Exploring sources of value destruction in international acquisitions: A synthesized theoretical lens

Tian Wei* a, Jeremy Clegg b

a Department of Business Administration, School of Management, Fudan University, Siyuan Building, 670 Guoshun Road, Shanghai 200433, PR China
b Leeds University Business School, Maurice Keyworth Building, University of Leeds, Leeds, LS2 9JT, UK

A R T I C L E   I N F O
Article history:
Received 20 January 2016
Received in revised form 26 February 2017
Accepted 1 March 2017
Available online xxx

Keywords:
Resource-based view
Resource dependence theory
Post-acquisition integration

A B S T R A C T

By synthesizing two complementary theoretical perspectives – resource dependence theory (RDT) and the resource-based view (RBV) – this study explores why acquirers destroy the acquisition value in international acquisitions in high-technology industries. Using a multiple case study approach, we develop a two by three matrix to present the sources of value destruction from two dimensions: environment dynamics and strategic resources, which are drawn from the RDT and RBV, respectively. Our study contributes to the acquisition literature in three respects. First, it answers the call to integrate several theoretical perspectives to examine sources of value destruction, particularly in international acquisitions. Second, it attempts to unlock the black box of why value destruction exists in post-acquisition integration. Third, it advances understanding of the basis of value destruction in terms of non-financial measures.

© 2017 Elsevier Ltd. All rights reserved.

1. Introduction

Post-acquisition integration has been viewed as a key determinant in resolving the enduring mystery in international business research of why performance benefits from acquisition remain elusive, while firms’ appetite for acquisitions remains high (Haseslagh & Jenison, 1991; Heimeriks et al., 2012; Sun, Peng, Ren, & Yan, 2012). Over the last three decades, integration approaches, which manipulate resources to achieve acquisition performance (King, Slotegraaf, & Kesner, 2008), have inspired numerous works on the operational level (Ellis, 2004; Haseslagh & Jenison, 1991; Marks & Mirvis, 2000; Weber, Tarba, & Reichel, 2009) and on the capabilities of acquirers in redeploying resources post-acquisition (Sirmon, Hitt, & Ireland, 2007; Zollo & Singh, 2004). However, even given these contributions to the improvement of acquisition performance, these existing studies fail to reveal why value destruction when integrating target firms emerges post-acquisition as an impediment to achieving the expected acquisition performance.

Externally, according to resource dependence theory (RDT), firms are open systems that are dependent on contingencies in the external environment (Pfeffer & Salancik, 1978). This explains how (although constrained by the external environment) firms strive to reduce their environmental interdependence and uncertainty by adopting strategies that, at least partially, enact their environment (Gaffney et al., 2013). Through mergers and acquisitions, acquirers manage their resource dependency on their environment by absorbing the needed resources from the target firms (Pfeffer, 1972). Environment dynamics, which represent the tremendous risks in the market and industry in which firms operate (Luo, 2004) are therefore closely related to the strategic resources that acquirers aim to absorb through acquisitions.

Internally, from a resource-based view (RBV), the success of a firm depends not only on a bundle of rent-earning resources but also on the way in which these resources are allocated, deployed, and utilized (Teece, Pisano, & Shuen, 1997). RBV can readily be used to explain how the integration of the acquirer and target firms is planned and implemented (Wei & Clegg, 2014). Strategic resources, which are commonly defined according to a firm’s distinctive competency (Hitt & Ireland, 1985), are critical to acquisition performance and are expected to be acquired by the target firms (Barney, 1991). As such, integrating target firms means acquiring different bundles of strategic resources and redeploying them post-acquisition.

In the process of resource redeployment post-acquisition, acquirers face the risks of failing to capture the expected value of acquirers’ shareholders (Cording et al., 2008; Datta, Pinches &
Narayanan, 1992). Scholars have focused on how issues that arise during acquisition integration contribute to poor acquisition performance (such as Jordan, Souza, & Avelar, 2014; Larsson & Lubatkin, 2001; Lin, 2014). However, the existing literature has been criticized for not clearly identifying the variables affecting acquisition performance (King, Dalton, Daily, & Covin, 2004) or discrete variables from multiple disciplines to unlock the underrepresented post-acquisition integration (Gomes, Angwin, Peter, & Mellahi, 2012). Part of the reason is that inadequate theoretical frameworks lack the explanatory power to reveal the nature of value destruction (Cording et al., 2008; Datta & Grant, 1990; Hitt, Harrison, Ireland, & Best, 1998).

In our study, with a focus on the strategic resources identified within the target firms that are redepolyed after the acquisition, we build our insights from the synthesized theoretical lenses of RDT and RBV. Specifically, we explore sources of value destruction post-acquisition, confronting the complexity of the combined role of environment dynamics and strategic resources. Our central research question is therefore “why do acquirers destroy the acquisition value post-acquisition from a synthesized perspective of RDT and RBV?”

