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Contextualizing speed and cross-border acquisition performance: Labor market flexibility and efficiency effects

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ABSTRACT

There is general agreement that acquisition integration is decisive for acquisition performance. Despite this consensus, there are heterogeneous results on integration measures, such as integration speed with empirical research supporting the benefits of either fast or slow integration. We argue that the business environment surrounding acquisitions has the potential to reconcile conflicting findings. We develop how institutional factors (i.e., labor market flexibility and efficiency) influence the relationships between speed of human and functional integration on acquisition performance. With a sample of 203 transactions from acquirers from central Europe and Scandinavia, we find human and functional integration speed have divergent effects on acquisition performance. Further, both relationships are moderated by labor market flexibility and efficiency, but in different ways. Implications for research and practice are discussed.

1. Introduction

While cross-border acquisitions have become common, our knowledge and understanding of this phenomenon remains fragmented (Shimizu, Hitt, Vaidyanath, & Pisano, 2004; Weber & Fried, 2011). As the value and the volume of international transactions continue to grow (Cartwright, 2005; Lakshman, 2011), most cross-border acquisitions are not successful (Shimizu et al., 2004). In general, acquisition success rates remain low with failure rates ranging from 40 to as high as 90 percent (Bagchi & Rao, 1992; Christensen, Alton, Rising, & Waldeck, 2011; Homburg & Bucerius, 2006). Additionally, despite decades of research (Bauer & Matzler, 2014; Birkinshaw, Bresman, & Hakanson, 2000; Haspeslagh & Jemison, 1991), a meta-analysis has found the most common acquisition research variables have no consistent and significant effects in explaining acquisition performance (King, Dalton, Daily, & Covin, 2004). As a result, the mechanisms influencing value destruction or creation remain unclear (Ellis, Reus, & Lamont, 2009), and represent a puzzle for both academics and practitioners (Meglio & Risberg, 2010; Weber, Tarba, and Bachar, 2011). For cross-border acquisitions, Wu, Wang, Hong, Piperopoulos, & Zhuo (2016) suggest theory does not fully predict the impact of host country institutions on internationalization performance, because the institutional environments of host and parent firms interact.

An interaction between combining firms and their different institutional environments points to the importance of integration on acquisition performance (e.g., Angwin, 2004; Angwin & Meadows, 2015; Appelbaum, Gandell, Yortis, Proper, & Jobin, 2000; Homburg & Bucerius, 2006; Schlaepfer et al., 2008; Weber & Tarba, 2013), including integration speed (Bauer, King, & Matzler, 2016; Meglio, King, & Risberg, 2015, Meglio, King, & Risberg, 2017). This reflects the recognition that “all value creation takes place in post-merger integration” (Haspeslagh & Jemison, 1991, p. 132). In this paper, we follow Larsson and Finkelstein’s (1999, p. 6) conceptualization of integration as “the degree of interaction and coordination between the two firms involved in a merger or acquisition”. In addition to determining integration depth, or the amount of coordination (Steigenberger, 2016), managers confront integration planning and its execution (Jemison & Sitkin, 1986). While integration levels are often largely dictated by strategic fit (Capron, Dussauge, & Mitchell, 1998), managers have discretion on speed of integration (Bauer & Matzler, 2014; Bucerius, 2005, 2006;). Integrating too slow risks not realizing benefits (Cording, Christman, & King, 2008). At the same time, integrating too fast risks socio-cultural turmoil, including: resistance, in-group and out-group biases, and loss of key employees (Meglio et al., 2015; Puranam, Singh, & Chaudhuri, 2009; Paruchuri, Nerkar, & Hambrick, 2006; Weber, Tarba, & Reichel, 2009).

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Research examining integration speed in acquisitions tends to focus on the firm level and examines the relationship of speed of integration and acquisition performance (e.g. Angwin, 2004; Bauer et al., 2016; Homburg & Bucerius, 2006; Uzelac, Bauer, Matzler, & Waschak, 2016) or internal reorganization (Cording et al., 2008). While research has examined cultural differences in cross-border acquisitions, there is less research on institutional differences (Alimov, 2015; Chacar, Newburry, Vissa, & Chacar, 2010; Choi, Lee, & Shoham, 2016) and little to no research has examined the impact of institutional differences on integration speed. An exception involves recent research on integration approaches from emerging economies. For example, Liu and Woywode (2013) find Chinese acquirers of companies in German speaking countries apply a light integration approach which confirmed earlier results that Asian acquirers tend to integrate acquisitions slowly (Cogman & Tan, 2010). Consequently, research continues to call for examining the impact of different institutional contexts in cross-border acquisitions (Buckley, Munjal, Enderwick, & Forsans, 2016; Meyer, Estrin, Bhaumik, & Peng, 2009; Xing, Liu, Tarba, & Cooper, 2016; Zheng, Wei, Zhang, & Yang, 2014).

