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How do high-technology firms create value in international M&A? Integration, autonomy and cross-border contingencies

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ABSTRACT

Managing acquired foreign firms often proves to be a challenging task for the acquiring firms. We propose that industry characteristics are very important to an acquiring firm's actions, suggesting the existence of systematic differences in post-acquisition value creation in different industries. Moreover, the effect of these distinct approaches to value creation is also contingent on the bilateral national relationships of institutional distance, language differences, and diplomatic relationships between the home and host countries of the acquiring and acquired firms. Our study of 847 related cross-border acquisitions in the information technology industry in 27 home countries and 38 host countries provide support for these arguments. Specifically, we found that acquiring firms in service information technology industries where post-acquisition *autonomy* is more important in value creation outperform those in manufacturing industries where post-acquisition *integration* is preferred. Results also show institutional distance and language differences strengthen this relationship; in contrast, diplomatic relationships weaken the relationship.

1. Introduction

Firms have increasingly engaged in cross-border mergers and acquisitions (M&As) over the past two decades (WIR, 2012). The finance and strategy literatures took an early interest in identifying firm motives with respect to M&A such as increased scale and scope, efficiency and increased market power (Hitt, Ireland, & Hoskisson, 2015; Lee & Cooperman, 1989). Other aims were also identified including managerial self-interest in terms of free cash flow and over-diversification (Jensen, 1994; Sirower, 1997) and corresponding capital market outcomes of M&A activity (Piesse, Lee, Lin, & Kuo, 2013). Work in management has focused more on whether cross-border acquisition is a value-creating strategy or a value-destroying one (Hitt et al., 2015) and how the performance of acquisitions can be improved through challenging post-acquisition integration processes (Ahlstrom, Levitas, Hitt, Dacin, & Zhu, 2014; Barkema & Schijven, 2008; Reus & Lamont, 2009). However, the findings from this work have been equivocal (Seth, Song, & Pettit, 2002; Shimizu, Hitt, Vaidyanath, & Pisano, 2004: 309) in that some have found value provided to the acquiring firm (Morosini, Shane, & Singh, 1998), and others found lost market value (Reus & Lamont, 2009).

To reconcile the mixed findings about the value-creating (or value-destroying) nature of cross-border acquisitions, rather than focusing on motives and strategies, we focus on the *post-acquisition implementation* by acquiring firms, that is, integration versus autonomy activities (Haspeslagh & Jemison, 1991). A better understanding of this activity may help researchers and managers unlock the value in cross-border acquisitions (Cui, Meyer, & Hu, 2014; Phene, Tallman, & Almeida, 2012). We argue that the choice between integration and autonomy can be a key strategic choice that strongly influences the post-acquisition application of the resources located in the two involved countries and thus the value creation of the combined firms. In short, careful implementation can make a major difference in the success of the acquisition (Ahlstrom, 2014; Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004; Phene et al., 2012; Rumelt, 2011).

Although the choice between integration and autonomy is a firm-level decision, it can also be influenced by external characteristics such as industry (Graebner, Eisenhardt, & Roundy, 2010; Puranam, Singh, & Zollo, 2006). For example, manufacturing

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firms are less able than service firms in creating value by acquisitions in the same industry and outside of their home countries. This is because manufacturing firms often choose to integrate their acquisitions to achieve economies of scale and scope and improved learning. Integration with foreign acquisition targets proves very challenging. Thus in this study, we focus on cross-border acquisitions in two industries, the computer manufacturing industry and the information technology (IT) service industry, to obtain a finer-grained understanding of the influence of industry and other cross-border factors on the key firm implementation choice of integration or autonomy with respect to the management of an acquisition. In general, foreign subsidiaries in a cross-border setting seek to maintain their autonomy as they may feel they understand the local or regional environment (Ambos, Andersson, & Birkinshaw, 2010; Bouquet & Birkinshaw, 2008; Gong, Chow, & Ahlstrom, 2011). Integration, which often changes targets' routines, must therefore overcome considerable internal resistance from subsidiary managers.

The integration approach predominates in the computer hardware manufacturing sectors, in which firms rely on a global strategy that emphasizes standardization through shared production knowledge and technology to achieve efficiency in the combined firm (Prahalad & Doz, 1987). We hold this is not automatic in that *integration* will create value when the acquiring and acquired units develop synergy by efficiently combining their complementary resources or enhancing economies of scale (Puranam et al., 2006; Shimizu et al., 2004). In contrast, the *autonomy* approach may be more common in the IT service sector where firms depend on their ability and flexibility to capitalize on location-specific endowments in response to a range of demands from local governments, suppliers, or customers (Theodosiou & Leonidou, 2003). When targets retain their autonomy, they also retain their enthusiasm and ability to innovate, ensuring that these acquired targets continue to create new value post-acquisition (Puranam et al., 2006). We thus argue that autonomy will create value when the acquiring and acquired units are loosely coupled to enhance the combined firm's responsiveness to local demand in different host countries.