In order to reflect our research focus, we select high-technology industries as our research context. This group of industries was chosen for reason of its reflections on two theoretical lenses of our study. The research design employs ten cases from within this industrial grouping. The theoretical framework was developed starting with six cases drawn from the Medical Technology Industry, as a representative of high-technology industries to obtain comprehensive insights to develop the theoretical framework (Fig. 2). Further case data collection followed from another four industries, also within the high-technology industry grouping, to provide confirmatory support to the generalization to theory of our framework for the high-technology industries.

Our study contributes to the existing literature in three respects. First, our study synthesizes two complementary theoretical views (RDT and RBV) to systematically understand why acquirers destroy the acquisition value (i.e., the comprehensiveness of sources of value destruction). Second, we contribute to clarifying the causal relationships between acquisition motivation and acquisition performance by exploring sources of value destruction within three different contexts. Third, answering the call for non-financial variables, our study proposes two strategic variables to measure value destruction.

The paper is structured as follows. In Section 2, we explore the theoretical foundations of this study on RDT and RBV in post-acquisition integration and review the existing literature on value destruction post-acquisition. It concludes by identifying the constructs for the data collection and case analysis. In Section 3, we discuss the research design, including an explanation of the data collection and data analysis. In Section 4, we present a within-case analysis in this multiple case research and conduct a further analysis of the relationships among the constructs in the context of three propositions. In Section 5, we discuss the findings, and contributions to existing literature. In Section 6, we summarize this study by highlighting our major findings.

2. Environment dynamics and strategic resources in post-acquisition integration

2.1. Environment dynamics in high-tech industries: RDT

RDT has become a dominant theoretical rationale in explaining the motivations of firms that engage in mergers and acquisitions (Yin & Shanley, 2008). It offers an external perspective on why firms acquire other firms (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). Pfeffer (1976) proposed this theory, offering three reasons for acquisition: “First, to reduce competition by absorbing an important competitor [sic] organization; second, to manage interdependence with either sources of input or purchasers of output by absorbing them; and third, to diversify operations and thereby lessen dependence on the present organizational with which it exchanges.” Similarly, it has been argued that one of the managerial goals of acquisitions is to reduce firm dependence on other firms in their environment (Barney, 1991).

Environment dynamics create enormous appropriability hazards when deploying distinctive resources or proprietary knowledge (Luo, 2004). It strongly influences the dependence of firms on other firms in the competitive environment (Rosenzweig & Singh, 1991). The uncertainty of the market or industry generates the biggest risks for acquirers (Luo, 2004; Oxley, 1999) and therefore should be considered as an antecedent of acquisitions (Haleblian et al., 2009). According to RDT, firms should acquire different strategic resources to reduce their dependence on each of them.

2.2. Strategic resources in post-acquisition integration: RBV

Building on the earlier work by Penrose (1959) and Nelson and Winter (1982), RBV examined the economic returns to resources that a firm owns, acquires, or develops (Barney, 1991). In order to facilitate the exploration of arm’s-length transactions the business environment or neutralizing a threat, resources must be valuable, rare, nonsubstitutable, and imitable (Barney, 1991).

According to RBV, acquisition is one of the strategies that acquire and deploy resources to increase the competitive advantages of acquirers (Capron & Pistre, 2002; Capron, 1999). It has been viewed as a means of facilitating the redeployment of assets and competency transfers to generate economies of scope (Haleblian et al., 2009), thereby leading to significant resource realignment between acquirers and target firms (Capron et al., 1998). Essentially, among all the different types of resources possessed by the target firms, only strategic resources have a discernible influence on integration (Capron et al., 1998; Song, Cornelia, Sangphet, & Roger, 2005; Wei & Clegg, 2014). Therefore, the redeployment of strategic resources that are determined by RDT and acquired from target firms is essential in order to achieve the expected acquisition performance post-acquisition.

2.3. Post-acquisition integration and a synthesized theoretical lens

The post-acquisition integration phase has been widely recognized as a critical part of the acquisition process and a main source of value creation (Angwin & Meadows, 2015; Gomes, Weber, Brown, & Tarba, 2011). To scientifically investigate observation that, on average, acquisitions fail to create expected value for acquiring firm shareholders, numerous theoretical and empirical works have made attempts to explain the sources of value destruction, where value destruction is defined as “destroying bidder’s value” (Masulis, Wang, & Xie, 2007), in post-acquisition integration (e.g., Cording et al., 2008; Datta, 1991; Epstein, 2004; Howell, 1970; Schweizer & Patztelt, 2012). However, why value destruction exists (and is prevalent) remains elusive and requires further research (Gomes, Angwin, Weber, & Tarba, 2013).

First, scholars have not clearly identified, nor been able to reproduce, variables that impact value destruction in post-acquisition integration (Gomes et al., 2013; King et al., 2004). Value destruction is depicted in financial approaches mostly in terms of the shareholder wealth creation, including short-term market returns (Cornett & Tehranian, 1992; Kaplan & Weisbach, 1992), annual buy and hold returns (Loughran & Vish, 1997), or accounting measures (Krishnan, Miller, & Judge, 1997; Zollo & Singh, 2004) over the long term. From its definition, which therefore involves the action or process of destroying the bidder’s
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات