THE MANAGEMENT OF CROSS BORDER ACQUISITIONS AND PERFORMANCE

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ABSTRACT

This study investigates the management of cross border acquisitions (CBAs) and their performance. Specifically, the study examines the motives, the determinants of top management retention, the pre-acquisition management process, and the impact of post- acquisition management on cross border acquisition performance using data from a sample of CBAs made by UK firms.

Analysis of the cross border acquisition types shows that UK firms mostly acquired privately managed profitable SMEs operating in the same industry that have a friendly attitude towards the deal. UK firms tend to adopt a preservation type integration strategy in which top management were retained and top managers were frequently communicated with informally during the integration process. The findings revealed that a high percentage of acquisitions were considered successful by the management of the acquiring firm. The analysis reveals that CBAs are seen primarily as a means to enable a presence in new markets, to enable faster entry to the market, to facilitate international expansion, and to gain new capabilities.

The findings indicate that thorough evaluation of the strategic and cultural fit and, employee and business capability during the pre-acquisition phase improves the chances of acquisition success. The findings suggest that apart from understanding national and corporate cultural issues, experienced acquiring firms and inexperienced acquiring firms face similar levels of pre-acquisition problems. The analysis reveals that post-acquisition autonomy and the acquirer's commitment to the acquired firm significantly affects top management retention while financial incentives do not. The findings suggest that knowledge transfer and level of integration are significant positive determinants of CBA performance.

This study makes a contribution by providing an analysis of the types of cross border acquisitions undertaken by the UK firms during the current takeover boom, the process undertaken in their management and the outcomes achieved. The study also contributes to the existing literature by examining the impact of the evaluation of the target firm on acquisition performance which has rarely been attempted before. A further contribution is the investigation of the determinants of top management retention by applying both the theory of relative standing and the financial incentive mechanism of retention. A significant contribution is that the study provides an empirical examination of the effect of knowledge transfer on the success of cross border acquisition performance.

From the perspective of management practice, this study provides managers with an indication of where to pay particular attention when selecting a target firm. In addition, this study provides managers with an indication of where to focus their efforts and expend resources in order to retain valuable human capital during cross border acquisition integration. The study shows the importance of selecting the appropriate level of integration to achieve positive acquisition outcomes. A critical insight of importance to managers is the finding that knowledge transfer can facilitate the attainment of acquisition success.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

Cross border mergers and acquisitions (M&As) are playing a progressively more important role in worldwide M&A activity both in terms of deal numbers and values (Bertrand and Zuniga, 2006). A significant increase in the number of high value cross-border deals was observed in the 1990s with a considerable participation of European firms (Sleuwaegen and Valentini, 2006). Recent estimates of announced global M&A activity range from US$3.5 trillion to a little over US$4 trillion. In 2006, *Dealogic* estimated the total value of M&A transaction to be US$4.06 trillion and *Thomson Financial* has estimated the level of announced M&A deals at US$3.8 trillion (*Economic Outlook*, 2007).

In parallel to this rise in activity, there has been increasing recognition of the poor performance of many cross border M&As. For example, Rostand (1994) reports that about half of the cross border acquisitions fall short of meeting their initial strategic objectives. Moreover, Datta and Puia (1995) find that on average cross border acquisitions destroy value for acquiring firm shareholders. A study by KPMG found that only 17% of cross border acquisitions created shareholder value, while 53% destroyed it (*The Economist*, 1999). Moreover, cross border M&As are widely perceived as higher risk compared to their domestic counterparts. Aw and Chatterjee (2004) reported that cumulative abnormal returns for acquiring firms were significantly more negative for European cross border targets than in the case of domestic UK targets.

These findings raise the fascinating questions of what makes M&As so challenging and moreover, how do the firms manage their cross border acquisitions? This study is primarily concerned with the latter question. Specifically, how do the firms manage their cross border acquisitions in order to create value or improve performance? Given the increasing number of cross border acquisitions and their growing importance in the global market, a better understanding of the pre- and post-acquisition management issues is required.

1.2 PROBLEM STATEMENT

The difficulty of making M&As succeed has been traced back to an inadequate strategic rationale and a lack of pre-acquisition evaluation as well as the inappropriate management of the post-acquisition integration (Jemison and Sitkin, 1986a; Datta, 1991; Haspeslagh and Jemison, 1991; Schweiger et al., 1994; Morosini, 1998; Schweiger and Goulet, 2000; Ranft and Lord, 2002).

A number of studies have touched the issue of integration (Haspeslagh and Jemison, 1991; Norburn and Schoenberg, 1994; Morosini and Singh, 1994). However, based on their extensive review of extant research, Schweiger and Goulet (2000) argue that there is a need for improved understanding of "managing the post acquisition integration process". In particular these researchers regret the lack of an empirical research relationship between the pre and post acquisition phases to the successful outcome of M&As.

These concerns would seem to be particularly salient in the context of cross border M&As that present the challenge of differing country contexts in addition to the traditional burden of post-acquisition organizational integration. Surprisingly, cross border M&As have received scant research attention as compared to domestic ones (Olie, 1994; Shimizu, et al., 2004; Quah and Young, 2005). More specifically, while cross border mergers have been studied (Olie, 1990; Olie, 1994; Zaheer et al., 2003), cross border acquisitions remain an under-studied phenomenon (Shimizu, et al., 2004; Quah and Young, 2005). This is all the more important given that most so-called 'M&As' are in practice acquisitions, not mergers (UNCTAD 2000 quoted by Buckley and Ghauri, 2002; Zaheer et al. 2003). This study aims to contribute to M&A and international business research by addressing these gaps in the context of cross border acquisitions.

1.3 RESEARCH RATIONALE

To select a suitable M&A target requires a thorough due diligence. The process has some similarity with the due diligence for domestic M&As, however, the process is complicated by several elements (such as different institutional environments, cultures) that appear even more crucial in cross border acquisitions (Kissin and Herrera, 1990). Despite the significance of this process, relatively few studies have focused on the due diligence involved in cross border acquisitions (Shimizu, et al., 2004). Moreover, there is little prior research examining the impact of the pre-acquisition management process on acquisition success. This study intends to examine the relationship between pre-acquisition management issues and acquisition performance.

In reality both the purpose and nature of the M&A selection and negotiation process is extremely complex (Shimizu, et al., 2004). Managers face difficulties in analyzing strategic and organizational fit as they are prevented from understanding these factors by a series of problems inherent in the process of analyzing and negotiating with the target firm. Negotiating a cross border M&A is difficult because of lack of information and the difference in cultures (Buckley and Ghauri, 2002). Therefore, more research is needed to unpack the complexities of the due diligence and negotiation process in the context of cross border M&As.

In order to explain the departure of top management teams, existing literature has used the relative standing theory (e.g. Cannella and Hambrick, 1993) or market for corporate control theories (Walsh and Ellwood, 1991). Relatively few studies have investigated the determinants of top management retention by applying both the theory of relative standing and the financial incentives mechanism of retention. Therefore, more research is needed to explore the determinants of top management retention by applying both relative standing theory and the financial incentive mechanism of retention in the context of cross border acquisitions.

A number of post-acquisition integration issues influences the success of acquisition such as degree of integration, organizational cultural differences, knowledge transfer. The extent to which an acquiring firm attempts to integrate the acquired firm has significant implications for acquisition performance. Child et al. (2001) argued that the degree of integration achieved following a cross border acquisition is crucial because an improper level of integration might be detrimental to acquisition performance. However, prior empirical work on this matter is limited and has not yielded definitive results. Datta and Grant (1990), for example, did not find a statistically significant relationship between acquisition performance and the level of integration for their sample of related acquisitions. In contrast, Shanley (1994) found some support for the positive association between acquisition performance and the level of integration. The indecisive research findings relating to the impact of degree of integration on acquisition performance call for further research.

Cultural difference is one of the significant contributors for the high failure in both domestic and cross border deals (Buono and Bowditch 1989; Cartwright and Cooper, 1992a, 1993; Chatterjee et al., 1992; Datta, 1991; Morosini, 1998; Weber, et al., 1996). Prior research has generally focused on national cultural differences as determinants of acquisition performance. However, instead of proving the commonly expected and suggested negative impact of cultural differences on the performance of M&A, prior research has produced contradictory findings (Teerikangas and Very, 2006). In addition, the issue of organizational culture difference has received considerably less attention in cross border acquisition research – the existing research is limited, fragmented and conflicting (Buono and Bowditch, 1989; Sales and Mirvis, 1984; Datta, 1991), indicating the need for additional research.

