



Tel Aviv University  
Business School

The Eli Hurvitz  
Institute of Strategic  
Management

# Micro and Macro Acquisition Dynamics

14 December 2014

**David R. King**



**IOWA STATE UNIVERSITY**

COLLEGE OF BUSINESS

# Overview

- Interest in M&A
- Micro Dynamics
- Macro Dynamics
- Summary



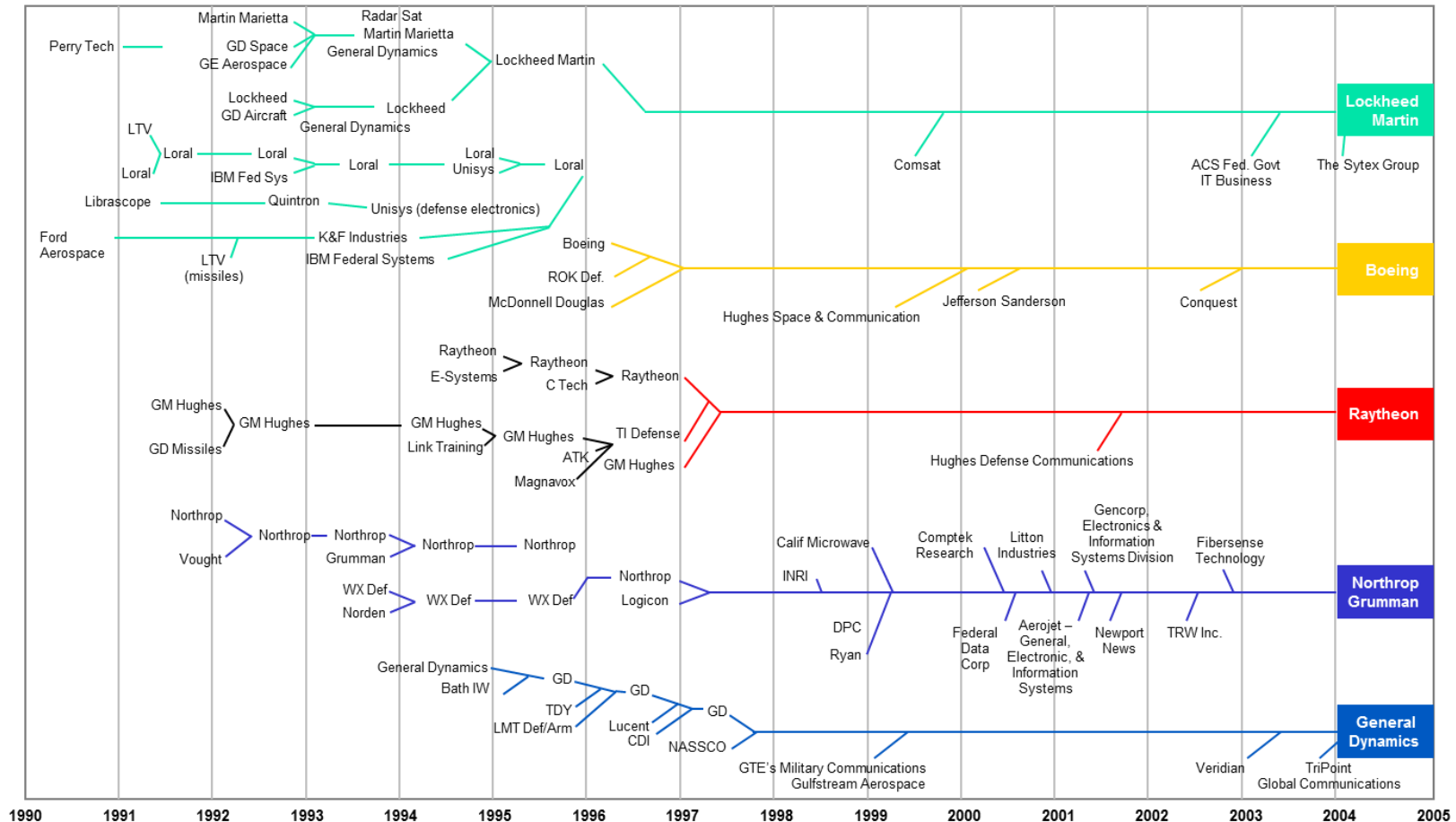
# Managerial Experience

## U.S. Air Force

- Procured aircraft
- Worked in functional teams and line/staff organizations
- Interfaced with defense contractors



