



# The role of accounting in making sense of post-acquisition integration



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## ABSTRACT

This study examines how accounting as a resource for sensemaking affected the shaping of meaning construction of two companies during their post-acquisition integration. Whereas earlier literature has shown accounting as forming organizational life, this paper corroborates this constitutive role of accounting by indicating that accounting has different roles for different actors at different times during ex ante- and ex post-acquisition sensemaking. The paper shows how accounting via forecasted net sales, average project sizes, and EBITDA framed the acquisition opportunity as anticipated and assisted in constructing a new meaning for the buyer in ex ante sensemaking. Adding to the accounting and sensemaking literature, this study indicates how accounting reduced complexity for the buyer so that the transaction could be legitimized within a limited pre-acquisition timeframe. Driven by the ex ante constructed meaning, the buyer's sensegiving attempts resulted in resistance to change on the part of the seller company's previous owners. Where earlier post-acquisition studies have shown that resistance to change results from strong existential difficulties during the post-acquisition role transformation, this study indicates that it was instead due to limited ex ante sensemaking. After the seller's CEO resigned, accounting metrics became the anchor for ex post sensemaking, emphasizing the achievement of forecasted net sales in the information memorandum provided during the acquisition negotiations. However, the buyer's focus and planning were narrowed down to encompass achieving net sales growth targets, leading to an inability to react to emerging situations. Therefore, rather than being an isolated phenomenon, accounting operated at the core of forming and reforming organizational life during both ex ante- and ex post-acquisition sensemaking.

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## 1. Introduction

This study draws on interviews with the top management teams of two Finnish companies after their acquisition process, and with external advisors involved in advising these companies. It contributes to the post-acquisition literature (Hardy & Phillips, 1998; Haspeslagh & Jemison, 1991; Janis, 1972; Jemison & Sitkin, 1986; Vaara & Monin, 2010; Vaara, 2003) and the emerging research on accounting and sensemaking (Jørgensen, Jordan, & Mitterhofer, 2012; Kraus, & Strömsten, 2012; Tillmann & Goddard, 2008) by examining how accounting, as a resource for sensemaking, affected the construction of meaning during post-acquisition integration.

This study draws on the concept of sensemaking (Gioia & Chittipeddi, 1991; Weick, 1995). Gephart (1993, p 1485) defined

sensemaking as “the discursive process of constructing and interpreting the social world”. In strategic change, sensemaking involves efforts by individuals participating in the change process, constructing and reconstructing their meanings (Gioia & Chittipeddi, 1991). As Weick (1979) claims, parties use enormous amounts of time settling among themselves on an agreeable translation of what is taking place. Thus, in this current study, sensemaking can be perceived as a process of social construction whereby the top management teams of the buyer and the seller form and reform commonly accepted and plausible meanings of their signed acquisition. Sensegiving in this context is considered as the buyer's top management's attempts to influence the outcome, as well as to communicate their thoughts to the seller's top management, employees, and customers.

Additionally, the study focuses on accounting and its role in making sense of post-acquisition integration. As Gerdin et al. (2014, p 390) argue: “accounting significantly contributes to forming (rather than just informing about) organizational life”. Earlier studies on accounting and sensemaking have indicated, for example, how as the outcome of top management's sensemaking,

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certain specified goals were created based on accounting metrics, creating commitment in uncertain situations such as an initial public offering (Kraus & Strömsten, 2012). Therefore, accounting can provide a plausible representation of the area that the managers are trying to navigate, and to thus animate them. However, accounting as a resource for sensemaking is an understudied area and could offer relevant insights into the sensemaking process in post-acquisition integration.

Whereas previous literature has shown accounting as forming organizational life (Gerdin, Messner, & Mouritsen, 2014), this paper corroborates the constitutive role of accounting by indicating that accounting plays different roles for different actors at different times during ex ante- and ex post-acquisition sensemaking. This study shows how accounting via forecasted net sales, average project sizes, and EBITDA framed the acquisition opportunity as anticipated, assisting in constructing a new meaning for the buyer in ex ante sensemaking. With a limited time for the acquisition negotiations, the information memorandum and especially its accounting metrics operated as assisting devices through which the buyer shaped ongoing complexity into a plausible form (Weick, Sutcliffe, & Obstfeld, 2005). Despite the historical financials indicating negative EBITDA and constrained liquidity, accounting framed circumstances and potential approaches and created order for the situation (Weick, 1993) thus modifying certain development paths as meaningful (Jørgensen et al., 2012). Forecasted accounting metrics such as sales growth, average project sizes, and EBITDA operated as frames through which a meaning for the buyer was formed. Therefore, this study adds to the accounting and sensemaking literature by indicating that accounting reduced complexity for the buyer such that even a complex transaction could be legitimized within a very limited pre-acquisition time-frame.