The resource based view suggests that knowledge transfer is particularly critical for multinational companies and cross-border inter-firm alliances (Gupta and Govindarajan, 2000; Kogut and Zander, 1993). This research stream assumes that value creation by multinational companies is determined by their capability to transfer tacit knowledge (e.g., Buckley and Carter, 1999). However, only little empirical evidence exists about the relationship between cross border knowledge transfer and performance. In most knowledge based research, attention is directed towards factors that enhance or impede knowledge transfer, without subsequently examining the link to firm performance (see, for example, Ranft and Lord, 2000). As a result, further research is required to understand the relationship between knowledge transfer and acquisition performance.

This study focuses on cross border acquisitions which are popular and important in international business practice. However, the relationship between acquisition performance and the management of pre- and post-acquisition issues is a relatively unexplored research area. This study intends to fill this research gap by shedding light on the links between (i) pre-acquisition evaluation of the target firm and acquisition performance and (ii) post-acquisition management issues and acquisition performance.

1.4 RESEARCH AIM

The research aims to investigate the management of pre- and post-acquisition management process and acquisition performance in the context of cross border acquisitions.

1.5 RESEARCH QUESTIONS

There are several research questions arising from the research aim. This study intends to answer the following research questions:

What the motives are for cross border acquisitions?

What is the impact of pre-acquisition evaluation of target firm on performance?

What the determinants of top management retention are in cross border acquisition?

What is the impact of post-acquisition management issues on performance?

1.6 RESEARCH OBJECTIVES

There are four main objectives and ten sub objectives in this research. They are derived from the research questions and literature review. The objectives of this research are presented below:

Objective 1: To identify motives for cross border acquisitions

a) To identify the motives for cross border acquisitions

b) To provide a parsimonious set of factors influencing motives for cross border acquisition

c) To test hypotheses on the way in which the relative importance of factors motivating cross border acquisition may vary with the sample characteristics

Objective 2: To investigate the impact of pre-acquisition management on acquisition performance

d) To identify the importance of the factors leading to a successful acquisition deal

e) To identify the factors evaluated by the acquiring firm during the pre-acquisition phase

f) To discover the problems faced by the acquiring firm during the pre-acquisition phase

g) To investigate the impact on acquisition performance of thorough evaluation of the target firm

h) To investigate whether prior acquisition experience leads to fewer pre-acquisition problems

Objective 3: To examine the determinants of top management retention

i) To identify the importance of retaining employees of the acquired firm

j) To assess the impact of post-acquisition autonomy of the acquired firm, the acquirer's commitment to the acquired organisation, and financial incentives on the retention of top management team

Objective 4: To examine the impact of post-acquisition management on acquisition performance

k) To explore the impact on cross border acquisition performance of the degree of integration, organizational cultural differences, transfer of knowledge and top management retention.

1.7 SCOPE OF THE STUDY

The study focuses on acquisitions, not mergers. This stemmed from the exceptionally small proportion of all completed M&A transactions that are actually mergers of equals, despite the fact that mergers of equals are likely to be more complex in nature than acquisitions (Zaheer et al., 2003). Hence, as a societal phenomenon, acquisitions would seem to be of greater importance in terms of their frequency of occurrence. Moreover, there exists less research on the challenges related to the pre- and post-acquisition implementation of cross border acquisitions (Shimizu, et al., 2004; Quah and Young, 2005).

The study includes countries from the European and North American continents. This choice arose from the large numbers of acquisitions currently taking place between Western countries. The acquisition of companies from non-Western countries is likely to represent different management challenges than those completed in Western countries.

The study involves acquisitions at the level of individual subsidiaries or *units*, not at the corporate organisational level. Within larger-scale multi-unit acquisitions, each individual unit generally has a different organisational history. This makes the integration of each acquired unit a unique challenge. Thus, acquisitive responses appear to occur at the local, unit level rather than being shared across units at the corporate level. Within units, this scope can be further refined to specific businesses and product lines, if the unit consists of two or more businesses that operate along different logics.

1.8 STRUCTURE OF THE STUDY

This study is organized in the following way. Chapter two provides a review of existing literature relating to the pre- and post-acquisition management process. In particular, it reviews the literature on four issues: the motives for mergers and acquisitions; the pre-acquisition management issues; the post-acquisition management issues; the performance of cross border acquisitions.

Chapter three sets out the research methods of the study, including the choice of research design, data collection procedure, operationalization of the constructs, the response rate and conceptual framework of the research.

Chapter four presents secondary data on recent trends in UK cross border M&As in order to better locate the findings of the study from primary data. The findings regarding the motives for cross border acquisitions are presented and discussed in chapter five. Chapter six presents and discusses the empirical findings related to pre-acquisition management issues and the impact of target firm valuation on acquisition performance. In chapter seven, the findings and discussion related to determinants of top management retention are presented. Chapter eight provides the findings and discussion in relation to the impact of post-acquisition management issues on acquisition performance.

Chapter nine presents the conclusion of the study including the academic and practical contributions, limitations of the research and recommendations for future research.

1.9 SUMMARY

The chapter has presented the aim and objectives of the research along with the research questions. The research problem and research rationale were discussed to substantiate the significance of the study. The chapter also discussed the scope of the research. The final section provided the structure of the study.

The following chapter provides a review of literature relating to motives, pre- and post- acquisition management process, and acquisition performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The objective of this chapter is to review the literature on cross border M&As. The chapter begins with a review of phases of M&As. Section two provides a review of research on motives of cross border M&As. Section three focuses on the literature on pre-acquisition management process. Literature on post-acquisition management process is presented in section four. The final section reviews the research on the performance of cross border M&As.

2.2 PHASES OF MERGERS & ACQUISITIONS

Describing different phases of M&As has been quite a common approach in the literature to understand the M&A process (Risberg, 2003). The importance of these distinctions between the phases is that the process of integration and activities that influence the success of the integration begin long before the closing, at the point when companies first take contact. Surprisingly, there is little empirical research that has systematically examined the relationships among the stages and how activities conducted during the different stages affect the success of the M&As integration process (Schweiger and Goulet, 2000).

Table 2.1 Summary of selected studies on M&As Phases

Study	Model	Phases
Marks & Mirvis (2001)	3 stage	Pre combination – Combination – Post combination
Haspeslagh & Jemison (1991)	4 stage	Idea – Justification – Integration – Result
Quah & Young (2005)	4 stage	Pre acquisition – Slow absorption – Very active absorption – Totally absorbed
Lohrum (1992)	5 stage	Observation – Planning – Execution – Consolidation - Maturity
Buono & Bowditch (1989)	7 stage	Pre combination – Combination planning – Announced combination – Initial combination – Formal combination – Combination aftermath – psychological combination

In describing the mergers and acquisitions process, different researchers have used a Three-Stage model (Marks and Mirvis, 2001), a Four-Stage model (Haspeslagh and Jemison, 1991; Quah and Young, 2005), a Five Stage model (Lohrum, 1992), and a Seven Stage model (Buono and Bowditch, 1989). Table 2.1 presents summary of the selected studies on M&As phases.

Three-Stage Model

Marks and Mirvis (2001) identified the M&As process to be composed of Pre-Combination, Combination, Post-Combination. In the pre-combination stage, the deal will be conceived and negotiated by executives and then legally approved by shareholders and regulators. In combination phase, integration planning will be ensued and implementation decision will be made. In post-combination stage, the combined entity and its people will be regrouped from initial implementation and the new organization will be settled in. The model for acquisition process is presented in figure 2.1.