# U.S. Defense Consolidation



# M&A Mystery

## Literature

- M&A studied since Dewing (1921)
- Meta-analysis suggest (King, et al., 2004):
  - Average return of acquiring firms approximately zero
  - Most commonly studied variables are not significant
  - Significant unexplained variance exists

## Relevance

- In 2012, value of U.S. M&A exceeded \$1.2 trillion
  - U.S. Gross Domestic Product was \$15.1 trillion (BEA, 2012)
    - M&A ~8% GDP
  - U.S. R&D investment \$405.3 billion (Battelle, 2012)
    - R&D ~2.6% GDP
- In 2014, the value of M&A activity:
  - \$1.5+ trillion for U.S.
  - \$3.1+ trillion world-wide

**M&A activity remains largely unexplained**

# Overview

- Interest in M&A
- **Micro Dynamics**
- Macro Dynamics
- Summary



# Micro Dynamics

- M&A research largely looks at either pre-acquisition or post-acquisition characteristics of involved firms
  - **Pre-acquisition**
    - Experience
    - Fit (Relatedness)
  - **Post-acquisition**
    - Resource interaction
    - Integration (Human and Task)
- Need to combine Pre- & Post-acquisition perspectives

**Individuals and their interaction matter**



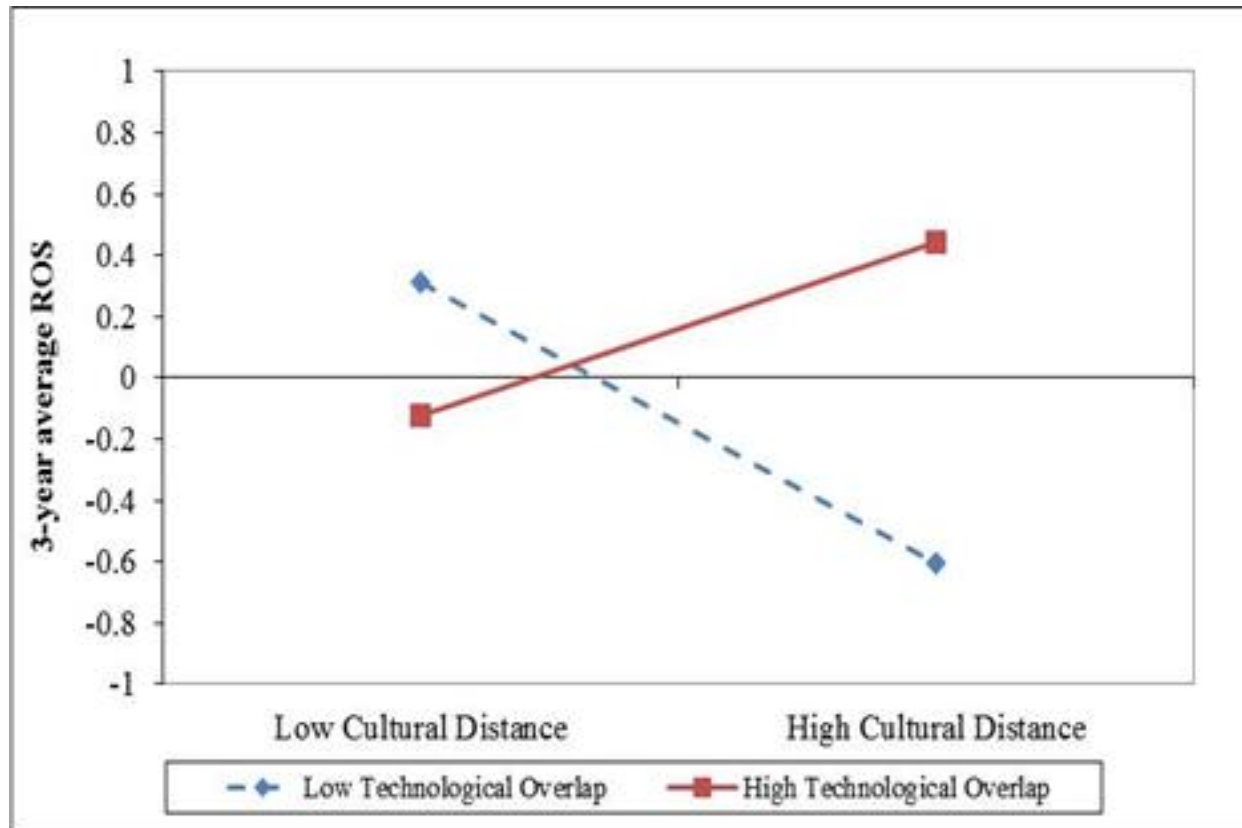
# Pre-Acquisition

- Experience, necessary but not sufficient...
  - Codification into routines (Barkema & Schijven, 2008)
  - Experience needs to apply, such as similar industry or country (Ellis, Reus, Lamont & Ranft, 2011)
- Fit matters, but how to assess...
  - Industry: Imprecise measure
  - Culture:
    - Match shapes ability to integrate and share resources (Brock, 2005)
    - National culture differences compound difficulty (Gomes, Angwin, Weber & Tarba, 2013)
  - Other characteristics?
    - Technology similarity
    - Learning orientation



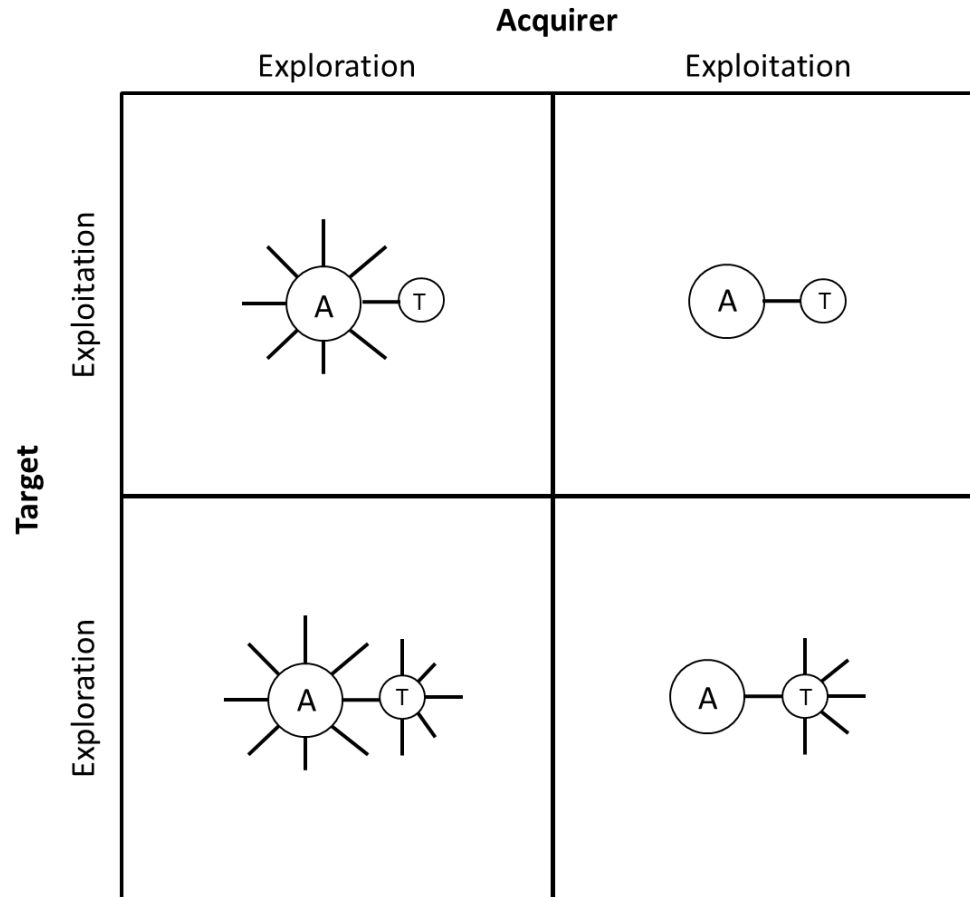


# Fit: Cross-border Interactions

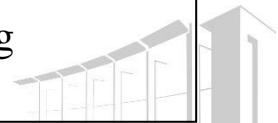


Pankaj, P., King D. *Working paper*. Performance in cross-border, high-technology acquisitions.

