Journal of Business Research 81 (2017) 21–30

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

Business group affiliation and post-acquisition performance: An extended resource-based view

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ARTICLE INFO

Keywords:
Business group affiliation
Extended resource-based view
Long-term performance
Mergers and acquisitions

ABSTRACT

Prior research on post-acquisition performance suggests positive, negative, or no wealth creation for the acquiring firms. Grounding our arguments on the extended resource-based view, the current article proposes that business group–affiliated firms leverage their affiliation advantages to attain superior long-term acquisition performance, relative to standalone firms, especially in emerging economies such as India. Additionally, we hypothesize that both within-group heterogeneity, manifested as prior group experience, group diversification, and intra-group variation in the form of horizontal ties through boards of directors, also affect the long-term post-acquisition performance of affiliated firms. The findings, obtained with a buy-and-hold abnormal returns method applied to a sample of 468 majority stake mergers and acquisitions, both domestic and cross-border, by Indian firms during 2005–2013, provide robust support for the theoretical arguments.

1. Introduction

Studies of post-acquisition performance often produce ambiguous results, spanning positive, negative, and no wealth creation effects for the acquiring firms (King, Dalton, Daily, & Covin, 2004; Moeller & Schlingemann, 2005). These ambiguous findings suggest the need to include contextual idiosyncrasies in studies that examine the effect of mergers and acquisitions (M & A) on acquiring firms. This study addresses the influence of a firm's governance and management structure on long-term post-acquisition value creation in M & As, highlighting the importance of business group (BG) affiliation as a key resource. Drawing on the extended resource-based view (Arya & Lin, 2007; Dyer & Singh, 1998; Lavie, 2006), we posit that the post-acquisition performance of the focal firm depends on the resources and capabilities it derives from its relationships with other firms affiliated with the same BG.

BG-affiliated firms possess several unique features, including vertical ties related to ownership control, horizontal ties derived from cross-holding and interlocking directors, and family and social ties (Granovetter, 1995; Khanna & Rivkin, 2001; Piepenbrink & Gaur, 2013). Extant literature investigates the role of BGs on various firm-level outcomes, such as financial performance (Gaur & Delios, 2006; Kim, Kim, & Hoskisson, 2010; Ramaswamy, Li, & Petitt, 2012), growth strategies (Manikandan & Ramachandran, 2014; Singh & Delios, 2017), degree of internationalization (Gaur & Delios, 2015; Lamin, 2013), entrepreneurship (Chari & Dixit, 2015), or innovation (Singh & Gaur, 2013). Most such studies adopt an institutional economics lens, following the logic that BG affiliation substitutes for market failures or institutional voids, especially in emerging economies (Khanna & Rivkin, 2001). Yet the advantages of group affiliation could extend beyond just filling institutional voids, to include benefits such as syntheses and sharing of knowledge, access to information, reputation enhancements, or additional revenue enhancement opportunities (Gaur, 2007).

Building on the relationship-based, the extended resource-based view (extended RBV) perspective, we argue that the resources and capabilities of a BG constitute a differentiating factor for the long-term post-acquisition performance of affiliated firms, compared with standalone firms. Studies using the resource-based view highlight the importance of resource interdependence and interaction for value creation (Capron & Pistre, 2002; King, Slotegraaf, & Kesner, 2008), yet limited scholarly work investigates the acquisition performance that results from resources drawn from an interconnected network. With the extended RBV perspective, this article therefore considers a key question: Does BG affiliation help acquiring firms generate value from their M & As?

The context for this study also supports new theoretical arguments about the extended RBV, pertaining to the mechanism by which group affiliation benefits affiliated firms. We argue that inter- and intra-group variations should determine how firms derive the benefits of their group affiliation. First, in a network, learning can come from the

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http://dx.doi.org/10.1016/j.jbusres.2017.08.003
Received 4 November 2016; Received in revised form 1 August 2017; Accepted 2 August 2017
0148-2963/ Published by Elsevier Inc.

experiences of other subsidiaries or affiliated firms. Organizational learning theory suggests that learning from prior acquisition experience creates routines that guide and help future M & A deals (Haleblian & Finkelstein, 1999; Popli, Akbar, Kumar, & Gaur, 2016; Vermeulen & Barkema, 2001). Learning can come from direct or indirect experiences, so we propose a positive relationship between the acquisition experiences of a BG and post-acquisition value creation for its affiliated firms. Second, the product scope of the BG should affect the post-acquisition performance of its affiliated firms. Greater diversification provides BG firms more opportunities to access various resources (Kumar, Gaur, & Pattnaik, 2012), which may enhance their post-acquisition performance. Third, the interconnectedness of the member firm could be pertinent; affiliated firms with strong vertical and horizontal linkages should encourage social relations throughout the group (Ayyagari, Dau, & Spencer, 2015; Granovetter, 2005). These firms then may find it easier to access resources, knowledge, and information held by other affiliated firms (Piepenbrink & Gaur, 2013). Accordingly, for affiliated firms, the strength of director interlocks should relate positively to long-term post-acquisition performance.