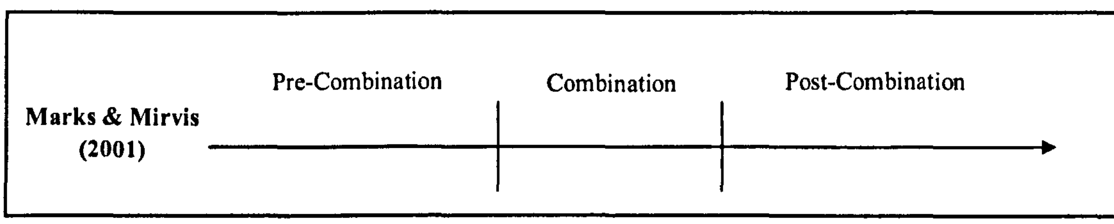


Figure 2.1: A Three Stage Model of Mergers and Acquisitions process

Four-Stage Model

Haspeslagh and Jemison (1991) consider the acquisition process to contain four major phases: idea, acquisition justification, acquisition integration, and results. The first two are referred to as the pre-combination stage, while the last two are referred to as the post-combination stage. During the idea phase, the potential acquisition is suggested and eventual combination partners are evaluated. Thereafter the acquisition must be justified to the rest of the company before the actual decision to go on with the deal is made. When the deal is a fact, the integration starts with a special phase called the "stage-setting phase". This phase involves a transition period before the integration actually starts.

In Haspeslagh and Jemison's model, the boundaries between the phases are not clear; many of the acquisition questions they raise overlap the different phases (Risberg, 2003). Hence, even though there are different phases during an acquisition, they are at the same time interactive, and the issues arising during the different phases need to be considered together (Haspeslagh & Jemison, 1991).

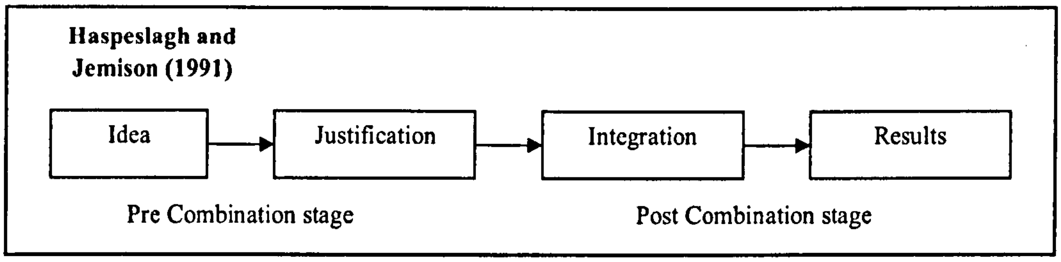


Figure 2.2: A Four stage model of M&As Process

Recently, Quah and Young (2005) suggested that to improve success, the post-acquisition management process should be divided into a number of phases with defined objectives and actions. The study provides preliminary evidence drawing upon the post-acquisition management of four European cross border M&As undertaken by an American automotive multinational firm. The authors have divided the Post acquisition management into four phases - Phase 1: Pre acquisition (6months prior to M&A), Phase 2: Slow absorption (Year 1), Phase 3: Very active absorption (Year 2-5), Phase 4: Totally absorbed (> 5 years). In addition, the authors have suggested actions to be taken in each phase. In phase 1, the acquirer should conduct interviews with key management and also carry out a cultural audit on target. The results of the cultural audit should be communicated in phase 2 along with providing training for changes in language and the financial system. In phase 3, the acquirer should gradually change the target's management and provide further training as needed. In the final phase, employee behaviour should be measured and a continuous check made of the sensitivity of national cultural difference in the acquired business.

Five-Stage model

Different parts of the process have also been divided into phases. Lohrum (1992) divided the integration into different phases to facilitate the understanding of what happens during acquisition integration. In her study of a cross border M&A, she identified the following five integration phases. The integration process started with an observation phase, where the two parties observe each other and the situation (Haspeslagh & Jemison's stage-setting phase). The next phase is the planning phase, where the management of the acquiring firm starts the formal and structural changes. The changes stayed at the formal level while the integration of people and cultures were neglected. Then the execution phase follows, which brings about a lot of changes. The human and cultural integration start in this phase, which also triggers a reaction among the employees in the acquired firm. In the consolidation phase, the real socio-cultural integration starts, when it is important to establish contacts between all hierarchical levels in both companies. When the two corporate cultures have been blended, the last phase starts – the maturity phase.

Seven-Stage Model

Buono and Bowditch (1989) identified as many as seven different combination phases. The phases are called pre-combination, combination planning, announced combination, initial combination, formal combination, combination aftermath and psychological combination. The authors discuss how the decisions in the different phases are affected by ambiguities and uncertainties in the environment. They found that in each phase the ambiguities and uncertainties were more or less salient than in other phases.

The problem with discussing the M&As process in terms of different phases is that it is difficult to identify when each phase ends and the next starts (Risberg, 2003). It is also difficult to say when the post-combination stage ends, and the relationship between the acquiring and acquired company turns into a headquarters-subsidiary relationship. Another problem with phase thinking is that phases do not have to correspond with time. Two events occurring at the same time can consequently be referred to as different phases. Different parts of the organisation and different individuals can experience different phases at the same time. Therefore it is difficult to talk in terms of the whole organisation being in "this phase" or "that phase" (Risberg, 2003).

One can also question whether phases really are sequential. Maybe some parts of the organisation experience a sequence of phases different from those described by researchers; some may skip one phase or enter a later phase before an early phase. Lohrum (1992) made an observation that people at different hierarchical levels experience different integration phases. For example, blue-collar workers only experienced two integration phases–when representatives from the acquiring company worked in the company and when they had left. It is not only difficult to distinguish between phases in reality but also in theory. In Buono and Bowditch's (1989) theory, the phases are very diffused and even the authors seem to have difficulties keeping them apart. They failed to make clear to the reader the use of all these different phases and the differences between them (Risberg, 2003).

The point of identifying stages has been to distinguish different events and activities of each stage, to further the understanding of the acquisition process and how it can be managed. Based on the previous discussion, the management of cross border M&As can be divided into two major parts i.e. the pre-acquisition management and post acquisition management. The pre-acquisition management process starts with strategic intent followed by target selection and negation process. The next section reviews the literature on motives of cross border M&As.

2.3 MOTIVES FOR CROSS BORDER M&AS

In light of the increasing significance of cross border mergers and acquisitions (CBM&As) phenomenon, scholars in the field of international business and strategy had begun to examine various aspects of mergers and acquisitions (Seth, Song and Pettit, 2000). The existing body of research is still searching answers to a fundamental question: Why do these mergers & acquisitions occur? Even though the question sounds simple, the theoretical answer is very complex. There is not one grounded theory for mergers & acquisitions, because this phenomenon covers all aspects of the firm such as cost, sales, risk, revenues, salaries, capabilities and relations to the environment.

The motives and objectives for carrying out a M&A transaction from the acquiring firm's perspective are different across various industries (see Walter and Barney, 1990; Brouthers et al., 1998). Several theories attempt to explain the objectives driving M&As: the efficiency theory, monopoly theory, hubris theory, to name but a few examples (see Roll, 1986; Trautwein, 1990; Berkovitch and Narayanan, 1993). Evidently, since an M&A-transaction constitutes an investment project which usually competes with other projects within a firm and is usually only part of the overall corporate strategy, each M&A-transaction is based on different motives. Some of the literature on M&A suggests that top management has not one single motive but follows various motives when undertaking acquisitions (e.g. Trautwein, 1990; Walter and Barney, 1990; Ingham et al., 1992; Brouthers et al., 1998). There are probably almost as many motives for M&A as there are

Table 2.2: Taxonomy and empirical studies on motives for mergers & acquisitions

Motive	Result	Theory	Empirical Studies
Synergy	More efficient organizations and pooling of complementary resources creates a gain	Differential managerial efficiency	Richardson (1972), Teece (1987), Seth, et. al., (2000)
Synergy	Replacement of inefficient management	The market of corporate Control	Fama (1980), Manne (1965), Marris & Mueller (1980), Seth, et. al., (2000)
Minimize cost	Large scale reduces different kinds of cost	Economics of scale/scope	Florence (1953), Hughes, Mueller and Singh (1980), Itami (1987)
Minimize Cost	Hierarchical solutions reduces governance cost	Transactions cost	Hart (1995), Williamson (1975)
Financial synergy	Reduced capital cost and utilisation of tax shield	Debt/equity	Brealey & Myers (1988), Lewellen (1971), Steiner (1975)
Managerial	Maximising managers wealth	Empire-Building	Amidhud & Lev (1981), Gort (1969), Jensen (1986), Jensen & Meckling (1976), Högholm (1994), Ravenscraft & Scherer (1987)
Market Shares	Create or extend sales opportunity	Growth	Gort (1969), Hallen & Wiedersheim-Paul (1982), Hay & Liu (1998), Starbuck (1965)
Market Power	Above-normal profit	Monopoly	Hughes, Mueller & Singh (1980), Pfeffer & Salancik (1978), Trautwein (1990)
Minimise Risk	Minimising fluctuations in Revenues	Diversification	Lewellen (1971), Weston & Mansinghka (1971)
Speculative	Acquisition's price is lower than correct market price	Undervaluation	Barney (1986b), (1988), Vasconcellos & Kish (1998), Gort (1969), Roll (1986)
Position	Taking another position in different network, depending on trust and relations.	Network	Forsgren (1989), Forsgren et al. (1995), Johanson & Mattsson (1988), Mattsson (1998)
Competitive advantage	Core-competencies secure a sustained competitive advantage	Competence	Hamel (1994), Prahalad & Hamel (1990)
Resources	A unique pool of resources, and efficient management of these	Resource-based	Barney (1986a), Penrose (1959), Rumelt (1984), Wernerfelt (1984)

Source: Based on Gammelgaard (2005)

bidders and targets. Yet, grouping the motives of M&A transactions into various categories is useful.