# Fit: Learning Orientation



King D., Schriber, S., Bauer, F., Amiri, S. *Working paper*. Acquisitions as a path to enduring entrepreneurship.



# Post-acquisition

- Target firm managers needed to:
  - Realize serendipitous value (Graebner, 2004)
  - Reduce uncertainty (Ellis, Weber, Raveh & Tarba, 2012)
- Different integration decisions (Birkinshaw, Bresman & Håkanson, 2000)
  - Human: Common identity and culture
  - Task: Resource transfer and efficiencies
- Resource interaction (King, Slotegraff & Kesner, 2008)
- Complexity of integration trade-offs (Meglio, King & Risberg, *forthcoming*)



# Resource Interaction

Two (2) types (King, Slotegraaf & Kesner, 2008):

- Substitute: Negative reinforcement between given resources

Target firm R&D substitutes for Acquirer R&D

- Complement: Positive reinforcement between given resources

Acquirer marketing complements Target R&D

**Value differs for different Acquirer/Target combinations**



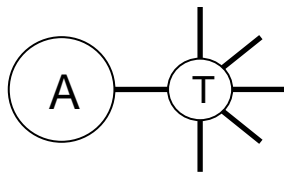
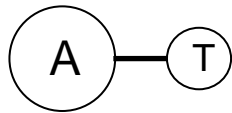
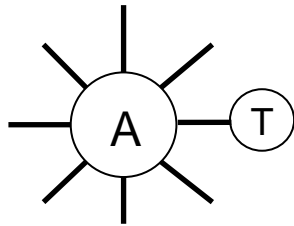
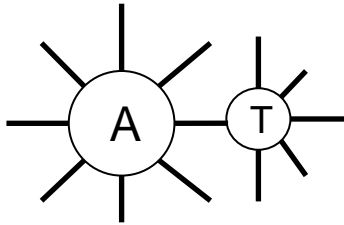
# Integration complexity

Integration mechanism involve trade-offs (Meglio, King & Risberg, *forthcoming*)

- Restructuring: Eliminate redundancies and standardize processes
  - Task integration: Positive impact
  - Human integration: Negative impact
- Socialization: Acculturation to create a common identity
  - Task integration: Mixed impact
  - Human integration: Positive impact
- Transition teams: Members of both organizations working to leverage integration efforts
  - Task integration: Positive impact
  - Human integration: Positive impact



# Pre- & Post-Acquisition



Logic	Pre-acquisition	Post-acquisition
Move acquirer in a new direction	Greater success from portfolio of acquisitions that acquire leading firms	Joint task and human integration that proceeds slowly
Fill a void in either an acquirer or target firm capabilities	Greater success with geographically proximate targets. May be used to block rival access to resources	Two-stage task integration. Human integration: <ul style="list-style-type: none"> <li>• Quick when transfer to an acquirer</li> <li>• Minimal, when transferring knowledge to a target</li> </ul>
Refine capabilities of both acquirer and target	Occur early in acquisition wave and better results for acquirers with a positive reputation	Joint task and human integration that proceeds quickly
Leverage acquirer capabilities in developing a new market or technology	Greater success with friendly acquisition of smaller target firm	Two-stage task integration with human integration that proceeds slowly

# Overview

- Interest in M&A
- Micro Dynamics
- **Macro Dynamics**
- Summary



# Macro Dynamics

- Most M&A research focuses on Acquirer and Target at the expense of other stakeholders (King, 2013)
  - Customers
  - Suppliers
  - Regulators
  - Competitors
- Public acquisitions involve disclosure of price and expected synergies to justify premium paid
  - Integration to achieve synergy is long and complicated

**Competitors are unlikely to remain passive observers**





# Competitive Dynamics

Predicting competitive response (Chen & Miller, 1994):

- Awareness: Visibility of acquisition
  - Media coverage
- Motivation: Greater competitive impact (threat)
  - Industry concentration
- Capability: Ability to influence outcome
  - Vulnerability of acquirer

Schriber, S., King, D. 2014. Competitive dynamics: An explanation for parity in acquisition performance, Strategic Management Society (SMS), 20-23 September, Madrid, Spain.

