerable upside when investigating dyadic relationships.

A new era of M&A is emerging, characterized by a new wave of strategic investment decision-making practices. In Chapter 4, Fadi Alkaraan argues that it is critical for companies to prioritize their strategies and identify areas that present the greatest risk on environmental and social issues, including human rights, labor, and ethical issues in the companies’ supply chains.

Advisors – investment banks in particular – play a key role in mergers and acquisitions. We have two chapters in this volume that investigate how advisors fit into the M&A puzzle. In the first of these chapters, drawing on insights from the literature on institutional distance, Tao Han and Addis Gedefaw Birhanu, argue and find that in cross-border acquisitions acquiring and targeting firms may alleviate heightened information asymmetries and transaction costs by leveraging the information-production and uncertainty-reduction roles of external M&A advisors.

In light of this finding, it is surprising that external M&A advisors are not always hired in a deal. Why not? One reason may be the experience level of the acquiring company with past M&As. Mazhar Islam, Carmen Weigelt, and Haemin Dennis Park examine this possibility in a sample of US-based acquisitions over 24 years. Their findings are mostly supportive, providing a nice bookend to the two chapters on the role of external M&A advisors in mergers and acquisitions.

The final chapter in this volume is unusual, in that it focuses on CEO power and its effects on M&A success. For many, this is not the first thing one thinks of when considering what makes M&A deals work, or not. But in Chapter 7, Xiaoying Wang explains just why such a perspective is so interesting and backs it up with a meta-analysis that confirms how several key aspects of CEO power influence M&A performance.

Seven chapters – seven sets of authors – seven interesting research questions – and seven sets of findings that will help clarify some of these questions at the same time as inspiring others to go deeper. Mergers and acquisitions are only becoming more important for business growth and survival, which makes it exciting to bring you this set of chapters from diverse scholars tackling diverse questions of relevance.

CHAPTER 1

UNDERSTANDING THE PERKS AND PITFALLS OF CROSS-LEGACY BOUNDARY SPANNING

Stefan Breet and Lotte Glaser

ABSTRACT

Scholars typically view cross-legacy boundary spanners – employees who develop and maintain social relationships with coworkers from both legacy organizations – as the key integrators in mergers and acquisitions (M&As). Organizations even formally appoint employees with cross-legacy responsibilities to support the post-merger integration process. Recent research has started to emphasize, however, how difficult it can be to reap the benefits of a boundary-spanning position. Building and maintaining formal or informal boundary-spanning ties is costly because it requires time, attention, and political savviness. To better understand the perks and pitfalls of cross-legacy boundary-spanning, the authors identify and describe its structural and sociocultural dimensions and explain how they influence cross-legacy boundary-spanning in M&A contexts. The authors argue that the two dimensions can be seen as boundary conditions to the positive relationship between cross-legacy boundary spanning and post-merger integration. This chapter highlights the potential dark side of cross-legacy boundary-spanning and proposes a multidimensional model to explain how cross-legacy boundary spanners can avoid the pitfalls and promote the perks of their position in support of successful post-merger integration.

Keywords: Mergers and acquisitions; boundary spanning; post-merger integration; social networks; organizational identification; political skill

INTRODUCTION

Mergers and acquisitions (M&As) provide organizations with the opportunity to grow their market share, achieve economies of scale or scope, and leverage new technologies and capabilities (Graebner, Heimeriks, Huy, & Vaara, 2017). M&As are especially attractive when synergies are created: a situation in which the value of the new and combined organization exceeds the total value of the two separate organizations (Brueller, Carmeli, & Markman, 2018; Charkavarthy & Lorange, 2007; Graebner, 2004; Larsson & Finkelstein, 1999). Synergies typically emerge when M&As enable organizations to leverage existing capabilities and resources or acquire new ones (Capron & Mitchell, 2009; Kaul & Wu, 2016). Despite their potential, however, M&As often fail to realize their synergetic value (Cartwright & Cooper, 1995; Grotenhuis, 2009; Thanos & Papadakis, 2012). Research shows that the success of a merger stands or falls with both the strategic integration of capabilities and resources, and the sociocultural integration of employees from different organizational cultures (Graebner et al., 2017). As post-merger integration is often complex, ambiguous and difficult to manage, its success depends on the employee's ability to span the legacy boundaries and pursue valuable opportunities to integrate and unite the two organizations (Brueller et al., 2018; Graebner et al., 2017; Halebian, Devers, McNamara, Carpenter, & Davison, 2009; Vaara, 2003).