The explanations are legion so the purpose of this section is to set up a taxonomy covering different strategic motives of M&As that give different results and relate them to the relevant theoretical approach. Table 2.2 presents the taxonomies. Moreover, the relevance of each approach will be illustrated in the specific context of cross border M&A. The subsequent sections present a discussion on various motives of merger & acquisition. The motives are presented without any specific order, thus no motive has more significance than any other. The discussion starts with the synergy motive which is one of the most commonly cited motives for M&A.

2.3.1 SYNERGY MOTIVE

The term *synergy* is more often associated with the physical sciences rather than with management sciences (Gaughan, 1991). It refers to the type of reactions that occur when two substances or factors combine to produce a greater effect together than what the sum of the two operating independently could account for. For example, a synergistic reaction occurs in chemistry when two chemicals combine to produce a more potent total reaction than the sum of their separate effects. Simply stated, synergy refers to the phenomenon of 2 + 2 = 5. It refers to the ability of a corporate combination to be more profitable than the individual profit of the firms that were combined i.e. $\text{NPV Firm}_{AB} > \text{NPV Firm}_{A} + \text{NPV Firm}_{B}$.

Several empirical studies lend support to the importance of synergy as a merger motive. For instance, Bradley, Desai, and Kim (1988) documented that a successful tender offer increases the combined value of the target and acquiring firms by an average of 7.4 percent. Berkovitch and Narayanan (1993) also showed that synergy is the primary motive in takeovers with positive total gains. In another study, Maquieira, Megginson, and Nail (1998) examined 260 pure stock-for-stock mergers from 1963 to 1996. They documented significant net synergistic gains in non-conglomerate mergers and generally insignificant net gains in conglomerate mergers. Recently, Mulherin and Boone (2000) studied the acquisition and divestiture activity of a sample of 1305 firms from 59 industries during 1990-1999. The symmetric, positive wealth effects for acquisitions and divestitures are consistent with a synergistic explanation for both forms of restructuring.

Synergy theory is also applied when analyzing the motives of cross border M&A. Eun, Kolodny, and Scheraga (1996) tested the synergy hypothesis for cross-border acquisitions using a sample of foreign acquisitions of U.S. firms during 1979-1990. Their findings indicate that cross-border takeovers are generally synergy-creating activities. In addition, Seth, Song, and Pettit (2000) find that the synergy hypothesis is the predominant explanation for their sample of cross border merger & acquisitions of U.S. firms.

There are two main types of synergy – operating synergy and financial synergy. Operating synergy refers to the efficiency gains or operating economies that are derived in horizontal or vertical mergers. Financial synergy refers to the possibility that the cost of capital can be lowered by combining more or more companies. These two types of synergy are discussed below.

2.3.1.1 OPERATING SYNERGY

The synergy theory proposes that merger and acquisition take place when the value of the combined firm is greater than the sum of the values of the individual firms (Bradley, Desai and Kim, 1988; Seth, 1990a). The additional value, or synergistic gain, is derived from an increase in operational efficiency or an increase in market power (Singh and Montgomery, 1987; Seth, 1990b). One of the main sources of operating synergy is the cost reductions that occur as a result of a corporate combination. These cost reductions may come as *economies of scale* – decrease in per unit costs that result from an increase in the size or scale of a company's operations.

Manufacturing firms typically operate at high per unit costs for low levels of output. This is because the fixed costs of operating their manufacturing facilities are spread out over relatively low levels of output. As the output levels rise per unit costs decline. This is sometimes referred to as spreading overhead. Some of the other sources of these gains arise from increased specialization of labour and management as well as the more efficient use of capital equipment which might not be possible at low output levels. This phenomenon continues for a certain range of output, after which per unit costs rise as the firm experiences diseconomies of scale. Diseconomies of scale may arise as the firm experiences the higher costs and other problems associated with coordinating a large scale operation. The extent to which diseconomies of scale exist is a topic of dispute to many economists. Some cite as evidence the continued growth of large, multinational companies such as Exxon, General motors. These firms have exhibited extended periods of growth while still paying stockholders an acceptable return on equity. Others contend that such firms would be able to provide stockholders a higher rate of return if they were a smaller, more efficient company (Gaughan, 1991).

The graph presented in figure 2.3 depicts scale economies and diseconomies. It shows that there is an optimal output levels where per unit costs are a minimum. This implies that to the left of minimum cost in the diagram an expansion through the horizontal acquisition of a competitor may increase the size of the acquiring firm's operation and lower per unit costs.

Another concept that is closely related to economies of scale is *economies of scope*. This is the ability of a firm to utilize one set of inputs to provide a broader range of products and services. A good example of scope economies arises in the banking industry. Scope economies, rather than economies of scale, are often seen as the main benefits banks derive by merging (Loretta, 1987). When financial institutions merge, they can share inputs to offer a broader range of services such as a trust department or an investment department. Inputs such as a computer system can be shared to process a wide variety of loans and deposit accounts. Whether these benefits are either the true reason or a sufficient reason for the increased number of banking mergers that have taken place in the recent period of deregulation is very different issue (Gaughan, 1988).

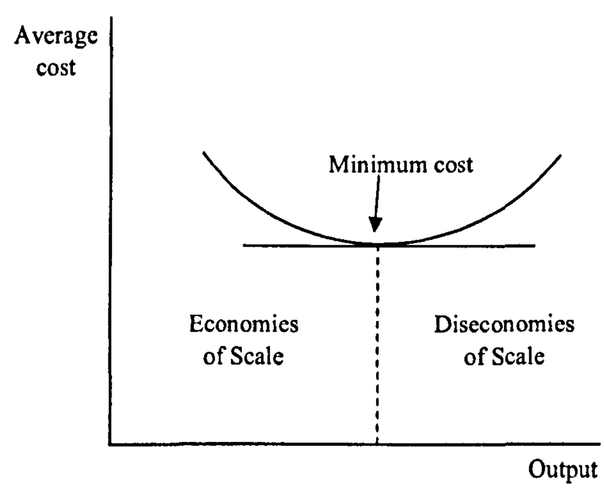


Figure 2.3: Scale economies and diseconomies

The sources of synergetic gain presented above are applied to domestic M&A. In the specific context of Cross Border M&A, the literature on corporate foreign investment describes various means by which cross border mergers & acquisitions may create value. Acquiring an existing foreign facility provides a means for the rapid exploitation of the potential for synergistic gain compared with de novo entry. One important source of synergy comes from the potential to transfer valuable intangible assets, such as know-how, between the combining firms in the presence of transaction costs that lead to failure of factor markets (Caves, 1982). If a firm has know-how under its control that can be used in markets where the sale or lease of such knowledge is inherently "inefficient", then the firm will tend to exploit its own organization. Although different versions are developed by various scholars (e.g., Williamson, 1975; Rugman, 1982; Casson, 1987), all assume that transacting in the international market entails substantial costs which will reduce the value of proprietary information. Faced with this cost, a firm will be likely to internalize the transaction and use the proprietary information within its expanded organization. Gains may also be realized from "reverse internalization": firms acquire skills and resources from cross border M&A that are expected to be valuable in their home markets. A related source of synergistic gains in cross border acquisitions focuses on market development opportunities. In order to efficiently utilize their "excess" resources for long-run profitability, firms will invest abroad when growth at home is limited or restricted and in the presence of trade barriers which restrict exports.

