Determinants of International Acquisition Success: Lessons from FirstGroup in North America

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This paper proposes a process model of key determinants of international acquisitions success, drawing on strategic management, organisational and learning theories. The validity of this model is tested through the analysis of the successful acquisition by FirstGroup, the UK's largest provider of public transport, of Ryder, the second largest player in the US School Bus industry. The case demonstrates the importance of identifying a target in a market sector in which the UK has a competitive advantage and which fits well with the acquirer's core business. Going against the grain of theory on integration, findings also show that, under certain conditions, low integration can yield significant benefits, leaving further integration as an option for the future, to create further value. The impact of cultural fit on acquisition performance is found to be dependent upon the level of integration adopted. The capacity of the acquirer to learn from previous acquisition experience is critical in ensuring the successful management of both pre- and post-acquisition phases. The theoretical and practical implications of the findings are discussed.
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Introduction

In spite of a dramatic growth in the number of cross-border acquisitions over the last decade, there is limited research on the key factors that affect their success. In a recent review of the literature on cross-border M & As, Shimizu *et al.* (2004: 345) argue:

An important research issue involves the explanatory variables for (cross-border M & As) wealth creation.

The authors (2004: 345) note that the limited literature that exists on international acquisition performance has mainly drawn on the fields of economics and finance, overlooking factors of synergy and strategy, and that a firm-level focus is needed in order to uncover the mechanisms at play in the success of M & As. We also believe that research on international acquisitions which draws on other theories, such as cross-cultural and learning perspectives, has not systematically considered the strategic and/or performance dimensions of M & As. Furthermore, more attention needs to be given to important processes such as integration (Shimizu *et al.*, 2004: 324).

This paper aims to address this gap. It proposes a process and integrative model of the determinants of cross-border acquisition success, drawing on concepts of strategic management, organisational and learning theories. The validity of this model is tested through an in-depth analysis of the successful entry

of FirstGroup, the UK's largest provider of public transport, to the North American market. In 1999, this Group acquired Ryder Transportation and immediately became the second largest player in the US School Bus industry.

There are significant commercial links between the UK and North America, yet the U.S. is still seen as a graveyard for UK companies wishing to expand their operations. Understanding the reasons behind FirstGroup's success is therefore of interest. Furthermore, there is a lack of research on the public transport industry. Yet, like many other services industries, this sector is increasingly becoming international. The UK is now home to five large quoted companies who are global players in the public transport arena. This has been brought about by the comparatively early privatisation of the industry, which has given these organisations a distinct competitive advantage and they are now leading the globalisation of the industry.

This paper opens with the presentation of a model of critical success factors in cross-border acquisitions. The significance of these factors to FirstGroup's North American acquisition is then assessed in detail as part of the case study, and these findings are compared and contrasted to current academic thinking on these issues. In the concluding section, the theoretical and managerial implications are discussed, and further research directions suggested.

A Model of Success Factors in Cross-Border Acquisitions

A model of critical success factors in cross-border acquisitions is proposed, based on an in-depth review of the relevant literature. The model draws on strategic management, organisational and learning theories. Research on acquisitions has shown that acquisition performance is the outcome of strategic and organisational variables (e.g. Larsson and Finkelstein, 1999). Learning theory is another influential perspective for explaining acquisition performance (e.g. Very and Schweiger, 2001). We selected variables from those three perspectives that most commonly appear in the literature as critical for acquisition performance, and that we believe will require greater emphasis in an international, as opposed to a domestic, acquisition:

- ❖ Acquiring Firm's Previous Acquisition Experience
- ❖ Strategic Fit
- ❖ Focus On Core Business
- ❖ Cultural Fit
- ❖ Integration Process

Each of those factors will now be examined in detail.

Previous Acquisition Experience

A company's previous acquisition experience can be identified as a factor for success (Hitt et al., 1998; Hubbard, 2001: 13–14; Very and Schweiger, 2001). While no two acquisitions are the same (Clemente and Greenspan, 1998: 157), the process of all acquisitions is similar. Experience with regards to acquisitions can be beneficial for two main reasons. Firstly, many of the processes are recurrent, and the firm will have honed key skills through previous experience. Secondly, firms will be more knowledgeable about issues connected to an acquisition, such as integration and cultural issues, and will have learnt lessons from past approaches. Haspeslagh and Jemison (1991: 51–52) identify the similarity of acquisitions, through firms using a standardised decision process and discipline for their capital appropriations. They (1991: 52–55) also highlight the differences between acquisitions, such as their sporadic nature, the dissimilarity from managers' regular experiences, the opportunistic nature and the speed with which decisions must be made. In a similar vein, Hubbard (2001: 14) identifies the process issues that can cause an acquisition to fail. Hubbard argues that organisations, which have honed these processes through multiple acquisitions, stand a much better chance of achieving success.

Hitt et al. (1998: 100) also note that two-thirds of the successful firms they examined had 'considerable experience in implementing change in the years prior to the acquisition'. The experience of confronting a complex situation resulted in the firm being 'more flexible, with developed adaptation skills', and being more capable in dealing with an acquisition. Hitt et al. (1998: 102) also identify that 'careful and deliberate selection of target firms and conduct of negotiations' is critical as it 'reduces the probability of paying a premium'. This is a skill that is undoubtedly developed through previous acquisition experience, as shown by Very and Schweiger (2001). However, this process will be affected by the acquirer's experience of the target country (Very and Schweiger, 2001).

Experience alone is not sufficient to ensure acquisition success (Finkelstein and Haleblian, 2002; Haleblian and Finkelstein, 1999; Hayward, 2002). A vital practice in making previous acquisition experience a key factor for future acquisition success is learning from that experience. Haspelagh and Jemison (1991: 88–89) argue that for learning to occur, companies must have formal acquisition review mechanisms in place. The nature of prior acquisition experience will also influence firms' ability to learn (Finkelstein and Haleblian, 2002; Haleblian and Finkelstein, 1999; Hayward, 2002).

How experienced acquirers learn and apply their knowledge to subsequent deals has seldom been investigated in an international context (Shimizu