# Summary

- M&A research is fragmented:
  - Low overlap in examined measures
  - Inconsistent measures of performance
- Research shortcomings:
  - Often only considers part of a complex processes
  - Examines “what is measureable” vs. “what is important”



# Summary

- M&A research needs...
  - Better theory:
    - Consider different acquisition “types” (Brueller, Carmeli & Drori, 2014)
    - Combine Pre- & Post-acquisition (Bauer & Matzler, 2014)
    - Competitive dynamics (Schriber & King, 2014)
  - Improved methods:
    - Recognize “core” variables (Hitt et al., 2009)
    - Multiple measures of performance (Cording, Christmann & Weigelt, 2010)
    - Mixed methods (Cording, Christmann & King, 2008)



# Questions?



# References

- Barkema, H., Schijven, M. 2008. Toward unlocking the full potential of acquisitions: the role of organizational restructuring, *Academy of Management Journal*, 51: 696-722.
- Bauer, F., Matzler, K. 2014. Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree of speed of integration, *Strategic Management Journal*, 35: 269-291.
- Birkinshaw, J., Bresman, H., Hakanson, L. 2000. Managing the post-acquisition integration process: how the human integration and task integration processes interact to foster value creation, *Journal of Management Studies*, 37: 395-425.
- Brock, D. 2005. Multinational acquisition integration: The role of national culture in creating synergies, *International Business Review*, 14: 269-288.
- Brueller, N., Carmeli, A., Drori, I. 2014. How do different types of mergers and acquisitions facilitate strategic agility? *California Management Review*, 56(3): 39-57.
- Chen, M., Miller, D. 1994. Competitive attack, retaliation and performance: An expectancy-valence framework, *Strategic Management Journal*, 15: 85-102.
- Cording, M., Christmann, P., King, D. 2008. Reducing causal ambiguity in acquisition integration: Intermediate goals as mediators of integration decisions and acquisition performance, *Academy of Management Journal*, 51(4): 744-767.
- Cording, M., Christmann, P., Weigelt, C. 2010. Measuring theoretically complex constructs: The case of acquisition performance, *Strategic Organization*, 8(1): 11-41.
- Dewing, A.S. 1921. A statistical test of the success of consolidations, *Journal of Economics*: 84-101.
- Ellis, K., Reus, T., Lamont, B., Ranft, A. 2011. Transfer effects in large acquisitions: How size-specific experience matters, *Academy of Management Journal*, 54: 1261-1276.



# References

- Ellis, K., Weber, Y., Raveh, A., Tarba, S. 2012. Integration in large, related M&As: Linkages between contextual factors, integration approaches and process dimensions, *European Journal of International Management*, 6: 368-394.
- Gomes, E., Angwin, D., Weber, Y, Tarba, S. 2013. Critical success factors through the mergers and acquisition process: Revealing pre- and post-M&A connections for improved performance, *International Business Review*, 55: 13-35
- Graebner, M. 2004. Momentum and serendipity: How acquired leaders create value in the integration of technology firms, *Strategic Management Journal*, 25: 751-777.
- Hitt, M., King, D., Krishnan, H., Makri, M., Schijven, M., Shimizu, K, Zhu, H. 2009. Mergers and acquisitions: Overcoming pitfalls, building synergy and creating value, *Business Horizons*, 52: 523-529.
- King, D., Dalton, D., Daily, C., Covin, J. 2004. Meta-analyses of post-acquisition performance: Indications of unidentified moderators. *Strategic Management Journal*, 25(2): 187-200.
- King, D., Slotegraaf, R, Kesner, I. 2008. Performance implications of firm resource interactions in the acquisition of R&D-intensive firms, *Organization Science*, 19(2): 327-340.
- King, DR. 2014. The influence of complementary resources on firm boundary decisions. In *Advances in Mergers and Acquisitions*, Volume 13. Finkelstein, S., and Cooper, C. (eds). Emerald Publishing: Bingley, UK, pp. 25-42.
- Meglio, O., King, D., Risberg, A. Forthcoming. Improving acquisition performance with organizational ambidexterity. *Human Resource Management*.
- Schriber, S., King, D. 2014. Competitive dynamics: An explanation for parity in acquisition performance, Strategic Management Society (SMS), 20-23 September, Madrid, Spain.