In addition, if national markets are segmented due to capital controls, information asymmetries and/or exchange controls, it may be possible for firms with multinational operations to realize diversification benefits which create shareholder value. This benefit arises from the reduced variability in the firm's earnings resulting from less than perfect correlation between earnings in different markets (Lessard, 1973). Another source of gains in cross border M&A associated with imperfections in capital markets arises from the potential for assets to be undervalued in their domestic market (see Aliber's (1970) "currency premium argument").

2.3.1.2 FINANCIAL SYNERGY

The second type of synergy is financial synergy. "Financial synergy" refers to the impact of a corporate merger or acquisition on the costs of capital to the acquiring firm or the merging partners. If financial synergy exists in a corporate combination, the costs of capital should be lowered. Whether financial synergy actually exists, however, is a matter of dispute (Gaughan, 1991).

The combination of two firms can reduce risk if the firms' cash flow streams are not perfectly correlated. If the acquisitions or merger lowers the volatility of the cash flows, suppliers of capital may consider the firm less risky. The risk of bankruptcy would presumably be less given the fact that wide swings, up and down, in the combined firms' cash flows would be less likely. This implies that it is less likely that cash flows would fall so low that the firm could become technically insolvent.

Higgins and Schall (1975) explain this effect in terms of debt-coinsurance. If the correlation of the income streams of two firms is less than perfectly positively correlated, the bankruptcy risk associated with the combination of the two firms may be reduced. Under certain circumstances one of the firms could experience conditions forcing it into bankruptcy. It is difficult to know in advance which one of two possible firms would succumb to this fate. In the event of one of the firms goes under, creditors may suffer a loss. If the two firms were combined in advance of these financial problems, however, the cash flows of the solvent firm, which are in excess of its debt service needs, would cushion the decline in the other firm's cash flows. The offsetting earnings of the firm in good condition might be sufficient to prevent the combined firm from falling into bankruptcy and causing creditors of suffer losses.

There are number of sources of financial synergy. One source of financial synergy is the lower cost of internal financing in comparison with external financing. Firms with large internal cash flows and small investment opportunity have excess cash flows. Firms with low internal funds generation and large growth opportunities have a need for additional financing. Combining the two may result in advantages from the lower costs of internal funds availability. Previous empirical findings appear to support this internal funds effect. Nielsen and Melicher (1973) found that the rate of premium paid to the acquired firm as an approximation to the merger gain was greater when the cash flow rate of the acquired firm was greater than that of the acquiring firm. This implied that there was redeployment of capital from the acquired to the acquiring firm's industry. The investment literature also indicates that internal cash flows affect the rate of investment of firms (Nickell, 1978).

Another source financial synergy is the low cost of capital. A larger company has certain advantages in financial market which may lower the cost of capital to the firm. It enjoys better access to financial markets, and it tends to experience lower costs of raising capital, most probably because it is considered to be less risky than a smaller firm. Therefore, the costs of borrowing by issuing bonds are lower since a larger firm would probably be able to issue bonds offering a lower interest rate than a smaller firm. In addition, there are certain fixed costs in the issuance of securities, such as SEC registration costs, legal fees, and printing costs, these costs would be spread out over a greater pound volume of securities since the larger company would probably borrow more capital with each issue of bonds.

The capital market approach also contains gains from financial synergy. It arises from changes in the debt/equity ratio. Raising the debt rate creates financial synergy through the exploitation of the tax shield. This strategy is efficient as long as the value from reduced tax is higher than the cost of financial distress (Brealey and Myers, 1988). The new company with a lower bankruptcy risk could induce lenders to establish a higher limit of lending. This will exceed the sum of original limit for the two individual firms and may result in a better exploitation of the tax shield (Lewellen, 1971).

In describing the motives of cross border M&As, researchers have also used the financial synergy approach (Seth, et. al., 2000). The effect of the guarantee must roughly be the same according to nationality. In small countries with comparatively small firms, it can be easier to locate a firm with the necessary excess of capital by going abroad. On the other hand this argument is supportive to more central motives like revenue, cost, risk and competence etc. Finally, reducing the cost of capital is useful as an argument for cross border M&As in two ways. First; the acquiring firm gets access to the acquired firm's financial network. Second; the prestige of being a large internationalised firm may sometimes lower the rate of interest (Seth, et. al., 2000).

2.3.2 MANAGERIAL MOTIVES

Unlike the hubris hypothesis, which proposes that managers inadvertently overpay for target firms, the managerialism hypothesis suggests that managers will knowingly overpay in takeovers; managers embark on M&A to maximize their own utility at the expense of their firm's shareholders (Seth, Song and Pettit, 2000). Managers can have private or personal reasons for their behaviour and make investments which from an economic point of view may seem irrational, but for the individual can be of high value. The empire-building theory explains this situation of the management wanting growth for personal reasons and acquisitions match this situation. Most important is the wage explanation, saying that the salary paid out to managers is a function of the size of the company (Mueller, 1969). Motives like power and prestige are also essential (Ravenscraft and Scherer, 1987) and managers from large companies have an easier way to positions in committees and board of directors (Pfeffer and Salancik, 1978).

Managers engage in conglomerate mergers to decrease their employment risk, which is largely un-diversifiable. The risk consists of loosing their job, professional reputation, etc. The risk associated with managers' income closely relates to the firm's risk (Gort, 1969; Amidhud and Lev, 1981). Another factor creating incentives to acquisitions is free cash flows, meaning cash flows more than required to fund all projects that have a positive net present value discounted at the relevant cost of capital. This cash flow belongs to the shareholders, but used for investment instead, managers cause their firms to grow beyond the optimal size. A solution to this problem lies in issuing debt in exchange for stock, so the contract forces the managers to pay out future cash flows (Jensen, 1986). The managers' time horizons relate to their tenure and tend to be shorter than the shareholders' time horizons. Managers will not have an interest in cash flows that cover the period after the end of their term of office (Jensen and Meckling, 1976).

While managerialism has been proposed as a motive for domestic M&A, it may also be relevant for cross border M&A if managers of foreign firms have the incentive and the discretion to engage in M&A aimed at empire building (Seth, Song and Pettit, 2000). In an integrated capital market, firm-level diversification activities to reduce risk are generally considered non-value maximizing as individual shareholders may duplicate the benefit from such activities at lower cost. However, managers may still seek to stabilize the firms' earnings stream by acquiring foreign (rather than domestic) firms, given low correlations between earnings in different countries. Foreign acquisitions may be more satisfactory vehicles for risk reduction than domestic acquisitions, and in the absence of strong governance mechanisms to control managerial discretion, managers may overpay for these acquisitions.

2.3.3 DIVERSIFICATION

Another motive for acquisition within the same industry is to reduce some of the uncertainty that derives from competition (Pfeffer and Salancik, 1978). In the theory of diversification the risk-adverse firm has an opportunity to minimize risk by expanding activities to different lines of business and thereby equalize the fluctuations in revenues. In the 1960s and the 1970s this motive of acquisition was very popular in practice and in theory, but now it has become less important. The reason for this is that most of the conglomerate acquisitions failed and ended up with losses for the acquiring firm. Furthermore, the Sharpe-Litner portfolio theory concludes that for the shareholders it is a much better way to reach the market-portfolio through their investments than through the companies they own (Lewellen, 1971).

Weston and Mansinghka (1971) give several reasons for diversification; first, to avoid sales and profit instability; next to elude unfavourable growth development and to avoid adverse competitive shifts. Further arguments are technological obsolescence and to decrease uncertainties associated with their industries. Finally, the motivation of a vertical acquisition of a supplier can be risk-reducing. An example is in the natural resource industries where demand and supply are unstable and integration can mitigate the cost associated with fluctuation in prices.