In addition, country matters (Makino, Isobe, & Chan, 2004; Phene et al., 2012). Different national cultures, institutional environments, religion and languages are also challenges to integration (Gong et al., 2011; Neeley & Kaplan, 2014; Stahl & Voigt, 2008). We therefore further propose that the greater efforts required for post-acquisition integration will make creating value more challenging for acquiring firms in cross-border acquisitions in the computer hardware manufacturing sectors than in the IT service sectors.

We contribute to the literature on cross-border acquisition by explicitly considering important external conditions to obtain a fine-grained understanding of the difference between the integration and autonomy approaches for value creation in cross-border acquisitions. Unlike domestic acquisitions, cross-border acquisitions can be substantially shaped by the national differences, especially the institutional differences, between countries (Hitt et al., 2004; Kostova & Roth, 2002; Shimizu et al., 2004). Our study further contributes by introducing institutional contingencies between countries, which directly responds to the call to enhance organizational research in a given field by demonstrating "how far we have advanced in our understanding of the moderator variables of our field" (Hall & Rosenthal, 1991: 447).

This work also has far-reaching practical implications for managers who seek to create new value through cross-border M&As. Our work suggests that to achieve this goal, managers need to carefully choose an appropriate post-acquisition approach, integrating with acquired targets or alternatively, providing autonomy to acquired targets. Moreover, it is imperative for managers to take into account bilateral institutional environments between countries because these external contingencies significantly enhance or dampen the effectiveness of post-acquisition integration versus autonomy approaches (Doh, 2015; Young, Tsai, Wang, Liu, & Ahlstrom, 2014). Given that the empirical literature on cross-border acquisition value creation has made limited progress by specifying the joint effect of institutional and industrial mechanisms (Shimizu et al., 2004), our study further makes a contribution by providing an empirical test using a sample of related cross-border acquisitions completed by firms in high technology, that is, the IT industry between 1995 and 2004.

2. Background

A central issue in the M&A literature is whether acquisitions create value for acquiring firms' shareholders and if so, how (Haspeslagh & Jemison, 1991; Hitt, Harrison, & Ireland, 2001; Sirower, 1997). The findings to date are mixed, in both domestic (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Hitt et al., 2015) and cross-border settings (Shimizu et al., 2004). Some studies have shown that most cross-border acquisitions destroy, rather than create, shareholder value (Kaplan & Weisbach, 1992), but others have shown that certain cross-border acquisitions do create value (Seth et al., 2002; see King, Dalton, Daily, & Covin, 2004 for the meta-analysis and see Shimizu et al., 2004 for a review). However, previous studies have not examined post-acquisition implementation factors such as integration or autonomy, which may help provide additional insight to the key question of M&A value (Graebner et al., 2010; Jacobides & Kudina, 2013; Puranam et al., 2006).

2.1. Integration versus autonomy approach

In the cross-border context, the post-acquisition integration versus autonomy dilemma is roughly parallel to the standardization versus adaptation dilemma raised in the foreign direct investment (FDI) literature. The standardization perspective emphasizes integration owing to increased globalization tendencies, as firms seek to benefit from economies of scale and scope, uniform production, reduced managerial complexity, and better coordination and control systems (Hise & Young-Tae, 2011). In contrast, the adaptation perspective emphasizes subsidiary autonomy, because variation in consumer needs is still great across countries, particularly for services. Firms may thus achieve long-term profitability from the better exploitation of idiosyncratic consumer needs in different countries (Schuh, 2000; Theodosiou & Leonidou, 2003; Whitelock & Pimblett, 1997). The different approaches are often associated with the demands of different industries. For example, consumer oriented industries such as fast food often require more local adaptation than heavy industry such as machine tools.

The implications of these studies for cross-border acquisition are that when the benefit of standardization dominates, strong internal pressures for acquiring firms to integrate their acquired firms may be created. In contrast, when the benefit of adaptation dominates, strong external pressures for acquiring firms to provide their acquired firms with some autonomy may be created. Thus, a focus on internal and external pressures may be a useful resolution of the choice between integration and autonomy when aiming for post-acquisition value creation. This argument is also in agreement with the international strategy literature on the balance between the internal pressures for global integration and the external pressures for local responsiveness (Prahalad & Doz, 1987).

Harzing (2002) extended this idea and showed that firms following a global strategy are subject to internal pressures, whereas firms following a multi-domestic strategy are more