A country's institutional environment reflects "the set of all relevant institutions that have been established over time" (Kostova & Roth, 2002, p. 180), or the "rules of the game" (North, 1990). Research suggests that country effects on firm performance can be as powerful as industry effects (Makino, Isobe, & Chan, 2004), making the examination of institutional contexts an important line of inquiry in cross-border acquisition research (Ferreira, Santos, de Almeida, & Reis, 2014; Stucchi, 2012). For example, institutional differences across countries influence entry mode decisions (Meschi, Phan, & Wassmer, 2016; Slangen & van Tulder, 2009; Meyer et al., 2009), and innovation performance (Wu et al., 2016). Beyond traditional differences in country institutions, research in economics suggests that labor factor market conditions (Botero, Djankov, Porta, Lopez-de-Silanes, & Shleifer, 2004; Siegel & Larson, 2009), including labor protections preventing dismissal of workers, influences a country's employment (Breen, 2005; Neumark & Wascher, 2004). Factor conditions reflect "formal and informal rules governing the labor market"(Siegel & Larson, 2009, p. 1527). This makes labor market factor conditions relevant to cross-border acquisitions, as a consistent motive behind acquisitions is to improve efficiency from reducing personnel. For example, country contexts that provide greater employee protection may decrease the fear and uncertainty of employees following an acquisition (Homburg & Bucerius, 2006), and different labor market factor conditions can drive higher transactions costs (e.g., Hoskisson et al., 2013).

In our study, we make multiple contributions to theory by developing and testing the impact of the labor market factor conditions on integration processes. First, our study answers calls to examine the business environment surrounding acquisitions (King & Schriber, 2016; Teerikangas & Josep, 2012) and across different institutional settings (Paustian-Underdahl et al., 2017). With the notable exception of Capron and Guillén (2009), the impact of labor market conditions on integration decisions and acquisition performance remains largely unexamined in developed economies, and we find labor market differences matter for acquisition outcomes. Second, we address one of the most important managerial choices in acquisitions, that of integration speed (Bauer & Matzler, 2014). We develop how the institutional characteristics moderate central relationships in acquisition research and can resolve conflicting results in integration research. In our examination of the institutional effects of labor market flexibility and efficiency, we find that they do not have direct effects on acquisition performance. Instead, labor market factor conditions moderate the relationship of human and functional integration speed on acquisition performance. This underscores the need for managers and researchers to consider how elements of an institutional environment change established experience or anticipated relationships. Third, our study contributes to new institutional economics research on acquisitions. While this research field has pointed to discrepancies in the institutional setting in acquisitions involving developing and developed countries (e.g. Lebedev, Peng, Xie, & Stevens, 2015), our research begins to outline how institutions offer a fruitful starting point for understanding acquisition performance also in acquisitions involving developed countries.

2. Theory and hypotheses development

New institutional economics (NIE) examines the role of institutions in developed economies on economic growth (Faundez, 2016). As defined by Douglas North, an architect of NIE, institutions are the "rules of the game" in society that constrain human interaction (North, 1990). For cross-border acquisitions, the "rules" in one society often differ from another, and manager decisions are constrained by the institutional environment (Meyer & Peng, 2016). However, acquisition research has focused more on issues internal to combining firms, in spite of observations that integration decisions are not always "the buying companieś free choice" (Bauer, 2016, p. 343). For example, managers have limited choice on the environmental or tax regulations applying to an acquisition. Additionally, firms also contend with variance in labor laws. Specifically, firms conducting cross-border acquisitions can struggle to realize cost efficiencies in countries with strong employment protection laws (Belenzon & Tsolmon, 2016). For example, some integration efforts generally accepted in one culture may contradict basic cultural assumptions in another (e.g. Cooke & Huang, 2011). This is also consistent with calls to consider additional aspects of national institutional differences (Stenard & Sauermann, 2016).

The impact of different labor market characteristics on the pace of integration needs examination, as the labor market influences the ability of an acquirer to implement changes in personnel (Schneper & Guillén, 2004). The importance of the institutional context derives from the fact that it sets the frame for integration processes and outcomes (Alimov, 2015), and employee participation differs between legal environments to impact what can be achieved during integration (Aguilera & Dencker, 2004). Legal regulations set boundaries, even though multinational firms develop capabilities in dealing with institutions that are transferable (Carney, Dieleman, & Taussig, 2016). Limited transferability from institutions and capabilities displaying path dependency (e.g., Faundez, 2016) likely has an impact on choices for the speed of integration in cross-border acquisitions.

Theory identifies speed of integration as central to acquisition outcomes. However, research provides conflicting results regarding the relationship between integration speed and acquisition performance. On the one hand, slower integration can foster trust building and on the other hand faster integration can minimize instability and enable realizing improvements faster (Angwin, 2004; Birkinshaw et al., 2000; Buono & Bowditch, 2003). We anticipate beginning to reconcile these divergent expectations is aided by separately examining human and functional integration speed. These separate constructs relate to different decisions that often involve trade-offs where progress on one dimension can come at the expense of the other (Haspeslagh & Jemison, 1991). Further, adjusting speed of human and task integration separately has been found to positively influence acquisition performance (Bauer et al., 2016; Birkinshaw et al., 2000; Gates & Very, 2003; Schweizer, 2005). The combined implication from acquisition research is that managing integration and its speed is an important, but an insufficient condition for improving acquisition performance. Further improvement in performance and our understanding of its antecedents likely also needs to consider differences in the institutional context. Each of these concepts and their interactions are developed in the following subsections.

2.1. Human integration speed

Employees balance commitment to an organization with an organization's observed commitment to people (Ahammad, Glaister, Weber,

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