Pitts (1976) gives three reasons for diversifications. The most important is the situation where the failure of one business area threatens the whole corporation. Second, the diversified company has the opportunity to reallocate scarce resources to the most dynamic areas. Finally, there is a better opportunity to commercialize more broadly technological innovations. To minimize the uncertainty in the environment is also important here (Pfeffer and Salancik, 1978) and the acquisition of a unit that knows the rules of the market is preferable. No industry is totally independent of the fluctuations in the economy, but some lines of business are not as cyclical as others. Further, different growth rates exist within the same industry (Salter and Weinhold, 1979). In the end what matters is what gives the highest NPV. When the firm reaches a satisfactory position within the area of specialization and the firm has the resources needed for expansion, they might find the opportunities for expanding into new areas more promising than further expansion in its existing areas (Penrose, 1959)

Diversifications relates to the cross border M&A of the firm because this gives a better chance to fulfil the goal of reducing fluctuations, in consideration of the wider spreads of industries and markets. Furthermore, it can neutralise a national depression. By acquiring a going concern that knows the rules of the market, it may minimise the risk too. In the beginning of an internationalisation process this is useful because the firm probably does not possess the wanted knowledge (Forsgren, 1989).

2.3.4 SPEED AND ACCESS

Apart from the general explanations of the paradigm, there are some specific motivating factors for firms choosing cross-border M&As a vehicle for investment in foreign locations (UNCTAD, 2000). Among others, speed and access to proprietary assets are particularly important.

Cross-border M&A is the fastest means for firms to expand their production and markets internationally (UNCTAD, 2000). When time is vital, takeover of, or merger with an existing firm in a new market with an established distribution system is far more preferable to developing a new local distribution and marketing network. For a latecomer to a market or a new field of technology, cross-border M&A can provide a way to catch up rapidly. With the acceleration of globalization, enhanced competition and shorter product life cycles, there are increasing pressures for firms to respond quickly to opportunities in the fast changing global economic environment. This is highlighted by the fast development and increasing competition in the information and communication technology industry.

To access proprietary assets is another important motivation for firms to undertake cross-border M&A. Merging with or acquiring an existing company is the least-cost, and sometimes the only, way to acquire strategic assets, such as R&D or technical know-how, patents, brand names, local permits and licences, and supplier or distribution networks, because they are not available elsewhere and they take time to develop. Such assets may be crucial to increasing a firm's income-generating resources and capabilities (Dunning 2000).

To take just one example of where the need for speed – the alternative between "build" or "buy" – and the search for proprietary assets came together: the main reason for the Indian company Tata Tea to acquire Tetley Ltd. in the United Kingdom was to obtain access to a global brand name and a global distribution network; reaching the same objective through organic growth would have been more or less impossible. To quote Tata Tea's Vice-Chairman who engineered the acquisition: "For us to develop a global market in the time frame we had in mind, the acquisition of Tetley, with its brand name and distribution system, was the only option" (UNCTAD, 2000).

2.3.5 NEW MARKET AND MARKET POWER

The search for new markets and market power is a constant concern for firms. Where domestic markets are saturated, in particular, foreign ones beckon. High transaction costs associated with arm's-length transactions involving intangible assets may explain why firms possessing ownership specific capabilities often prefer to exert direct control (instead of exporting or licensing) when exploiting them in new geographical locations or industry segments (UNCTAD, 2000).

Through M&A, firms can quickly access new market opportunities and develop critical mass without adding additional capacity to an industry. By taking over an existing company, immediate access to a local network of suppliers, clients and skills can be obtained. This motivation is of particular importance for cross-border M&A as the need for knowledge about local conditions increases when leaving the home market. Beyond this, and especially in markets characterized by oligopoly, M&A can also be motivated by the pursuit for market power and market dominance. Especially in the case of horizontal M&A, the motivation can well be the search for oligopolistic positions. In addition, consolidated market control may provide opportunities for anti-competitive practices and increased barriers to entry. A firm with market power establishes barriers to entry for competitors and that extends the period of making profit (Hughes, Mueller and Singh, 1980).

2.3.6 MACRO ECONOMIC FACTORS

Many macro economic factors are contributing, at least in part, to the increases in cross-border M&A during the past century (Vasconcellos and Kish, 1996). Positive merger factors which encourage such transactions relate to exchange rates, diversification, the current level of business activity in the domestic economy, and technology.

2.3.6.1 Exchange rate

Exchange rates may impact cross-border M&A in several ways. The relative strength or weakness of the domestic currency vis-à-vis the foreign currency - as reflected by the probabilities of appreciation or depreciation - plays a major role in the decision-making process (Vasconcellos and Kish, 1996). The effective price of the transaction, it's financing, the costs of managing the acquired firm, and the repatriated profits to the acquiring firm are all affected. For example, if the GB pound is strong relative to another currency or currencies, UK companies should benefit and become increasingly able to acquire foreign firms. Additionally, one should observe a decrease in the acquisitions of UK firms by foreign companies. The converse should hold true in periods of a relatively weak pound. Harris and Ravenscraft (1991) provide support for the importance of currency fluctuations on foreign direct investment via acquisition from the target and buyer shareholders' gains and losses.

A counter argument has been made concerning the importance of the relative strength (or weakness) of the domestic currency at the time of the planned acquisition. This involves the repatriation of profits and other remittances from the subsidiary or affiliate to the parent firm. As the domestic currency appreciates relative to the foreign currency, the discounted value of the expected amount of future remittances will come to a lower figure when translated into the home currency. This would work against the case for acquiring a foreign company. But this argument is weakened by the fact that the FDI's economic value will increase. Therefore, the precise effect that exchange rate has on the direction of cross-border acquisitions becomes ultimately an empirical question (Vasconcellos and Kish, 1996).

2.3.6.2 ECONOMIC CONDITIONS

The home country's economic conditions appear to have a considerable effect on a firm's international strategies (Vasconcellos and Kish, 1996). One view holds that during times of prosperity, a firm may find itself well positioned to look towards international expansion. The reverse would also hold, for unfavourable economic conditions in the home country. For example, a recession or credit restrictions, might require that a firm concentrate primarily on its domestic operations. However, for a different view see Harris and Nicholls (1988) who, among other findings, hold that conglomerate growth is a by-product of stagnant domestic markets and that the primary expansion criteria include focusing on free enterprise countries with relatively low perceived political risk and with growing economics and markets.

2.3.7 CONCLUSIONS

Why does firm A wants to buy firm B? There are different replies to this question. The answers are legion and include explanation such as reaching synergy effects by pooling resources, or raise efficiency by replacement of the management. Reduced cost is attainable through economics of scale and vertical integrations can lead to a change in cost related to governance structures. The most natural explanation is the growth motive, where the strategic goal is the entry to a new market, so intensifying growth which results in monopoly position. Entering new lines of business through diversification neutralises the effect of fluctuations in earnings. Acquisitions motivated by financial motives reduce the capital cost and provide an opportunity for a better utilisation of different tax structures. Another financial approach relates to the price of the undervalued target, because of imperfections in the market of information. Finally the acquisition may cover an economic irrational point of view, because managers try to maximise own wealth by an empire-building strategy. By looking at the internationalisation of the firm, most of the above-mentioned theories are useful in an explanation of cross border M&A.

From the discussion above, it is apparent that more than one reason exists for pursuing cross border M&As. The decision to acquire a firm in another country is rarely made because of a single issue. Thus, although the above reasons are discussed as independent influences, in many instances more than one reason accounts for the cross border transaction decision. Nonetheless individual descriptions allow us to emphasize the significant characteristics of each reason. Of the reasons discussed so far, the two that most commonly drives the decision to engage in cross border M&As is the desire for increased market power and increased speed to market. In part, this frequency indicates the significance of the relationship between firm size and competitive success in the global economy.

2.4 THE PRE-ACQUISITION MANAGEMENT

One of the first phases in the pre-acquisition process concerns how to select a target or partner. The acquisition decision making process is often described as a step by step analytical process that starts with M&As objectives and passes through systematic search and screening, strategic evaluation, financial evaluation, and negotiation i.e. the due diligence process (Haspeslagh and Jemison, 1991).

This section presents literature on the pre-acquisition management process. The section is divided into three parts. The first part reviews the literature on the target selection process. The second part presents a review of research focusing on the negotiation process. The third part reviews research dealing with problems in target selection and the negotiation process.

2.4.1 TARGET SELECTION PROCESS IN CROSS BORDER M&AS

The acquisition process begins with the identification of potential targets that suits the acquirer's expansion strategy. Buono and Bowditch (1989) emphasize that top management should carefully analyze goals of the acquisition, the strategic and organizational fit, and how to establish commitment of employees to the acquisition. Additionally, several researchers have identified the critical role of gathering information about human resource practices, organizational culture and structure, and making a detailed "blueprint" for anticipated organizational change, including the selection of a leader and management team to be in charge of the integration stage (Haspeslagh and Jemison, 1991; Schweiger, Csiszar and Napier, 1993). Collectively, these authors suggest that careful preliminary planning will facilitate the implementation stage.