Accordingly, this study makes several theoretical and empirical contributions. First, it further extends the extended resource-based view (Arya & Lin, 2007; Dyer & Singh, 1998) by arguing that resources throughout the firm's governance network influence post-acquisition performance. Second, the results support arguments that the benevolent impact of BGs in emerging economies is not simply a transitory state on the route to robust institutions, but the value-adding benefits of BGs persist even with institutional developments (Chittoor, Kale, & Puranam, 2015). With this insight, this study responds to recent calls to uncover inter- and intra-group heterogeneity in the value addition that affiliated firms enjoy (Carney, Gedajlovic, Heugens, Van Essen, & Van Oosterhout, 2011). Third, at an empirical level, most prior research on post-acquisition performance focuses on short-term performance (Aybar & Ficici, 2009; Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Nicholson & Salaber, 2013), even though firms engage in acquisitions with long-term objectives. Although stock markets assess future performance benefits, external stakeholders often lack enough information to assess the long-term consequences of any particular strategy (Lyon, Barber, & Tsai, 1999). To overcome this limitation, we conduct a long-term performance analysis of both domestic and cross-border acquisitions of Indian firms, using a relatively novel methodology. The dominance of family-owned BGs and the unique cross-ownership patterns among affiliated firms makes India an interesting context to test our hypotheses. With a data set of 468 deals, comprising both domestic and cross-border acquisitions by Indian firms during 2005–2013, we test our theoretical model of long-term post-acquisition performance with the buy-and-hold abnormal returns (BHAR) methodology.

2. Theory and hypotheses

2.1. Post-acquisition performance

Acquisitions remain a popular growth strategy, despite inconclusive findings about post-acquisition performance. These findings suggest some important contingencies may lead to superior, or inferior performance (King et al., 2004). Accordingly, recent research applies different theoretical lenses to explain the potential antecedents or contingencies that affect post-acquisition performance. This includes impact of perceived resource similarity and complementarity (Cartwright, 2006; Chatterjee, 2009), national cultural distance (Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009; Stahl & Voigt, 2008), power distance value differences (Huang, Zhu, & Brass, 2017), strategic complementarity (Bauer & Matzler, 2014), integration (Cording, Christmann, & King, 2008), the presence of outside directors (McDonald, Westphal, & Graebner, 2008), R & D expenditures (Le, Park, & Kroll, 2014), and prior acquisition experience (Haleblian & Finkelstein, 1999; Popli et al., 2016; Vermeulen & Barkema, 2001). In the case of Indian multinational corporations, research suggests that international acquisitions create value for the acquirer's shareholders, because they tend to help firms gain access to resources that are not available domestically (Delios, Gaur, & Kamal, 2009). In contrast, empirical evidence from China suggests negative returns (Chen & Young, 2010), possibly reflecting the effect of state ownership of Chinese firms (Singh & Gaur, 2009), such that cross-border deals might be pursued more for political considerations than for economic reasons (Gaur, Malhotra, & Zhu, 2013). Recent research also acknowledges the prevalence of concentrated ownership (Globerman, Peng, & Shapiro, 2011), which can reduce principal–agent costs, (Bhaumik & Selarka, 2012), which in turn leads to greater value creation for the acquirer.

2.2. Business group affiliation and the extended RBV

In a networked organizational forms such as business groups, affiliated firms are linked by economic and social relationships, such as family, kinship, ethnic, or friendship ties (Granovetter, 1995; Khanna & Rivkin, 2001). Historically, BGs have dominated the economies of emerging markets, such as India, South Korea, Taiwan, and various Latin American countries (Khanna & Rivkin, 2001; Leff, 1978). Their effects on firm performance (Khanna & Rivkin, 2001), innovation (Lee, Lee, & Gaur, 2017), and internationalization (Elango & Pattnaik, 2007; Gaur, Kumar, & Singh, 2014) are well documented. In particular, scholars argue that BGs are critical for filling voids in the economic institutions of imperfect markets for labor, capital, technology, and so forth (Guillen, 2000; Khanna & Rivkin, 2001). More recent studies debate though whether institutional transitions in emerging economies have attenuated these affiliation advantages (Chittoor et al., 2015; Gaur & Delios, 2006). We argue that even with such institutional developments, BG affiliation continues to confer advantages to affiliated firms, in the form of resources and superior capabilities in managing diversified organization (Lee & Gaur, 2013). These advantages are particularly useful when affiliated firms engage in M & As, granting them unique competitive advantages over unaffiliated firms when they go to derive the benefits from their M & As.

The resource-based view (RBV) traditionally emphasizes the role of ownership or control over resources as the primary means to create value from strategic activities (Barney, 1991), such that Amit and Schoemaker (1993: 35) define resources as “stocks of available factors that are *owned* and *controlled* by the firm.” Building on the RBV, a growing stream of research advances the concept of an extended RBV (Cao & Zhang, 2011; Dyer & Singh, 1998), in which access to resources, assets, and skills obtained through external linkages is a critical determinant of a firm's competitive positioning. Beyond network ties, studies of alliance portfolios highlight the importance of network resources for firm performance (Gulati, 2007; Lavie, 2007), and Yamakawa, Yang, and Lin (2011) argue that a firm's exploitative and exploration alliances enhance its performance. Because BGs represent salient network forms in emerging economies, examining the effect of BG affiliation on M & A performance could help extend network theories and the resource-based view even further (Lavie, 2006).

A key to M & A success is whether the acquiring firm can realize potential synergies, net of any premium it pays. That is, actual value creation represents the difference between the benefits from the expected synergies and the cost of the acquisition (or deal value, which includes the acquisition premium) (Rappaport & Sirower, 1999). The success of an M & A deal stems from a firm's prowess in managing both *ex-ante* and *ex-post* challenges in managing the deal (Malhotra & Gaur, 2014). The *ex-ante* issues primarily include target screening and selection, due diligence, choice of equity ownership and premium, and payment mode. The substantial information asymmetry in M & As exasperates *ex-ante* target selection challenges. However, we argue that the social capital available through a BG can help overcome this