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The international experience in domestic mergers – Are purely domestic M&A a myth?

Noelia-Sarah Reynolds (née Schnurr)[a,1], Satu Teerikangas[b,1,*]

[a] Essex Business School, University of Essex, Wivenhoe Park, CO4 3SQ Wivenhoe, United Kingdom
[b] University College London (UCL), 1–19 Torrington Place, WC1E 7HB London, United Kingdom

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ABSTRACT

Paralleling the rise of cross-border mergers and acquisitions (M&As) over the last decades, the academic study of the international dimensions and challenges of cross-border M&A has increased. This has led to a conceptual distinction between domestic M&As on the one hand, and cross-border M&As on the other hand. Our two ethnographic case studies on domestic mergers enable us to contradict this well-established assumption. We observe domestic mergers to be impacted by cross-border dimensions. These influences bear particular relevance on the merging organizations' employees' experience of the merger. In this light, the employee experience is deemed an international vs. domestic one. This leads us to posit that both academics and practitioners engaged with M&As need to bear caution with respect to the established domestic vs. cross-border divide. Our main contribution claims that in a globalized environment, purely domestic M&As are a myth. This finding bears important implications on the practice and theorizing on M&As and international management at large.

1. Introduction

Mergers and acquisitions (M&A) have become an established means of strategic expansion for medium to large-sized firms across industries. Whilst in their early stages in the 1890s, M&As were a domestic phenomenon concerning American enterprises, throughout the 20th century subsequent M&A waves have come to include international (i.e. cross-border) transactions, as firms have sought international expansion through acquisitive activity (Hitt et al., 2012; Kolev, Haleblian, & McNamara, 2012). In Europe, this trend was particularly noticeable in the 1990s, when the integration of the European Union fueled the take-off of European cross-border deals (Cartwright, 1998). More recently, the rise and international expansion of emerging market multinationals has been paralleled with heightened M&A activity, be it by Chinese or Indian firms (Kale & Singh, 2012).

This corporate activity has been paralleled with the academic study of M&A (for recent reviews, see Faulkner et al., 2012; Gomes, Weber, Brown, & Tarba, 2011; Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Weber et al., 2012). Reflecting the development of M&A in corporate practice, the distinction between domestic and international (or cross-border) transactions has prevailed. Much of the early theorizing on M&As was thus conducted on domestic transactions; since the 1990s, an increasing interest has been placed on international transactions (Cartwright, 1998; Shimizu, Hitt, Vaidyanath, & Pisano, 2004).

Whilst such a distinction might bear relevance for the practice of conducting an acquisitive transaction, its relevance for the purposes of theorizing on M&As has rarely been questioned (Child, Faulkner, & Pitkethly, 2001; Shimizu et al., 2004). In the academic study of M&A, it is assumed that one can conceptually distinguish between the challenges faced by domestic vs. international acquisitions. International acquisitions are considered to bear the additional challenges of cultural (Stahl & Voigt, 2008; Teerikangas & Very, 2006), institutional (Geppert, Dörrenbächer, Gammelgaard, & Tapli, 2013) and linguistic boundaries (Piekkari, Vaara, Tienari, & Säntti, 2005; Vaara, Tienari, Piekkari, & Säntti, 2005), whereas domestic acquisitions occur in more monotonous contexts, as they are not impacted by the afore-identified international variables.

Our paper challenges this assumption. The research question guiding the paper is: 'What are the international dimensions in domestic mergers and, further, how do such dimensions affect the employee experience in domestic mergers?' Our paper contributes to extant M&A research as follows. To begin with, building on the

* Corresponding author.
E-mail addresses: nschnurr@essex.ac.uk (N.-S. Reynolds (née Schnurr)), s.teerikangas@ucl.ac.uk (S. Teerikangas).

[1] Both authors are equal contributors to the paper.

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arguments of Shimizu et al. (2004) and Child et al. (2001), our empirical work leads us to posit that in the contemporary global economic environment, the hitherto-held distinction between international vs. domestic M&A does not hold. In contrast, our ethnographic involvement in two 'domestic' mergers in Northern Europe – one in the United Kingdom, one in Finland – enabled us to observe that both transactions were embedded in and impacted by the international, whether strategically, performance-wise, from the perspective of human resource management or work processes. Secondly, the international dimensions of these seemingly domestic transactions impacted the employees in both mergers – their emotional experience of the merger was embedded in an international context. Thirdly, through the practice of ethnography, our findings answer recent calls for the use of a broader array of qualitative methods in the study of M&A. In the following sections, we proceed to a review of relevant literature, the research design and methods, the findings and, finally, the discussion.

2. Literature review

In this section, we undertake a review of how the distinction between domestic vs. cross-border (or international) transactions has been approached in extant research on M&As.

Taking a chronological perspective, Cartwright (1998) observes that the study of M&A evolved from the study of largely domestic deals in the United States. From the early 1990s, interest in cross-border European transactions arose, followed by an interest in Asian and emerging market M&A activity since the 2000s (Kolev et al., 2012). In their review of extant research on international M&As, Shimizu et al. (2004) argue that though cross-border M&A have received increasing attention across disciplines in the last decades, this work has been fragmented with little explicit focus on the characteristics of cross-border M&A activity. So what is that is known on the cross-border dimensions of M&A activity? Let us proceed to an overview of this area of work.

