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Who's acquiring whom? — Experimental evidence of firm size effect on B2B mergers and marketing/sales tasks

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ABSTRACT

A recent study has revealed a marked growth in global mergers and acquisitions between firms from developed and developing countries. Unlike previous merger waves, however, companies in emerging markets are playing an increasingly important role. This highlights the need for greater scrutiny of more, and diverse, aspects of mergers. In particular, the size difference between firms involved in mergers and its impact on merger outcomes are of interest. This paper examines whether the involvement of differing numbers of employees (either from the acquiring firm or from the acquired firm) may influence merger success. Drawing on previous work in understanding organizational culture and merger dynamics, we conduct a laboratory experiment that not only confirms the presence of learning and conflict in organizational cultures in mergers but also presents new findings in relation to the relative size of the firms involved.

1. Introduction

According to A.T. Kearney's study (Rothenbuecher & Hoyningen-Huene, 2008) of global mergers and acquisitions (M&A), deals between developing and developed countries grew at an annual rate of 19% since. This far exceeded the industry average, and was four times faster than deals conducted within either developing or developed countries alone. More interestingly, the study found that smaller companies from developing countries such as China, India, Malaysia, Russia, the United Arab Emirates and South Africa are snapping up larger and established firms in developed countries at a surprising rate. In 2007 almost 20% of the 2168 acquisitions recorded were driven by companies from developing countries. Furthermore, this pattern is growing by 26% annually. Thus, rising competitor firms from emerging economies may present a greater potential threat to established companies in developed countries, and will certainly form a much greater component of future merger activity. We therefore call for a greater scrutiny of the diverse aspects of mergers — in particular the size difference between firms involved in mergers and its role in determining the mergers' outcomes.

Given the dearth of M&A research which explores the organizational culture aspects of the merger process, and criticisms of the ability to measure and test organizational culture (Buono & Bowditch, 1989; Cartwright & Cooper, 1990, 1995; Clougherty & Duso, 2009; Larsson & Finkelstein, 1999; Napier, 1988; Schweiger & DeNisi, 1991; Schweiger, Ivancevich, & Power, 1987; Vaara, 2002; Weber & Camerer, 2003), the work of Weber and Camerer (2003) is notable because it introduces a procedure for growing organizational culture in a laboratory environment and examines how subjects create their "homeland languages" in organizations (Camerer & Weber, 2008). They conducted an experiment where they allowed subjects in 'firms' to develop an organizational culture, and then merged two such firms. As they expected, performance decreased following the merger. Their study provides experimental evidence that the conflict between the organizational cultures of the firms involved in a merger can be a major factor for post-merger performance deterioration.

However, despite its significant contribution in providing experimental evidence of this conflict as a reason for merger failures, their research does not take into consideration the effect of relative size and employee composition in the merger, as each merger consisted of two employees from the acquiring firm and one employee from the acquired firm. Indeed, Weber and Camerer (2003) found that the difference in pre-and post-merger completion times in the merger sessions is unlikely to be due to a pure group-size effect (p. 410). Therefore, their experimental investigation on the negative influence of conflict of organizational cultures on merger outcomes rests on employee compositions in post-merged firms that are symmetrical (i.e. one manager

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from the acquiring firm plus one employee each from the two respective firms), and fails to reflect more diverse and different employee compositions in post-merger firms where symmetry is not present.

In reality, mergers between asymmetrical partners are the more common phenomena (Smeets, Ierulli, & Gibbs, 2006). Moreover, in cross-border mergers and acquisitions by emerging market firms, it is often the case that the acquiring firm has a smaller presence than the target firm in the local market, regardless of its global presence (Aulakh, Kotabe, & Teegen, 2000; Cuervo-Cazurra, Maloney, & Manrakhan, 2007; Guillén, 2002; Uhlenbruck, Rodriguez, Doh, & Eden, 2006; Vermeulen & Barkema, 2001). According to Dackert, Jackson, Brenner, and Johansson (2003), both groups involved in the merger expect one group to be dominant after the merger and organizational members form perceptions about their merger partner's organizational culture and its dominance, even prior to integration. Subsequently they use these preconceptions to structure the post-merger reality. Cartwright and Cooper (1993) note that when an acquired firm is the smaller merger partner, it wholly adopts the changes that are introduced by the acquiring firm. Under this particular type of merger, success depends upon displacing the organizational culture of the smaller partner (Pikula, 1999). Then, one might wonder what the outcome would be if the acquiring firm was smaller than the target firm, regardless of the superiority of the acquirer's practices or procedures as compared to the acquiring firm. This is an intriguing question to answer considering the recent trend in global M&A that will form a much greater component of future merger activity.

