ARTICLE IN PRESS

Asia Pacific Management Review xxx (2017) 1–8

HOSTED BY

ELSEVIER

Contents lists available at ScienceDirect

Asia Pacific Management Review

journal homepage: www.elsevier.com/locate/apmrv

# Organizational learning and acquirer performance: How do serial acquirers learn from acquisition experience?

Yu-Chieh Chao

*Department of Business Administration, National Pingtung University of Science and Technology, Pingtung, Taiwan*

A R T I C L E I N F O

*Article history:*
Received 20 April 2016
Received in revised form
13 May 2017
Accepted 5 July 2017
Available online xxx

*Keywords:*
Mergers and acquisitions
Organizational learning theory
Acquisition experience
Acquirer performance

A B S T R A C T

How do serial acquirers learn from acquisition experience has been a prominent issue in the field of acquisition. However, the empirical findings about performance implications of acquisition experience have still been mixed. Drawing on the organizational learning theory, this study analyzes the influence of the quality, the pattern, and the context of acquisition experience on acquirer performance. Using a sample of 2223 firm-year observations gauged from 11,571 acquisitions conducted by 889 listed firms in the United States during the 2001–2014 period, this paper finds that (1) the portion of related acquisition experience has a non-significant effect on acquirer performance; (2) the relationship between the velocity of acquisition experience and acquirer performance is an inverted-U shape; (3) Target product-market scope positively moderates the relationship between the portion of related acquisition experience and acquirer performance; and (4) Target product-market scope positively moderates the relationship between the velocity of acquisition experience and acquirer performance. These findings echo an acquisition program view and suggest that a pro-active, plan-ahead acquisition trajectory benefits acquirer performance.

© 2017 College of Management, National Cheng Kung University. Production and hosting by Elsevier Taiwan LLC. All rights reserved.

## 1. Introduction

The topic of mergers and acquisitions (hereinafter, acquisitions) is one of the central themes of academic literature and of business practice. Over the past forty years, the market has witnessed a consistent stream of acquisitions, although the numbers and dollar values of such acquisitions fluctuate annually. The value of worldwide M&A approached 3.9 trillion US dollars during full year 2016, the third best record for worldwide deal making since 2007.[1]

Acquisitions offer various advantages such as efficiency gains (Avkiran, 1999) and the immediate access to external resources (Heeley, King, & Covin, 2006; Al-Laham, Schweizer, Amburgey, 2010). More and more firms frequently engage in acquisitions to achieve their growth strategy, such as Cisco, General Electric, Google, and Facebook (Laamanen & Keil, 2008; Schipper & Thompson, 1983). Rather than making an acquisition occasionally, these serial acquirers actively conduct streams of mutual interrelated acquisitions to fulfill their strategic goals (Hansell, Walker, & Kengelbach, 2014; Laamanen & Keil, 2008).

However, the performance implications of cumulative acquisition experience have remained elusive (Muehlfeld, Rao Sahib, & Van Witteloostuijn, 2012) as learning from acquisitions involves causal ambiguity (Castellaneta & Conti, 2017; Lippman & Rumelt, 1982). Some studies found a positive relationship between acquisition experience and performance (Bruton, Oviatt, & White, 1994; Barkema, Bell, & Pennings, 1996), others found a U-shaped effect (Haleblian & Finkelstein, 1999), and others found a non-significant effect (Hayward, 2002; Wright, Kroll, Lado, & Van Ness, 2002; Zollo & Singh, 2004). For example, research has shown that routines arising from acquisition experience increase the likelihood of subsequent acquisitions (Collins, Holcomb, Certo, Hitt, & Lester, 2009; Haleblian, Kim, & Rajagopalan, 2006). However, learning curve effects from acquisition experience are not bound to happen (Hayward, 2002). Specifically, understanding why some acquirers are better at learning than others is still an active research area (Basuil & Datta, 2015; Cuypers, Cuypers, & Martin, 2017; Haleblian & Finkelstein, 1999; Hayward, 2002; Muehlfeld et al., 2012).

Drawing on the organizational learning theory, scholars have reasoned whether and under what conditions, firms can learn from

*E-mail address:* ycchao@mail.npust.edu.tw.

Peer review under responsibility of College of Management, National Cheng Kung University.

[1] Source: 2017 M&A outlook by J. P. Morgan.

http://dx.doi.org/10.1016/j.apmrv.2017.07.001
1029-3132/© 2017 College of Management, National Cheng Kung University. Production and hosting by Elsevier Taiwan LLC. All rights reserved.

Please cite this article in press as: Chao, Y.-C., Organizational learning and acquirer performance: How do serial acquirers learn from acquisition experience?, Asia Pacific Management Review (2017), http://dx.doi.org/10.1016/j.apmrv.2017.07.001

ARTICLE IN PRESS



acquisition experience. Literature has mainly advanced organizational learning theory in three directions. First, scholars have focused on the quality rather than the quantity of a firm's past acquisition experience (Collins et al., 2009; Haleblian et al., 2006; Hayward, 2002). Second, research has contributed to the temporal perspective of managing acquisitions. It shifted from the performance implication of isolated acquisitions into the influence of multiple acquisitions by investigating how the acquisition pattern can affect acquirer performance (Laamanen & Keil, 2008; Shi & Prescott, 2011). Third, studies have focused on the moderators which influence the relationship between acquisition experience and performance, such as target firm performance (Bruton et al., 1994), acquisition context (Muehlfeld et al., 2012), and regulatory change (Castellaneta & Conti, 2017).

