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## Post-acquisition performance: Contingency of acquisition strategy

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### Abstract

This paper concerns the relationship between acculturation in acquisitions ( $X_1$ ), the acquirer's acquisition strategy ( $X_2$ ), and organizational integration ( $X_3$ ) between acquirer and target organizations, as well as their interactive effect ( $X_1X_2X_3$ ) on post-acquisition performance. The empirical results drawn by 154 acquisitions in the Taiwanese electronics and information sector reveal the existence of three-way interaction and show: (1) related acquisition with high degree of acculturation and integration is associated with high performance, whereas unrelated acquisition with low degree of acculturation and high degree of integration is associated with high performance; (2) organizational integration positively moderates the relationship between acculturation and performance; (3) integration has a stronger moderating effect in related acquisitions than in unrelated acquisitions.

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### 1. Introduction

Acquisition has long been an interesting topic in various streams of management literature. In human resources studies, *acculturation in acquisitions* ( $X_1$ ) is argued to affect employee retention and manager turnover of the target firm (e.g., Cartwright & Cooper, 1993; Larsson & Lubatkin, 2001; Stahl & Voigt, 2008) because employees of the acquired firms constantly face pressure to conform to the norms and values of the acquirers (Haspeslagh & Jemison, 1991). A high turnover of top management team (TMT) and loss of human and social resources in the acquired firm can ultimately have a deleterious impact on acquisitions. Studies of strategic management (e.g., Hill et al., 1992; Miller, 2006) emphasize the importance of *the acquirer's acquisition strategy* ( $X_2$ ) and consider different type of

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acquisition as different means to achieve acquisition gains. In organizational management literature, *post-acquisition organizational integration* ( $X_3$ ) is argued to be central in theories of organizational design because the execution of a well-designed integration process is important to maximize value creation and minimize value destruction following the acquisition (e.g., Birkinshaw et al., 2000; Puranam et al., 2009).

Scholars studying integration and acculturation describe the choice between complete absorption and autonomy maintenance (Håkanson, 1995; Haspeslagh & Jemison, 1991) as an important initial decision that further shapes integration actions and acculturation processes, and find no type of integration (Puranam et al., 2009; Zollo & Singh, 2004) and acculturation (Nahavandi & Malekzadeh, 1988; Stahl & Voigt, 2008) is ideal in all acquisitions. Three important relationships among acquirer's strategy, acculturation and organization in acquisitions are also suggested by previous management literature: 1) acquirer's strategic intension affects the degree of acculturation following an acquisition (Håkanson, 1995; Larsson & Lubatkin, 2001); 2) the extent of post-acquisition integration depends on the strategic contexts (Hill et al., 1992); 3) the degree of acculturation depends on both benefits and costs associated to post-acquisition integration (Larsson & Lubatkin, 2001). Since these three management decisions ( $X_1, X_2, X_3$ ) accumulatively contribute to a successful acquisition, there is a need to develop an integrated model simultaneously examining their separate effects and accumulated impact on acquisitions. By integrating these three relationships, this study examines the three-way interaction ( $X_1 X_2 X_3$ ) between acquisition strategy, acculturation, and organizational integration, along with its consequential effect on post-acquisition performance.

## 2. Literature review and hypotheses

### 2.1. Acculturation and the acquirer's acquisition strategy

Acculturation in acquisitions refers to the "outcome of a cooperative process whereby the belief, assumptions and values of two previous independent work forces form a jointly determined culture" (Larsson & Lubatkin, 2001: 1574) and whether acculturation is achieved depends upon how well the acquirer manages informal integration process. Nahavandi and Malekzadeh (1988) concern the role of the acquirer's multiculturalism vs. uniculturalism in the acculturation processes following acquisitions. Acquirers characterized by *multiculturalism* allow acquired firms to preserve their existing culture and business practice, while acquirers characterized by *uniculturalism* decisively emphasize the common values, norms, beliefs and reward systems in the merged organization in order to achieve consistency in corporate goals, strategies and practices. In related acquisitions, economies of scale and scope generally result from utilizing tangible (e.g., joint purchase of inputs, joint development of exploratory/exploitative technologies) or intangible (e.g., know-how and knowledge transfer) interrelationships between the acquiring and acquired firms. With tight integration and coordination, redundancy can be minimized through restructuring organizations and redesigning standard operational procedures. From a different perspective, it is suggested that high performance over a prolonged period in related acquisitions requires a strong and adaptive uniculture, and therefore high degrees of acculturation. Conversely, unrelated acquisitions are oriented toward optimizing capital and resource allocation, as well as exploring new products and technologies in new markets or industries (Jones & Hill, 1988). The acquired firms' complementary resources and capabilities allow the merged entity to explore and take advantages of new opportunities. Nevertheless, due to the fact that the acquirer's and the acquired firm's technological capabilities are unrelated, autonomy in the acquired firm and multi-culture in the merged organization should be emphasized. Thus, lower degrees of acculturation are required in unrelated acquisitions.

*H1a: In related acquisitions, acculturation positively affects post-acquisition performance.*

*H1b: In unrelated acquisitions, acculturation negatively affects post-acquisition performance*

### 2.2. Acquisition and organizational integration

Organizational integration, the level of *interaction* and *coordination* between the target and acquiring firms (Larsson & Finkelstein 1999), brings activities to be combined within the common organizational boundaries following an acquisition (Puranam et al., 2009), and acquirers can use common authority, incentives and processes to enhance coordination and mutual adaptation to reduce operational costs (Datta, 1991). However, radical changes in

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