To identify appropriate M&A targets and to negotiate and effectively complete acquisitions requires a thorough due diligence process. This process has features similar to the due diligence for domestic M&As. However, it is complicated by a few elements that appear even more crucial in cross border M&As (Angwin, 2001). These elements include the different institutional environments between the two firms' home countries and their two different cultures (at both national and corporate levels).

Firms are embedded in a system of social and cultural norms that often affect the processes and outcomes of cross border M&As. In general, differences in the institutional environments may be based on different regulations, accounting standards, value systems, etc. Differences in the national cultures largely imply different individual values, risk propensity, acceptance of uncertainty, etc., while differences in corporate cultures suggest different organizational routines, managerial practices and styles, communication systems, etc (Shimizu, Hitt, Vaidyanath and Pisano, 2004).

Angwin (2001:35) argued "Due diligence is intended to be an objective, independent examination of the acquisition target. In particular, it focuses upon financials, tax matters, asset valuation, operations, the valuation of a business, and providing assurances to the lenders and advisors in the transaction as well as the acquirer's management team". The process is intended to provide the acquirer with adequate information about the value and risks associated with the target. Cross border M&As require special attention to topics such as exchange rates, local taxes, local accounting standards, foreign government potential trade regulations (dividends, fees, royalties), risk of expropriation, and debt/equity ratios that might be imposed by the foreign government (Kissin and Herrera, 1990).

Considering the complexity and variety of the issues regarding the analysis of a foreign target, firms often seek help from financial and legal advisors in the country where the target firm is headquartered. Recent work by Angwin (2001) examines how managers in Europe use advisors to value the due diligence process. He conducted a survey of European firms' top executives regarding national perspectives on due diligence. His results showed that interpretations of the due diligence process vary across managers of different countries. Specifically, managers from separate European countries stated diverse primary objectives for the due diligence process (i.e., help in the negotiation, insight into the existing management, evaluation of the assets, assess cultural fit, help to plan integration, commercial insight into the market). Moreover, he found that all aspects of the due diligence process were conducted by the acquiring firm, although acquirers of different nationalities tended to rely on external advisors for specific issues (i.e., financial), and the extent to which advisors were used varied considerably. Angwin (2001) also argued that the use of advisors injects external knowledge into the process. Using this approach should help avoid path dependence in learning during the due diligence process.

Table 2.3: Summary of selected studies on the target selection process

Study	Sample	Key Findings
Haspeslagh & Jemison (1991)	20 acquirer from 10 countries (US, GB, France, Germany, Italy, Japan, Switzerland, Sweden, Finland, and Netherlands) during the period 1985-1989.	Information should be gathered regarding HR practices, organization practices. Leader and management team should be selected to carry out the integration process.
Angwin (2001)	Cross border acquisitions by six countries (UK, France, Germany, Sweden, Switzerland, and Netherlands) during the period 1985-1995.	Cross border M&As require special attention to topics such as exchange rate, local tax, local accounting standards, foreign government potential trade policy etc. Due diligence should provide adequate information about the value and risk associated with the target.
Buono & Bowditch (1989)	N/A (Book)	Top management carefully analyze goals of the acquisition, the strategic and organizational fit, and how to establish commitment of employees.

Despite the importance of this process, we lack studies specifically focused on the due diligence involved in cross-border M&As (Table 2.3 presents summary of selected studies focusing on target selection process of M&As). On the contrary, research on alliances and joint ventures examines in depth the issue of partner selection (Gulati, 1995; Hitt, Dacin, Levitas, Arregle and Borza, 2000). For example, in studying the international partner selection of firms from emerging and developed markets, Hitt et al. (2000) found that emerging market firms stress financial, technological, and intangible assets, while developed market firms search for resource exploiting opportunities. In examining alliance formation in a longitudinal setting, Gulati (1995) found that the social relationship originating from an initial alliance increases the likelihood of a future alliance between the same firms.

The selection of the right target firm for acquisition can provide the acquirer with a strong local network of relationships in the host country. This important topic needs to be further examined. Related to this topic is the analysis of the target firm's social capital, particularly in situations of foreign market uncertainty and information asymmetries. While there is some anecdotal research dedicated to practitioners (e.g., Kissin and Herrera, 1990; Sebenius, 1998; Emerson, 2001), virtually no scholarly research exists in this area. Therefore, more systematic research is needed to unpack the complexities of the due diligence process in cross border M&As (Shimizu, et al., 2004).

Although M&As activity is predominantly driven by a rational economic model, cultural attitudes are likely to play a role in influencing target selection decisions (Cartwright and Price, 2003). This section presents research investigating whether different national managerial groups have similar/dissimilar attitudinal preferences towards foreign M&A partners.

In terms of selecting a compatible foreign acquisitions target, Larsson and Risberg (1998) note that organisations tend to prefer to invest in neighbouring territories or those with which they have the closest economic, linguistic and cultural ties. The results of the survey conducted by Cartwright, Cooper and Jordan (1995) found that mainly the Northern European sample of managers showed stronger preferences for merging with other Northern European and American organisations. The results found Japan, Italy and Spain amongst their least preferred partners.

Recently, Cartwright and Price (2003) reported the US as the most popular preference, with the UK being a close second for each of the analysed nationalities. In addition, forty-seven percent of German respondents chose their own nationality, a similar percentage of US respondents also chose their own nationality; with 40% of UK respondents choosing their own nationality. In 69% of cases the reasons given for their choices was perceived cultural compatibility, which was cited as being at least four times as important as market potential or management approach. With regards to least preferred partner/target, Japan emerged as the least preferred choice for the overall sample and sub sample of national groups. A range of issues relating to incompatible culture and differences in working practices dominate the reasons given by respondents for avoiding Japan.

In the context of cross border M&As, research suggests that, given a choice, managers would choose to merge or be acquired by a firm from a foreign national culture which they perceive to be similar and hence compatible with their own. However, studies have not determined to what extent the decisions made by the mangers were influenced by cultural stereotypes. Moreover, existing studies have relied heavily upon the Hofstede (1980) model of national culture despite its acknowledged limitations (Very et al., 1998). It may be helpful to develop new cultural measures specifically tailored for use in M&A research (Cartwright and Price, 2003).

2.4.2 THE NEGOTIATION PROCESS IN CROSS BORDER M&AS

After the target firm has been selected and the initial due diligence process has been completed, the acquiring firm often has to pay a premium price for the acquisition to conclude the deal. Thus, the negotiation process becomes important. Much of the studies focused on the premium paid by the acquirer of different nationalities. Table 2.4 presents a summary of selected studies on the negotiation process.

Table 2.4: Summary of selected studies on the negotiation process

Study	Sample	Key findings
Inkpen et al. (2000)	11,639 M&As of US firms (10,309 US buyers, 446 European buyers)	European buyers paid a premium about three times higher than US buyers did.
Harris & Ravenscraft (1991)	1273 acquisitions of US firms between 1970 and 1987 (1114 domestic and 159 cross border)	The target firms of foreign buyers enjoyed higher wealth gains than did the target firms of US buyers. They suggested that the higher premium could be the result of overly aggressive bidding by foreign buyers or of a strong will to expand into the US market to exploit its general advantages.
Dewenter (1995)	M&As announced by 116 chemical industry firms and 268 retail industry firms between 1978–1989	While there is no significant difference within industry mean takeover premium levels, the sensitivity of takeover premium levels differs across buyers. Market reaction to the buyer's nationality is closely tied to the transaction's characteristics.

Researchers found that foreign buyers usually pay high premiums in acquiring U.S. firms relative to U.S. buyers (Harris and Ravenscraft, 1991; Inkpen et al., 2000). For example, Inkpen et al. (2000) examined 11,639 technology-based M&As of U.S. firms (10,309 U.S. buyers, 446 European buyers) and found that European buyers paid a premium about three times higher than U.S. buyers did. Harris and Ravenscraft (1991) examined 1273 acquisitions of U.S. firms between 1970 and 1987 (1114 domestic and 159 cross border) and found that the target firms of foreign buyers enjoyed higher wealth gains than did the target firms of U.S. buyers. They suggested that the higher premium could be the result of overly aggressive bidding by foreign buyers or of a strong will to expand into the U.S. market to exploit its general advantages (compared with their home markets), such as market size, well-developed capital markets, political stability, or tariff and tax differences between the United States and the bidders' home countries.