In the international business literature, much effort has been placed on comparing acquisitions as a mode of entry to a foreign market as compared to joint ventures and wholly owned subsidiaries (Barkema & Vermeulen, 1998; Brouthers & Brouthers, 2000; Kogut & Singh, 1988). In strategy research, the question as to whether cross-border M&A are a higher-performing value-creation strategy than domestic M&A has led to an ongoing debate (see review in Hitt et al., 2012). Intriguingly, the findings counter the prevailing knowledge that M&As perform poorly; a number of studies have observed positive performance effects for foreign vs. domestic purchasers (Kang, 1993; Markides & Ittner, 1994). Emerging market acquirers seem to out-perform acquirers from developed economies (Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009; Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010). Beyond value-creation and market entry, strategy and international business scholars have studied the nature of decision-making in cross-border acquisitions. Factors such as geographic distance (Malhotra & Gaur, 2014), country of origin effects (Geppert et al., 2013) and acquiring firm managers' early international exposure (Piaskowska & Trojanowski, 2014) have been found to affect decision-making as regards control, ownership and risk when undertaking cross-border acquisitions.

From an organizational integration perspective, the nature of the M&A process in cross-border settings has been under study. Qualitative studies have focused on the nature of the cross-border M&A process (Olie, 1994; Quah & Young, 2005). More recently, the Chinese seller's perspective (Zeng et al., 2013), strategic discourse (Floris et al., 2013), and the impact of target evaluation on M&A performance have been explored (Ahammad & Glaister, 2013). Country-specific effects, e.g. as regards human resource management practices, have been identified (Gomes, Angwin, Peter, & Mellahi, 2012). In parallel, the M&A activity of multinational firms has been explored. Whilst the traditional take is to focus on Western firms' M&A strategies as in Kling et al. (2014), more recently interest in emerging market multinationals has emerged (Kale & Singh, 2012).

As regards the sociocultural dimensions of M&A activity, the bulk of theorizing on the international dimensions of M&A activity has been undertaken under the cultural stream of research on M&A. Whilst research across the social and management scientists have observed the presence of numerous cultures (including national, industrial, professional, organizational), research on M&A has largely focused on national and organizational cultures only (see Teerikangas & Very, 2006, for a review). We observe that this work assumes organizational culture to relate to domestic transactions, whereas the presence of national cultures points to cross-border transactions. In other words, this work distinguishes conceptually between domestic vs. cross-border M&As with respect to the involved cultural challenges and dynamics.

What is it that we have learned from this inquiry? We can distinguish between research that has combined organizational and national cultures in the study of cross-border M&A on the one hand, and research that has explicitly focused on national culture in cross-border M&As on the other hand. Starting with the former, a major question has concerned whether organizational or national cultures, or perhaps their combination, has an impact on M&A performance (Stahl & Voigt, 2008; Teerikangas & Véry, 2006; Teerikangas & Véry, 2012) and M&A processes, such as social conflict (Vaara, Sarala, Stahl, & Bjorkman, 2012), knowledge transfer (Ahammad, Tarba, Liu, & Gleister, 2014; Sarala, Cooper, Junni, & Tarba, 2014) or emotional attending (Reus, 2012). The majority of work posits a mixed picture on the culture–performance relationship (Stahl & Voigt, 2008; Teerikangas & Very, 2006). Recent advances observe that the relationship between culture(s) on the one hand, and M&A processes and performance on the other hand, is mediated by factors including acquiring firm managerial attributions (Vaara, Junni, Sarala, Ehrnrooth, & Koveshnikov, 2014), the acquirer's international acquisition experience (Dikova & Sahib, 2013), acquirer multinationalism (Reus, 2012), human resources flexibility, inter-firm linkages (Sarala et al., 2014) and integration approach (Weber, Tarba, & Reichel, 2009), whilst being moderated by sociocultural processes (Hajro, 2015). On the other hand, another stream of work has focused on cultural integration and cultural change following M&As (for reviews, see Marks & Mirvis, 2011; Teerikangas & Véry, 2012). This line of work began by studying domestic M&As (Buono & Bowditch, 1989; Buono, Bowditch, & Lewis, 1985; Cartwright & Cooper, 1992; Sales & Mirvis, 1984), whereas more recently attention has shifted to cross-border M&As (Lakshman, 2011; Pioch, 2007; Styhre, Börjesson, & Wickenberg, 2006; Teerikangas & Laamanen, 2014; Weber & Fried, 2011a; Weber & Tarba, 2011).

In parallel, some work has focused on the impact and management national cultures in cross-border M&As. The earliest findings were by Morosini and Singh (1994), who argued that acquiring firms need to tailor their integration approaches to the national culture of the target firm. Olie (1994) observed that national cultures are embedded in cross-border merger processes. Further, acquiring firms' due diligence (Angwin, 2000) and integration approaches following M&As have been found to differ depending on their national cultural background (Calori, Lubatkin, & Véry, 1994; Faulkner, Child, & Pitkethly, 2003; Larsson & Lubatkin, 2001; Weber, Tarba, & Reichel, 2011). More recently, Barmeyer and Mayerhofer (2008) studied the intercultural dynamics following a tripartite European aerospatial merger. To deal with the cross-cultural challenges involved, Morosini (1998) calls for cross-cultural skills in the practice of cross-border M&As.