We argue that the relative firm size of the partners — an involvement of a different number of employees (either from the acquiring firm or from the acquired firm) — has a significant influence on merger outcomes. Our objective therefore is to examine whether the involvement of asymmetric numbers of employees from the acquiring firm and from the acquired firm would result in different findings from those of Weber and Camerer (2003). To this end, we conducted a laboratory experiment to examine equal and unequal employee compositions in the post-merger firms while confirming the earlier finding on the negative influence of conflict of organizational cultures on merger outcomes.

2. Organization culture, size difference and merger performance

Mergers and acquisitions have been used as a market growth strategy (Richey, Kiessling, Tokman, & Dalela, 2008). Moreover, mergers and acquisitions have proven to be a significant and increasingly popular means to maintain a competitive advantage (Anderson, Havila, & Salmi, 2001; Nahavandi & Malekzadeh, 1988; Schraeder & Self, 2003), even though they show only a marginal success rate (Schoenberg, 2006; Weber & Dholakia, 2000). The unpleasant observation of the many merger failures has caught the interest of researchers and practitioners, whose studies have ranged from offering traditional explanations of merger failure to examining the more diverse aspects of mergers and their role in determining merger outcomes. In this section, we explore recent studies to develop our own understanding on merger dynamics and sets hypotheses to test based on the understanding.

2.1. Learning aspects in mergers and acquisitions

Diversity in the dynamics of M&A's has been the focus of more recent research. In particular, recent researchers, such as Heimeriks, Schijven, and Gates (2012), note a rapidly growing stream of research which examines acquisitions from a learning perspective, supporting the belief that prior experience is likely to be crucial in dealing with the complexity that firms encounter during the acquisition integration process. Schweiger and Goulet (2005) found that in relation to organizational culture, deep-level learning interventions develop constructive employee perceptions and attitudes that are believed to enhance performance in acquisitions that require human integration to achieve synergies. Feiler and Camerer (2010) conducted an experiment that examines the conflict that can occur in a merger due to a firm's use of specialized language, or “code.” This task creates simple organizational “cultures” by requiring subjects to develop conversational norms to quickly refer to pictures (also see Camerer & Weber, 2008; Weber & Camerer, 2003). This codification of experience is seen as central to M&A integration success (Heimeriks et al., 2012).

By focusing on conflict resolution in organizational cultures as a learning process, characterized by the establishment of a shared “code” or understanding between team members, Peters (2012) claimed that knowledge and ideas are not things, but emergent properties of collectives that do not need to be converted into tangible form to add value. Knowledge can be traded for more knowledge, for another form of intangible value (e.g., a favor or benefit), or converted to a more tangible form and then traded (Allee, 2008). Intangibles include those extras people do to help keep things running smoothly and build relationships (e.g., exchanges of strategic information, planning knowledge, process knowledge, technical know-how, collaborative design work, joint planning activities, and policy development) and so are important aspects of post-merger functionality.

It is well known that superior competitive knowledge can be a sustainable advantage for a firm (Grant, 1996). However, in order for competitive advantage to be attained and sustained, it is necessary to collectively learn and develop new capabilities and adapt at an increasing speed (Peters, Johnston, Pressey, & Kendrick, 2010). While such knowledge can be developed from the learning dynamics of individual organizational members (Nonaka, 1994), collaborative learning is a selective learning process where members share experiences and take on asymmetric roles (Bechky, 2003; Fiol, 1994; Mitnik, Recabarren, Nussbaum, & Soto, 2009). Unlike individual or shared learning, collaborative learning involves the capitalization of one another's resources and skills (Chiu, 2000, 2008a) and refers to the methodologies and environments in which learners engage in a common task and where each individual depends on and is accountable to the others (Chiu, 2008b). Within an environment where mutual dependency and accountability is not obvious, therefore, this selective and mutual learning process is not easily identified and is not necessarily present in every organization. Thus, we posits that organizational support to encourage learning dynamics can be a critical source for developing competitive knowledge within the organization because mutual dependence and accountability between the organizational members are the antecedents for collaborative learning (Rau & Heyl, 1990). A dynamics in developing sustainable organizational culture from collaborative learning is presented in Fig. 1.

The learning process of individual team members shapes individual knowledge, which is then articulated and amplified by the organization to construct organizational knowledge (Nonaka, 1994). Organizational culture is a composite of organizational knowledge (Crossan, Lane, & White, 1999). Well-directed overall collaborative efforts contribute to a successful composition of network organization (Batt & Purchase, 2004). Hence, firms that succeed in developing and promoting collaborative learning among their organizational members possess a sustainable advantage and can surpass others in the competitive arena. If organizational culture is distinct, and developed and sustained by the knowledge developed through organizational learning dynamics and embedded in the organizational members (Grant, 1991, 1996), then post-merger organizational performance should be affected by the different compositions (equal vs. unequal) of employees in the post-merger firms.

2.2. Firm size difference and merger performance

Empirical investigations of the conflict in organizational cultures on merger outcomes have had mixed findings on the impact of the difference in firm size on organizational integration. For instance, Asquith, Bruner, and Mullins (1983) found that acquirers' abnormal returns are

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