In sum, scholars have provided insightful explanations about how acquirers may learn from acquisition experience through three sets of factors: the quality of experience, the pattern of experience, and the context of experience. However, the three sets of factors were separately examined in most research. By simultaneously investigating how serial acquirers can learn from acquisition experience in term of experience quality, pattern, and context, this study contributes current literature in the following ways. First, this paper examines firms' learning from acquisition experience by integrating experience quality, pattern, and context on a longitudinal basis to fill in the research gap in the field of organizational learning and acquisition performance. According to prior literature, the quality of experience was measured by the portion of related acquisition experience (Hayward, 2002); the pattern of experience was calculated by the velocity of acquisition experience (Laamanen & Keil, 2008); the context of experience was gauged by the product-market scope of target firms (Cuypers et al., 2017). Second, despite serial acquirers become prevalent in the business world, few studies provide evidence on the performance of active acquisition behavior (Laamanen & Keil, 2008), this study addresses this important question to find out why some serial acquirer are better learner than others in making acquisitions. Third, this paper identifies a moderator in the acquisition context – the product-market scope of target firms and theorizes about how the knowledge embedded in target firms may influence acquirers' learning outcome (Ahuja & Katila, 2001; Ranft & Lord, 2002; Puranam, Singh, & Zollo, 2006).

## 2. Theory and hypotheses

### 2.1. Organizational learning and acquisition experience

Organizational learning is a process by which firms encode inferences from experience for the creation of knowledge and routines that guide future behavior (Argote, 1999; Huber, 1991). In the context of acquisitions, organizational learning is defined as the transfer of a firm's acquisition experience from one event to another one (Barkema & Schijven, 2008). Firms learn from cumulative acquisition experience and develop routines to manage subsequent acquisitions. Routines stemming from repetitive momentum can allow acquirers become familiar with the process of acquisitions such as the selection and evaluation of target, the dual diligence process, the negotiation of the deal, and the integration of two combined firms to achieve potential synergy (Haleblian & Finkelstein, 1999; Kim & Finkelstein, 2009).

Acquisition experience has been an important source of organizational learning that enables acquirers to draw inferences from prior experience to produce competitive advantage and enhance performance (Barkema & Schijven, 2008; Levitt & March 1988). Traditionally, learning curve effects in operating setting are documented to be the source of superior performance (Dutton & Thomas, 1984). In strategic context such as acquisitions, however, activities are far more complex than those at the operating level. To untangle the casual ambiguity (Castellaneta & Conti, 2017; Lippman & Rumelt, 1982) about how firms can learn from acquisition experience, scholars have move beyond learning curve effects which were mainly measured by the quantity of prior experience (Barkema & Schijven, 2008) and reasoned the influence of the quality, the pattern, and the context of acquisition experience on acquirer performance respectively (Bruton et al., 1994; Hayward, 2002; Haleblian et al., 2006; Laamanen & Keil, 2008; Collins et al., 2009; Shi & Prescott, 2011; Muehlfeld et al., 2012; Castellaneta & Conti, 2017). Advancing the literature, this study postulates that acquirer performance is the function of (1) the portion of related acquisition experience; (2) the velocity of acquisition experience; and (3) the product-market scope of target firms.

### 2.2. The portion of related acquisition experience

Rather than treat acquisition experience as a homogeneous construct, a line of research has identified the quality of acquisition experience such as the similarity of experience by industry or country. Scholars emphasize the concept of 'near transfers' (Perkins & Salomon, 1992) and argue that inferences from similar experience enhance subsequent performance (Basuil & Datta, 2015). For example, Markides and Ittner (1994) and Lee and Caves (1998) point out that international acquisition experience, measured by a dummy variable, positively benefit subsequent international acquisition. Basuil and Datta (2015) find that industry-specific and region-specific cross-border acquisition experiences, measured by the total number of acquisitions in the same industry or in the same geographic region in the five years preceding the focal acquisition, are positively associated with shareholder value creation.

This line of reasoning implies that related acquisitions have positive effects on acquirer performance for the following reasons. First, related acquisitions increase the efficiency of resource employment. According to Penrose (1959), acquisitions are driven by the exploitation of firms' excess resources that result primarily from resource indivisibility, multiple usages of resources, and managerial learning effects. Acquisitions facilitate the application of acquirers' fungible resources to different organizational and market settings, which leads to value creation for the acquirer (Penrose, 1959; Wernerfelt, 1984). Second, related acquisitions help the transfer and integration of resources. The routines and practices established in prior acquisition experience can facilitate knowledge transfer when the acquirer and the target in the similar industry (Finkelstein & Haleblian, 2002). Furthermore, business and industry relatedness between the acquirer and the target may enable managers to evaluate and integrate the target more efficiently and effectively (Hitt, Harrison, & Ireland, 2001) as they can more easily employ their 'dominant logic' (Bettis & Prahalad, 1995; Prahalad & Bettis, 1986) to manage the combined entity. The similarity between multiple acquisitions can be viewed as a deployment of dominant logic in acquisitions through which acquirers can benefit from learning by doing. Moreover, acquisition experience in the related industry can enhance the acquirers' absorptive capacity (Cohen & Levinthal, 1990) to absorb the knowledge of the target. Therefore, we postulate that relatedness of acquisition experience will have a positive effect on acquirer performance.

**H1**. The proportion of related acquisition experience is positively associated with acquirer performance.

### 2.3. The velocity of acquisition experience

Since learning from experience takes time, a routine-based

Please cite this article in press as: Chao, Y.-C., Organizational learning and acquirer performance: How do serial acquirers learn from acquisition experience?, Asia Pacific Management Review (2017), http://dx.doi.org/10.1016/j.apmrv.2017.07.001

Download English Version:

https://daneshyari.com/en/article/8960904

Download Persian Version:

https://daneshyari.com/article/8960904

Daneshyari.com