Driven by the ex ante-constructed meaning, the buyer's sensegiving influenced the sellers' meaning construction (Gioia & Chittipeddi, 1991; Gioia & Thomas, 1996; Gioia, Thomas, Clark, & Chittipeddi, 1994). Similar to Vaara (2003), the field evidence indicates that ambiguities surfaced in specific discussions on particular integration issues that took place in different formal and informal arenas. Corroborating the findings of Hardy and Phillips (1998), the buyer's interactions that were displayed as cooperative were considered to be defensive maneuvers in order to preserve the prevailing distribution of power. These different interpretations revealed ambiguities between the companies, and as a result of these ambiguities, the seller's CEO resigned. Where earlier studies show that during the post-acquisition role transformation is where strong existential difficulties arise that can result to resistance of change (Bridges, 1986; Chreim, 2002; Reger, Gustafson, Demarie, & Mullane, 1994), this study indicates that it was due to limited ex ante sensemaking.

Because of the relatively short acquisition process and the resignation of the former CEO, the buyer's top management faced a situation after signing the deal in which they were attempting to structure post-acquisition integration as meaningful (Jørgensen et al., 2012) and bring order to the situation (Weick, 1995). Through representation and intervention, accounting information linked representations of economic ideas to potential forms of intervention (Hacking, 1983, 1992). Additionally, accounting metrics became the anchor for ex post sensemaking, emphasizing the achievement of forecasted net sales in the information memorandum provided during the acquisition negotiations. As the study further indicates, the buyer's focus and planning were narrowed down to encompass achieving net sales growth targets, leading to an inability to react to emerging situations such as aligning the organizational structure with increased project sizes, enhancing knowledge sharing, and maintaining owner value through profitability. Therefore, the study adds to the post-acquisition

sensemaking and accounting literature; rather than being an isolated phenomenon or simply a representation of an organization, accounting operated at the core of forming and reforming organizational life during ex ante- and ex post-acquisition sensemaking.

The remainder of this paper is organized as follows. After this introductory chapter, the paper explores recent theoretical discussions by examining the concepts of and relating research on sensemaking, accounting and post-acquisition integration. In chapter three, the researcher introduces his methodological construction, followed by empirical evidence. The fifth chapter outlines the conversation between prior literature and empirical results, ending with some concluding remarks.

## 2. THE STUDY'S THEORETICAL FRAMEWORK

### 2.1. Post-acquisition integration

Scholars and practitioners agree that the post-acquisition integration process is a vital, perhaps even the most significant crucial factor in acquisition success (Fubini, Price, & Zollo, 2007; Haspeslagh & Jemison, 1991; Hitt, Harrison, & Ireland, 2001; Marks & Mirvis, 1998; Heimeriks, Schijven, & Gates, 2012). Post-acquisition integration has been approached from various aspects concerning, for example, synergistic benefits (Birkinshaw et al., 2000; Shrivastava, 1986), human resources (Greenwood, Hinings, & Brown, 1994), value creation (Haspeslagh & Jemison, 1991), learning (Heimeriks et al., 2012), politicking (Vaara, 2003) and legitimacy (Vaara & Monin, 2010). These studies have addressed cognitive simplifications and behavioral manners that have led to unrealistic conceptions of merger outcomes (Vaara & Monin, 2010). Vaara & Monin (2010) related this to the concept of groupthink (Janis, 1972), meaning that deepening attention to certain ideas disturbs critical thinking. Similarly, Jemison & Sitkin (1986) argue that amplified and deceptive expectations of advantages of the investments can arise (Jemison & Sitkin, 1986). Haspeslagh & Jemison (1991) continue with their study of process-based difficulties that complicate the integration process for merging companies, and argue how determinism relates to management's inability to adjust to changing situations by maintaining their original justification.

Despite the importance of this issue, we have only a limited understanding of mergers and their impacts on the organizations covered. We lack studies focusing on the communicative construction of meaning, especially in the context of inter-organizational transactions (Jørgensen et al., 2012) because "studies of inter-organizational collaboration have tended to privilege action at the expense of talk" (Hardy et al., 2005, p. 72) and since the positivistic research paradigm "overemphasizes the importance of finding general laws, explaining and predicting phenomena, and mainly relying on linear models and statistical analysis as tools to attain the research aim" (Meglio & Risberg, 2010, p. 88).

One body of inter-organizational research has focused on the construction of meaning, illustrating how the interpretative diversity of different involved actor groups is linked to collaboration such as post-acquisition integration (Jørgensen et al., 2012). Some of these studies focus on identity construction, especially regarding the construction of gender inequality (Tienari, 2000; Tienari, Söderberg, Holgersson, & Vaara, 2005), where others discuss the ambiguities<sup>1</sup> of inter-organizational operations

<sup>1</sup> Prior literature suggest that such ambiguity can be considered as "a normal state of affairs" (Vaara, 2003) with both negative and positive impacts (Cohen and March, 1974; Denis et al., 1996; Meyerson, 1991; Risberg, 1999).

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