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Internationalization process, impact of slack resources, and role of the CEO: The duality of structure and agency in evolution of cross-border acquisition decisions

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ABSTRACT

This paper examines how the internationalization process evolves. We do so by examining the cross-border acquisition (CBA) decisions of multinationals under the contingent impact of slack resources and CEO power and influence. Grounding our arguments in Giddens' (1984) structuration theory, we identify how and why path-dependencies associated with CBA decisions give way to strategic change, demonstrating the duality of structure and agency in this evolutionary process. Further, we show that organizational slack and CEO overconfidence affect this relationship, *albeit* in dramatically different ways. Our hypotheses are tested on a large sample of 4812 CBAs of U.S. firms during 2000–2010, across 41 industries and in 44 target countries. The results hold for acquisition trajectories of multinationals in both categories of CBA decisions: majority as well as minority-owned.

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1. Introduction

Over the years, the IT giant Cisco Systems relied heavily on acquisitions as its primary growth strategy. Having made its first acquisition in 1993, Cisco acquired a total of 149 companies by 2011, both domestic and overseas. Interestingly, in the early years most of Cisco's acquisitions were confined to computer networks, i.e. in its core area of expertise. Over time, however, Cisco began acquiring international companies that were outside its core specialization. Some of these include: Pirelli Optical Systems in 1999 (Fiber-optic Communication; Italy; 1999), Qeyton Systems (Wavelength-division Multiplexing; Sweden; 2000), KISS Technology (Entertainment Technology; Denmark; 2005), AXIOS Software and Talent (IT Service Management Software; Finland; 2011), and Ubiquis (Mobile Software; UK; 2013). The progression of internationalization strategies of companies such as Cisco raises an important question: when and how does a multinational break free from its current cross-border acquisition (CBA) decision patterns and related entry-mode choices (majority versus minority

ownership), to traverse a new internationalization trajectory? This paper attempts to answer this question.

Internationalization over time, as reflected in the multinational's CBA patterns and related entry mode choices, is a "... process of involvement, which sometimes flows within incremental commitment and other times does not" (Figueira-de-Lamos and Hadjikhani, 2014: 343, emphasis in original). These choices are complex (Erramilli, 1991; Johanson and Vahlne, 2009; Malhotra and Zhu, 2013) as well as risky (Ahmed, Mohamad, Tan, & Johnson, 2002; Mantecon, 2009). Further, evidence is mixed as to whether acquisitions, in general, create value for the acquiring firm, especially in the short-term (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). As such, it is not surprising that CBA decisions unfold as a process (Jemison and Sitkin, 1986), with experiential learning forming a critical foundation for future decisions (Barkema and Schijven, 2008; Very and Schweiger, 2001). Not only do firms engage in repetitive acquisitions (Aktas, de Bodt, & Roll, 2009), but they also utilize prior acquisition experience in building routines that guide their subsequent CBA decisions (Haleblian, Kim, & Rajagopalan, 2006; Hayward, 2002; Mukherji, Mukherji, Dibrell, & Francis, 2013). As a result, CBA decisions demonstrate path dependencies (Eriksson, Majkgard, & Sharma, 2000), where "structure" plays an important role.

At the same time, multinationals incorporate learning by approaching each future acquisition as a way of building new

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capabilities (Li, 2010). While prior acquisition experience can be transferred to a future acquisition decision, this becomes useful only when it is found relevant to the new context (Barkema and Schijven, 2008). Multinationals closely examine their decisions to see if learning from previous acquisitions compare favorably with knowledge needed for new acquisitions. This may even require the multinational to unlearn some of the old knowledge no longer relevant (Yildiz and Fey, 2010). Therefore, at some stage in the internationalization process, CBA decisions have to break away from extant path dependencies, and usher in path breaking change through application of “agency” in their entry-mode choices.

Organizational systems, like all social systems, incorporate a duality of structure and agency (Giddens, 1979, 1982, 1984). These systems are “... constituted by the activities of human agents, [and at the same time] enabled and constrained by the social structural properties of these systems” (Whittington, 1992: 695; emphasis our own). In the case of internationalization decision-making, more often than not the firm’s CEO (as leader of its top-management team) performs the role of the agent (Nielsen and Nielsen, 2011; Tihanyi, Ellstrand, Daily, & Dalton, 2000). Predominantly, this requires the firm’s upper echelons to disrupt extant structural arrangements, apply agency, and create new structures. To the best of our knowledge, no empirical work so far has examined the dual influence of structure and agency on how CBA decisions evolve. Further, no theoretical arguments have been proposed as to how and why this might happen and how organizational factors may facilitate this change.

By drawing upon insights from Giddens’ structuration theory, this paper makes contributions at the intersection of the literatures on international business, strategy, and organizations. First, we offer an explanation as to how and why CBA decisions evolve. In doing so, we contribute to the growing literature on the process view of internationalization (Johanson and Vahlne, 2009; Lin, 2014; Lin, Cheng & Liu, 2009). Specifically, we are able to show that strategic persistence or “structure” associated with CBA decisions breaks free from the path dependencies of routinization and experiential learning, to incorporate “agency” based on availability of organizational slack resources and CEO power. In Giddens’ conceptualization of the duality of structure and agency, these two aspects are considered to be two sides of the same coin: neither can structure emerge without activation of agency, nor is agency possible without considering structure. In the paper, while acknowledging this duality we suggest that the predominance of one over the other at any point in time could be a matter of degree, leading to either solidification of structures reflected in path-dependence or exercise of agency noticed in ushering in path breaking change. We also demonstrate that CEO overconfidence plays a persistent role in this process.

Second, by incorporating the use of related firm-level variables in the internationalization context, we add to the literature on strategic management, notably in two specific areas: the resource-based view of the firm (by highlighting the importance of slack resources) and the upper echelons theory (by emphasizing the role of the CEO). Finally, by examining the duality and reciprocal influences of structure and agency, our study provides an empirical setting to test the assertions of Giddens’ structuration theory. Barley and Tolbert (1997) noted that even though structuration theory is largely a process theory, it has remained at a high level of abstraction, especially in the fields of management and international business. By developing a set of hypotheses relating to the co-evolutionary, reciprocal influences of agency and structure on the multinational firm’s CBA decisions over time, our study provides a useful empirical context to test Giddens’ insights, thus adding to our understanding of structuration as an organizational process.

2. Theory and hypotheses

2.1. An overview of structuration theory

According to Giddens, human agency is the “capacity to make a difference” (1984: 14), with agents viewed as purposeful, knowledgeable, reflexive and active (Sarason, Dean, & Dillard, 2006), and presumed to have causal powers (Doty, 1997). Similarly, structure constitutes the “rules and resources, recursively implicated [by agents] in the reproduction of social systems. Structure exists only as memory traces, the organic basis of human knowledgeability, and as instantiated in action” (1984: 377). Social systems depict an inherent duality of structure and action, with the two being mutually constitutive in a dialectical relationship, and each incapable of existing without the other. In effect, “the notions of action and structure presuppose one another” (Giddens, 1979: 53), so much so that “the structural properties of social systems are both medium and outcome of the practices that constitute those systems” (Giddens, 1982: 7). Even though structuration theory provides a powerful framing for examining organizational phenomena, it has received limited empirical attention. This is because of the complexity involved in exploring the theory’s assertions in a specific field-level context: “... Giddens ... presented the concepts synchronically, as simultaneous reciprocity between action and institutions [structures], making it difficult to analyze how actions reproduce or modify institutions over time ... Therefore, many authors have proposed a diachronic model, in which they bracket the action and institutional realms into different time periods in order to analyze sequential shifts between the two ...” (Jarzabkowski, 2008: 623).

Structuration refers to the process by which knowledgeable human agents operating within social systems enact structures, even as the actions of the human agents are enabled and also constrained by the structures so created (Staber and Sydow, 2002; Whittington, 1992). In Giddens’ conceptualization, “Agency is ... molded by a practical consciousness and structures of signification (interpretive schemes), domination (resource allocative and authoritative), and legitimation (norms defining the moral order) drawn upon from the institutional realm” (Herepath, 2014: 859). Giddens distinguishes among systems, structures, and actors. Having a virtual existence, structures constitute both (i) sets of generative and normative rules, and (ii) authoritative and allocative resources that are “presenced” by actors in social systems to carry out their daily practices (Livesay, 1989). He gives no precedence to either structure or agency: He merely suggests these two aspects of the social system are intertwined to form a duality. As a consequence of the recursive and ongoing relationship, structures become “inseparable from the reasons and self-understandings that agents bring to their actions” (Wendt, 1987: 359). Even though management researchers have called for initiatives to examine the dilemma of structure versus agency in organizations, only limited empirical work exist (Li and Berta, 2002).

By positing structure as rules and resources, Giddens suggests that any action by human agents involves power. Specifically, agents evaluate three forms of structures when they make decisions: (i) structures of signification (or institutionalized interpretive schemes such as beliefs and values ascribing meaning to people’s action); (ii) structures of legitimation (or institutionalized norms, expressed as moral imperatives and normative sanctions); and (iii) structures of domination (or institutionalized mobilization of power, expressed as to how resources are allocated, accessed and deployed) (Jarzabkowski, 2008). While the first two structural elements are expressed as agents’ use of interpretive rules or decision schemas (i.e. “how things should be done”), the third relates to resources, reflecting domination and distribution of power (i.e. “who’s in charge here”) (Staber and Sydow, 2002).

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