Recognizing the importance of structural and sociocultural integration, organizations going through M&As often appoint employees with cross-organizational responsibilities to stimulate knowledge transfer and mutual understanding (Drori, Wrzesniewski, & Ellis, 2013; Graebner, 2004; Teerikangas, Véry, & Pisano, 2011). Research on post-merger network reconfiguration also shows that employees will slowly but steadily informally reach out to coworkers from the other legacy organization for information, advice, and support (Allatta & Singh, 2011; Mirc & Parker, 2020). Cross-legacy boundary spanners are those employees who develop and maintain formal and informal relationships with new colleagues from the counterpart legacy organization (Allatta & Singh, 2011; Briscoe & Tsai, 2011). According to the social network literature, employees who span boundaries benefit from timely access to heterogeneous knowledge and information as well as social influence to initiate strategic change (Burt, 1992, 2004). Indeed, studies suggest that cross-legacy relationships contribute to M&A success. Boundary spanners are instrumental in linking multiple sources of knowledge and capabilities, developing the new organizational identity, and achieving post-merger synergies (Drori et al., 2013; Graebner, 2004; Teerikangas et al., 2011).

While most of the boundary-spanning literature has emphasized the positive outcomes of such positions, recent research has started to highlight the idea that building and maintaining formal or informal social relationships requires time, attention, and political savviness (Dahlander, O'Mahony, & Gann, 2016; Kaplan, Milde, & Cowan, 2017; Mors, Rogan, & Lynch, 2018). Moreover, the integration of knowledge across different domains can be cognitively taxing (Carlile, 2004; Leahey, Beckman, & Stanko, 2017) and diverging expectations from both sides of the boundary can trigger role conflict (Friedman & Podolny,

1992; Marrone, Tesluk, & Carson, 2007). As boundary-spanning is time-consuming and requires considerable effort, especially with new members of an organization, the inability to exploit its advantages is an important consideration yet remains understudied in the M&A literature. For instance, boundary spanners experiencing role conflict and stress tend to hurt rather than help cross-boundary integration (Gargiulo & Benassi, 2000). The role of cross-legacy boundary spanners in an M&A context can, therefore, be beneficial or harmful depending on their ability to balance the costs and benefits of their position. If the cross-legacy boundary spanners actively resist organizational change, the success of the post-merger integration might be at stake.

To understand the perks and pitfalls of cross-legacy boundary spanning in M&A contexts, this chapter explores its structural and sociocultural dimensions. We argue that cross-legacy boundary spanners unfold their full potential for post-merger integration in combination with other structural and social-cultural dimensions. We define the *structural dimension* of cross-legacy boundary spanning as the pattern of relationships between the boundary spanners and their coworkers. This dimension consists of the number of cross-legacy boundary-spanning ties (Mors et al., 2018), also referred to as the within legacy connectedness of the boundary spanner (Dahlander et al., 2016; Tortoriello, 2015). We propose that the number of cross-legacy ties can have a positive influence on the cross-boundary spanner, despite the downside of it taking time to develop. Connectedness, defined as an “informal coordination mechanism” (Jansen, Van Den Bosch, & Volberda, 2006), refers to the cross-legacy boundary spanner’s ease of coordinating and communicating. We propose that within-legacy connectedness may promote conformity (Fleming, Mingo, & Chen, 2007) and will encourage knowledge exchange, thereby influencing the ability of a boundary spanner to achieve a successful post-merger integration.

Second, we define the *sociocultural dimension* of cross-legacy boundary spanning as the ability to understand and navigate cross-legacy social interaction. Key facets of this dimension are the boundary spanners’ political skill (Grosser et al., 2018) and their identification with the new organization (Van Knippenberg, van Knippenberg, Monden, & de Lima, 2002). More specifically, we propose that political skill determines the degree to which cross-legacy boundary spanners can overcome the pitfalls of their network position and that politically skilled boundary spanners benefit from three advantages: the ability to effectively deal with different knowledge bases, gather support for initiatives and manage role conflict. Furthermore, we propose that organizational identification with the new organization typically leads to approval and support of the M&A (Giessner et al., 2011; Ullrich et al., 2005; Van Knippenberg et al., 2002), while disidentification sparks opposition and criticism (Elsbach & Bhattacharya, 2001; Kreiner & Ashforth, 2004). These studies show the importance of including organizational identification, as this will influence the trade-offs made by the boundary spanners. Fig. 1 illustrates the framework we propose.

By demonstrating and identifying both structural and sociocultural dimensions of cross-legacy boundary spanning in M&A settings, we make three main contributions. First, we advance the literature on post-merger integration by

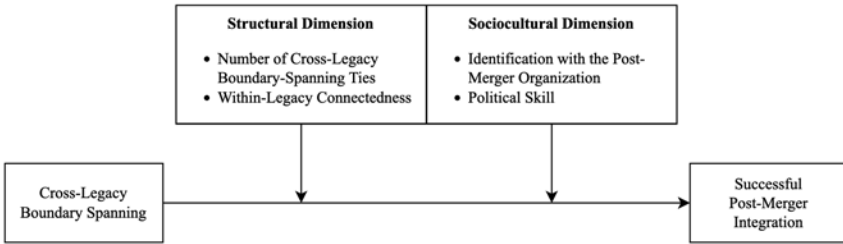


Fig. 1. Structural and Sociocultural Factors Influencing the Relationship between Cross-legacy Boundary-spanning and Successful Post-merger Integration.

showing that cross-legacy boundary spanning can be a burden in disguise. The M&A literature typically assumes that boundary spanners are beneficial, but our study shows that they can also reduce the extent to which other employees take initiative and support the post-merger integration process. Second, we contribute to the social network literature as well as to the organizational identification literature by identifying the direct and indirect social ties of employees as an important boundary condition that influences whether the “dark” or “light” side of organizational identification will be triggered. Finally, we advance social network theory by confirming Nahapiet and Ghoshal’s (1998) claim that the relational and cognitive dimensions of social capital are as important as the structural dimension. We highlight the importance that post-merger the reconfiguration of the social network changes and how several dimensions play a key role in influencing boundary spanners’ behavior.

**THE PERKS AND PITFALLS OF CROSS-LEGACY
BOUNDARY SPANNING**

A boundary is a physical, social, or cognitive distinction between groups – for example, between teams, business units, or organizations – that demarcates their identities (Hernes, 2004). Boundary spanners are employees who develop and maintain social relationships with people from two or more groups (Aldrich & Herker, 1977; Tushman, 1977; Tushman & Scanlan, 1981). Their position has two functions: a *bridging* and a *buffering* function (Aldrich & Herker, 1977; Meznar & Nigh, 1995). The bridging or information processing function entails the transfer of knowledge and information between groups. The buffering or external representation function entails making sure that the internal processes of the group are not disrupted and to influence in a positive way the group’s external environment. A well-established line of management research shows that the role of boundary-spanners influences key organizational outcomes such as knowledge exploration (Mors et al., 2018), knowledge replication (Kim & Anand, 2018), innovation performance (Dahlander et al., 2016; Ter Wal, Criscuolo, & Salter, 2017), research productivity (Kaplan et al., 2017; Leahey et al., 2017), and strategic renewal (Glaser, Fourné, & Elfring, 2015).

The boundary between two merging legacy organizations plays a central role in the post-merger integration process (Drori et al., 2013). Cross-legacy boundary spanners are employees who develop and maintain relationships with new colleagues from the counterpart legacy organization (Allatta & Singh, 2011; Briscoe & Tsai, 2011). Whether an employee develops cross-legacy ties depends on two factors. Some employees will become cross-legacy boundary spanners because they are formally required to work with new coworkers. For example, they become a member of the merger integration team (Teerikangas et al., 2011) or take on cross-legacy responsibilities (Graebner, 2004). Other employees will become cross-legacy boundary spanners because they informally reach out to new coworkers for information, advice, or support (Mirc & Parker, 2020). These ties tend to develop slowly because people are inclined to contract their social networks when uncertainty is high (McDonald & Westphal, 2003; Parker, Halgin, & Borgatti, 2016) and favor semiformal over informal ties (Srivastava, 2015). Consequently, existing knowledge exchange patterns change very slowly during the post-merger integration phase (Allatta & Singh, 2011).

Despite the central role of the cross-legacy boundary in the post-merger integration process, surprisingly little is known about the conditions under which cross-legacy boundary spanners contribute to post-merger success. The broader boundary-spanning literature suggests that boundary spanners can help or hurt the post-merger integration process. Cross-legacy boundary spanners are a source of post-merger knowledge creation because they uniquely and directly tap into the knowledge and expertise of both legacy organizations (Aldrich & Herker, 1977; Burt, 1992). Boundary spanners are responsible for the translation and transfer of knowledge from one domain to the other (Roberts & Beamish, 2017; Schotter, Mudambi, Doz, & Gaur, 2017). Stressing the importance of boundary spanners, Graebner (2004) found that acquisitions are more likely to create serendipitous value if employees have responsibilities in both legacy organizations. When the object of an M&A is to leverage socially complex knowledge and stimulate interorganizational learning, boundary spanners serve as the links that bind both legacy organizations together (Charkavarthy & Lorange, 2007).

Studies also show that the costs of building and maintaining boundary-spanning ties can easily outweigh their benefits (Kaplan et al., 2017; Leahey et al., 2017; Mors et al., 2018). Before boundary spanners can effectively transfer knowledge from one domain to the other, they have to spend time and effort learning how they can do so in meaningful ways (Mors et al., 2018). They have to master the different vocabularies that are used by both groups and make sure that they understand their cultural and political differences (Leahey et al., 2017). As a consequence, boundary spanning is a taxing activity that directly competes with other activities for time and attention (Choi, 2002). For example, a study by Marrone and colleagues (2007) shows that boundary-spanning behavior is positively associated with role overload: a situation in which the individual has too many activities to attend to in a given timeframe. Given that sociocultural differences serve as key obstacles to post-merger knowledge sharing and integration (Graebner et al., 2017; Sarala, Junni, Cooper, & Tarba, 2016), the benefits of a cross-legacy boundary-spanning position are not easily attained.

PROMOTING THE PERKS AND AVOIDING THE PITFALLS OF CROSS-LEGACY BOUNDARY SPANNING

To understand how cross-legacy boundary spanners can leverage the perks and avoid the pitfalls of their position in the new organization, we make a distinction between the structural and the sociocultural dimensions of boundary spanning. We define the structural dimension of boundary spanning as the pattern of relationships between the cross-legacy boundary spanners and their coworkers. Key facets of this dimension are the number of boundary-spanning ties (Mors et al., 2018) and within-legacy connectedness (Dahlander et al., 2016; Tortoriello, 2015). We define the sociocultural dimension of boundary spanning as the ability to understand, navigate, and leverage cross-legacy social interactions. Key facets of this dimension are the boundary spanner's identification with the new organization (Van Knippenberg et al., 2002) and political skill (Grosser et al., 2018). Both dimensions influence the extent to which cross-legacy boundary spanners can use their position to support post-merger integration.

Number of Cross-legacy Boundary-Spanning Ties

The first facet of the structural dimension of cross-legacy boundary spanning is the number of cross-legacy boundary-spanning ties. According to social network theory, social relationships are the primary conduits through which knowledge and information flow (Burt, 1992; Phelps, Heidl, & Wadhwa, 2012). Together, they form a network of social relationships influencing the extent to which employees are able to access, translate, transfer, and employ the knowledge and expertise of others (Phelps et al., 2012). Employees who develop and maintain larger workplace social networks are, therefore, more likely to tap into different pools of knowledge and information (Reagans & McEvily, 2003; Tortoriello, Reagans, & McEvily, 2012). Prior research shows that employees with access to different knowledge domains are better able to take solutions developed in one domain and use them to solve problems in the other (Dahlander et al., 2016; Singh & Fleming, 2010). Cross-legacy boundary spanners with many ties to coworkers from the other legacy organization are, therefore, more likely to encounter knowledge and information that can lead to post-merger synergies. Moreover, other employees also recognize the knowledge advantage of cross-legacy boundary spanners: they tend to value information from external sources more than information from internal sources (Menon & Pfeffer, 2003).

Even though more boundary-spanning ties increase the access to the knowledge and expertise of the other legacy organization, cross-legacy boundary spanners should be mindful of their potential drawbacks. Developing a social network involves three types of costs (Shipilov, Labianca, Kalnysh, & Kalnysh, 2014): Employees incur initiation costs when they search for new connections (Bala & Goyal, 2000), maintenance costs when they spent time and effort to maintain their connections (Bala & Goyal, 2000; Burt, 1992), and opportunity costs because time and effort spent on networking behavior cannot be used for other potentially valuable activities (Burt, 1992; Gargiulo & Benassi, 2000). This idea is echoed by the boundary-spanning literature, which shows that the cultivation

of a broad external search network takes attention away from other activities within the organization (Dahlander et al., 2016). A larger number of cross-legacy boundary-spanning ties might also increase the negative consequences of role conflict because the cross-legacy boundary spanner is not only exposed to more knowledge and information but also a broader range of behavioral expectations and opinions. The more employees perceive inconsistent behavioral expectations, the more likely it is that they experience role conflict (Biddle, 1986). Employees with more boundary-spanning ties need to engage in more boundary-spanning behavior, which increases role overload (Marrone et al., 2007).

Within-legacy Connectedness

The second facet of the structural dimension of cross-legacy boundary spanning is within-legacy connectedness. The literature on boundary spanning that employs a social network lens suggests that its effectiveness is influenced by the internal connectedness of the boundary spanner. Internal connectedness is the pattern of social connections between the cross-legacy boundary spanners and their coworkers from the same legacy organization. It influences the ease of interaction and coordination with the group, as well as the opportunities to share and access knowledge (Adler & Kwon, 2002; Rowley, Behrens, & Krackhardt, 2000). Internal connectedness is important because employees who search for external knowledge and subsequently hand it over to their coworkers without processing it themselves are likely to gather knowledge and information that does not add value to the organization (Dahlander et al., 2016). Highlighting the importance of internal connectedness, Tortoriello (2015) shows that external knowledge has a stronger positive effect on innovation when the boundary spanner spans structural holes (i.e., connects otherwise unconnected others (Burt, 1992)) in the internal network. This finding is corroborated by Mors, Rogan, and Lynch (2018), who show that the positive effects of external boundary-spanning ties are stronger when the boundary spanner has more internal boundary-spanning ties.

A risk of high levels of internal connectedness, however, is that it can promote conformity and prevent change (Fleming et al., 2007). Strong interconnectedness creates a platform for discussion and provides a base for mutual understanding (St. John & Rue, 1991). Employees who are highly internally connected in their legacy organizations adopt shared norms and perspectives, and create a shared language that facilitates knowledge exchange among organizational members (Hansen, 2002). In this sense, high internal connectedness may offset the knowledge advantages of the cross-legacy boundary spanners. When objectives and routines are clearly understood and accepted by everyone in the organization, deviation may be frowned upon, and particularly ideas originating beyond organizational boundaries will be less likely to be pursued (Nahapiet & Ghoshal, 1998). This can be compared to the “not-invented-here” syndrome (Katz & Allen, 1982), which discourages cross-legacy boundary spanning to enhance knowledge and information from the other legacy company. Prior research has shown that employees of the same legacy organization with ample informal connections tend to embrace more rigid role expectations (Cattani & Ferriani, 2008).

Identification with the Post-Merger Organization

The first facet of the sociocultural dimension of cross-legacy boundary spanning is organizational identification. Social identity theory and self-categorization theory both state that group membership forms a part of people's self-concept (Tajfel, 1974; Turner, 1982). The stronger they identify themselves as members of a particular group, the more their self-concept is intertwined with the group's identity. People who strongly identify with their group will perceive the differences between group members and outsiders as larger than the differences between group members (Ellemers & Haslam, 2012; Turner, 1982). Organizational identification is someone's perception of oneness with – or belongingness to – an organization (Ashforth & Mael, 1989). It has received ample attention in the M&A literature because the feelings of discontinuity and ambiguity caused by M&As influence employees' post-merger organizational identification (Clark, Gioia, Ketchen, & Thomas, 2010; Elstak, Bhatt, Van Riel, Pratt, & Berens, 2015; Giessner, Horton, & Humborstad, 2016; Sung, 2017; Van Knippenberg et al., 2002). In general, the literature contends that a stronger identification with the post-merger organization has a positive effect on post-merger success (Graebner et al., 2017). It is positively associated with post-merger job performance (Ullrich, Wieseke, Christ, Schulze, & van Dick, 2007), job satisfaction (Terry & O'Brien, 2001), and the intention to keep working for the organization (Sung et al., 2017).

The identification of cross-legacy boundary spanners with the new organization is likely to influence the extent to which they use their position in the best interest of the new organization. The more employees identify themselves with their organizations, the more their behavior tends to be congruent with the organizational aspect of their identity (Ashforth & Mael, 1989; Dutton, Dukerich, & Harquail, 1994). Strong identifiers also believe that behavior that benefits the organizations benefits themselves (Dukerich, Golden, & Shortell, 2002). It is easier to generate creative ideas from boundary-spanning ties when the boundary spanner identifies with an overarching group (Dokko, Kane, & Tortoriello, 2014). Cross-legacy boundary spanners with a strong organizational identification are, therefore, motivated to use their access to the knowledge and expertise of both legacy organizations in service of the post-merger organization. Moreover, when the identification of cross-legacy boundary spanners with the new organization is strong, they will perceive the sociocultural differences between the merging firms as smaller than the differences between the new organization and other firms. They see the new organization as one unified entity and think of their new coworkers as "us" instead of "them." A shared identification positively affects the motivation to exchange knowledge and information (Nahapiet & Ghoshal, 1998).

The literature on organizational identification, however, also suggests that it tends to have negative consequences when it becomes too strong. Strong identifiers are eager to view their organizations in a positive light and want to maintain a positive social identity (Ellemers & Haslam, 2012; Tajfel, 1974). They are less receptive to criticism and disapproval, which can cause complacency,