Recasting the dynamics of post-acquisition integration: An embeddedness perspective

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ABSTRACT

M&A scholars have generally assumed that post-acquisition integration is a self-contained process. However, this ignores that this process rarely unfolds as the only ongoing initiative in an organization. We contend that post-acquisition integration is not detached from other simultaneous change processes in the organizational context and this has important implications for our understanding of how integration dynamics actually evolve. To further understand this embeddedness, we examine the unfolding of a post-acquisition integration process in a company faced with an unanticipated drop in demand due to the global economic crisis. Through a qualitative, longitudinal study conducted over three years, we carried out 151 interviews to uncover the unfolding of the post-acquisition process. We find that post-acquisition integration is embedded in a set of co-evolving processes. We highlight four mechanisms (coordination, cohesion, disconnection, alienation) that arise from the co-evolution of processes that either facilitate or impede integration. Our findings contribute to our understanding of post-acquisition integration dynamics by recasting the integration process as embedded in a set of co-evolving processes that shape its unfolding.

Introduction

Post-acquisition integration is critical for reaping the expected benefits of the deal, harvesting synergies and creating value (Hassetlagh and Jemison, 1991). Post-acquisition integration represents a major organizational change process that requires extensive effort and resource dedication (Larsson and Finkelstein, 1999) and may divert managerial attention away from core activities (Yu et al., 2005). A challenge for acquiring firms is thus to deal with a demanding integration process, while maintaining focus on their ongoing activities (Puranam et al., 2003). However, an integration process rarely unfolds as a single initiative in an organization. Rather, organizations often carry out multiple and overlapping changes (Hafsi, 2001; Pettigrew et al., 2001). Managers in acquiring firms are thus faced with balancing integration of the focal acquisition and ongoing operations, while simultaneously managing other change processes.

Extant Mergers and Acquisitions (“M&A”) research has largely examined post-acquisition integration processes as isolated events (Laamanen and Keil, 2008). In this manner, scholars have focused on managerial decisions and outcomes of the focal integration process without acknowledging the broader organizational context within which these decisions and outcomes unfold. This organizational context consists of strategic issues and change processes that, although exogenous to the focal acquisition, may...
significantly shape the integration process and its outcomes. We argue that to further our understanding of the dynamics and complexities of post-acquisition integration, we need to broaden the focus of inquiry beyond the specific integration process. Thus, in this study, we ask: ‘how is the unfolding of the integration process shaped by other strategic initiatives and ongoing changes in the organizational context?’

In order to gain a rich understanding of how post acquisition integration may unfold, we gained access to a French multinational company (MNC-Metals) as it was acquiring a Norwegian firm (Beta-Mang). Shortly after the acquisition announcement, the companies faced a significant drop in demand due to the economic crisis of 2008. This presented managers with major challenges in carrying out the integration process, while managing the consequences of the drop in demand. Distressed firms face scarce resources, diminished managerial discretion and restrictive stakeholders (Trahms et al., 2013). As such, the case represented a particularly revealing opportunity to explore inductively how the unfolding integration process is shaped by other ongoing initiatives in the organization.

Our findings are twofold. First, we identified three ongoing processes in the firms: operations, crisis management, and post-acquisition integration processes. We found that organizational members’ perceptions and actions, and ultimately integration outcomes, are intertwined across these processes. In this manner, the focal integration process does not unfold as a self-contained process, but rather as embedded within a set of co-evolving organizational processes. Second, we identified four mechanisms (coordination, cohesion, disconnection, alienation) that either facilitate or impede integration, thus shaping the unfolding of the integration process.

Our findings contribute to the understanding of post-acquisition integration dynamics. First, we theorize integration dynamics by recasting the post-acquisition integration process as embedded in a set of ongoing, simultaneous and co-evolving processes. Second, we conceptualize the micro tensions inherent in task and human integration processes that shape the unfolding of post-acquisition integration. Third, we uncover how the loci of causal ambiguity between integration decisions and outcomes may be exogenous to the integration process itself. Finally, we identify the contingencies for managerial agency in post-acquisition integration as dynamic and emergent, leading to a refined understanding of unintended integration outcomes.

Literature review

Post-acquisition integration is a means to manage interdependencies and secure efficient and effective use of resources by making “changes in the functional activity arrangements, organizational structures and systems, and cultures of combining organizations” (Pablo, 1994: 806). M&A scholars have addressed the challenge managers face in defining the appropriate level of integration as the integration-autonomy dilemma (Zaheer et al., 2013). On the one hand, integration is required for knowledge and capability transfers and to achieve coordination benefits and synergies (Bresman et al., 1999; Haspeslagh and Jemison, 1991). On the other hand, there is a need to preserve the autonomy of the target, as integration may disrupt the task environment, and subsequently destroy the target’s capabilities (Graebner, 2004; Puranam et al., 2003, 2009, 2006).

Depending on the need for autonomy and the need for strategic interdependence, managers can choose different integration approaches to secure value creation. The target and the acquiring firms may blend into one new organization, the acquirer may assimilate the target, or the target may become a stand-alone after the acquisition (Angwin and Meadows, 2015). Scholars have suggested hybrid approaches to integration, allowing for linking of non-core activities, while preserving the strategic capabilities of the firm (Haspeslagh and Jemison, 1991; Schweizer, 2005).

Research has focused on the integration process as shaped by managers’ decisions regarding mode and speed of integration, that ultimately influence acquisition outcomes (Haspeslagh and Jemison, 1991; Jemison and Sitkin, 1986; Pablo, 1994). Birkinshaw et al. (2000) contend that managers seek to limit the risks associated with integration by first attending to the pre-acquisition units’ performance, before coordinating activities between the units. They distinguish between task integration and human integration. Task integration involves the transfer of capabilities and sharing of resources, while human integration is defined as the generation of satisfaction and the development of a shared identity among employees of both firms. Successful integration requires initial limited task integration, allowing firms to develop social relations, subsequently laying the foundations for later coordination. Noting the lack of clarity in the causal link between integration decisions and their performance outcomes, Cording et al. (2008) introduced the concept of “intermediate goals” that mediate the relationship between acquisition decisions and acquisition outcomes within the focal integration process. Extant research has thus searched for explanatory factors for M&A outcomes by exploring the link between integration decisions and outcomes, largely ignoring the context the integration process is embedded in.

Organizations regularly undergo multiple and overlapping changes (Pettigrew et al., 2001). Subsequently, the integration process unfolds in a context of other ongoing organizational changes and strategic initiatives that are exogenous to the integration process itself. The organizational context is not just a stimulus environment, but a nested arrangement of structures and processes shaped by the subjective interpretations of actors (Pettigrew, 1992). The organizational context in which decision makers operate, determines what issues they give attention to, and their subsequent actions (Ocasio, 1997). Post-acquisition, managerial resources are strained as managers need to deal with business-as-usual and resource demanding integration activities. We know that lack of managerial attention to integration issues is detrimental to acquisition outcomes (Yu et al., 2005). However, our knowledge is limited of how strategic initiatives and organizational changes exogenous to post-acquisition integration, may strain managerial resources and thus shape integration decisions and managerial actions during post-acquisition integration. We argue that to further our knowledge of the
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