However, in contradiction to their results, Dewenter (1995) found that there is no significant difference in the level of premiums paid by foreign and domestic bidders. Using an integrated theoretical approach based on transaction costs and macroeconomics, Dewenter found that while there is no significant differences in the within-industry mean takeover premium levels, the sensitivity of takeover premium levels differs across buyers. He found that foreign investors pay a higher premium in the case of hostile transactions, but also pay less when there are rival bidders. Therefore, market reactions to the buyer's nationality are closely tied to the transaction's characteristics.

Given the uncertainty associated with foreign investments, professional firms, such as investment bankers, play an important role in advising and closing many of the cross border deals (Angwin, 2001; Kosnik and Shapiro, 1997). Although issues such as agency conflicts between investment banks and client firms have been addressed by scholars (Kosnik and Shapiro, 1997) and in the popular business press as well, research on the roles of investment bankers in both domestic and cross border M&As is still limited. Given the high premiums paid by foreign buyers and the information asymmetries involved in most cross border M&As, research on the roles of investment bankers and other professional firms (e.g., consultants, law firms, and accounting firms) would add significant value to the literature and likely suggest important managerial implications (Shimizu, et al., 2004).

2.4.3 PROBLEMS IN TARGET SELECTION AND THE NEGOTIATION PROCESS

In reality both the purpose and nature of the M&As selection and negotiation process is extremely complex. Managers face difficulties in analyzing strategic and organizational fit as they are prevented from understanding these factors by a series of problems inherent in the process of analyzing, negotiating with, and acquiring the other firm.

Due diligence is a complex process in all M&As (Hitt, Harrison and Ireland, 2001a,b). However, in cross border M&As, the evaluation process of the potential target is even more complicated at all levels (Kissin and Herrera, 1990). In response to the question on the special wrinkles that come up in the due diligence process, Joseph Miller, Chief Technology officer of Dupont, commented:

> "Well the first thing is the quality of the information. The quality is variable. And one should be persistent with respect to getting the kind of information that you need to do as high a quality assessment as possible around the value of the acquisition. However, it's more difficult with cross border because you have accounting conventions that might be different from the accounting convention of an English company or a German company. And there is need to align those accounting conventions so that there's apples and apples comparison. Typically what we do in European acquisitions is to use a European legal and accounting teams to deal with that for us. The third thing is around regulatory requirements. They're different here than they are in Europe. [it is important to have] a better understanding of the timetable so that remediation efforts, at plants especially, are known. How much remediation must be done from an environmental standpoint, from a safety standpoint, and [in terms of] pending legislation in Europe? The answers will be helpful in determining the amount of money that should be reserved for the efforts and who's liable for those remediation efforts" (Buckley and Ghauri, 2002: p 103).

At the firm level, differences in accounting standards and fluctuating exchange rates between different countries may cause difficulties in the evaluation of the target firms' financial assets. Furthermore, the due diligence process should go beyond the mere examination of the financial health of the target firm, providing a thorough analysis of its intangible assets and resources (Shimizu, et al., 2004). This process may require an understanding of the educational system, skills, and capabilities of the work force in the foreign country. At national and industry levels, the due diligence process must provide an understanding of the institutional environment in which the target firm is located, such as government regulations, to effectively respond to potential local constraints, particularly in specific industries such as those with high technology standards, in which regulations can be extremely sensitive. In this sense, Hall (1992) stresses the relevance of the target's reputation as a major factor in the decision to acquire. In fact, the history of a firm in responding to the country requirements represents a distinctive strength that the investor should always consider in selecting the target.

In general, the due diligence process largely conforms to organizational learning theory and exploratory learning, specifically. While an original structure to the approach is needed to ensure that all major areas are evaluated, effective due diligence also has an exploratory nature. If some information is identified that poses further questions, answers to them must be pursued even if they require movement outside of the original structure. Thus, good due diligence can be described as semi-structured, containing both primary and exploratory inquiries (Shimizu, et al., 2004).

Negotiating a cross border M&A is an extremely complex process. It is made even more difficult because of lack of information and the difference in cultures (Buckley and Ghauri, 2002). Sebenius (1998) suggested several guidelines. First, be prepared for a long process. Second, divide players into allies, potential allies, and opponents. Third, each of these groups should be handled differently and sequentially. Fourth, the negotiation does not stop even once the deal is done because you need to ensure the rationale for the deal remains viable and continues to create value. Joseph Miller, Chief Technology officer of DuPont, who had direct experience in cross border merger and acquisition negotiations, commented that:

> "There's a very practical part to this. These (negotiations) are highly draining experiences. And so the composition of the team, their preparedness, their physical preparedness of, and the support extended to that team to conduct a legitimate negotiation is most important. It's tough. It's draining. The importance of understanding human behaviour and resourcing that team and supporting that team is a very important part so that the company gets the best with respect to the deal and inadvertently or consciously doesn't give away what might have been kept in the negotiation. So the negotiation is most important and the team that conducts it [is important]."(Buckley and Ghauri, 2002: p 102)

On cross border negotiations, Joseph Miller cautions that the acquiring firm must be prepared for lots of surprises. "You might understand what you're doing before you go in or think that you do, but you're going to get lot of surprises in the process"(Buckley and Ghauri, 2002: p 103).

Haspeslagh and Jemison (1991) spotted four problems inherent in the decision making process. The first problem is the fragmented perspective of the many specialists during analysis and decision making. The next problem is the increasing momentum among all participants in the process to consummate the transaction. The third problem is the ambiguous expectations about key aspects of the acquisitions between both sides of the negotiation. The final problem is the multiple motives among acquiring managers. Further, the authors have linked the severity of these problems to the company's resource allocation style which they described as ranging from limited to robust on a number of dimensions. The broader problems that tend to limit the effectiveness of a company's resource allocation style include: short time horizons, a financial results oriented perspective on competition, limited top management involvement in the substance of the decision, politics driving out facts, and a single champion approach to investment responsibility.

The problems of target selection and negotiation process mentioned so far can be managed and dealt with effectively (Haspeslagh and Jemison, 1991). However, despite the importance of target selection and negotiation process in a cross border context, comprehensive research on these processes is still rare.

2.5 POST-ACQUISITION MANAGEMENT

This section reviews the literature on post-acquisition management. A number of issues have been reviewed such as degree of integration, national culture and integration practices, degree of control, speed of post acquisition change, post acquisition change, integration stage communication, fostering involvement and promoting involvement, challenges and problems in integration process, knowledge transfer and resource based view, human resource management.

These areas are based on a thematic assessment of the literature, rather than on clear streams of programmatic research. With the exception of research on the antecedents and outcomes of top management turnover following acquisition, the integration research, especially cross border integration, has not been programmatic (Schweiger and Goulet, 2000).

2.5.1 DEGREE OF INTEGRATION

The extent to which an acquired company should be integrated into its parent organization is a vital decision (Child, Faulkner and Pitkethly, 2001). There have been a number of writers who have touched on the extent of integration (Haspeslagh and Jemison, 1991; Marks and Mirvis, 1998; Child, et al., 2001).

Table 2.5: Summary of selected studies on the degree of integration

Study	Sample	Key findings
Haspeslagh & Jemison (1991)	20 acquirer from 10 countries (US, GB, France, Germany, Italy, Japan, Switzerland, Sweden, Finland, and Netherlands) during the period 1985-1989.	Based on the need for strategic interdependence or organisational autonomy, the authors suggested four different approaches for integration: absorption, preservation, symbiosis, and holding. They also indicated that different types of acquisitions should be combined with one certain integration approach. For example, they suggest that domain-strengthening acquisitions should use an absorption approach.
Child, Faulkner & Pitkethly (2001)	Interviews with 40 acquirer in the UK by companies from the USA, France, Germany, Japan	The authors suggested that the degree of integration ranges from acquisitions with little integration (1-2 on the scale), to those where the integration is almost total (6-7 on the scale). Symbiotic acquisitions can be arranged at intermediate points on the scale corresponding to partial integration where some but not all functions and departments of the acquired firm are integrated to acquiring firm.
Schweiger (1999)	N/A (Unpublished manuscript)	The author suggested that within an acquisition, different types of approaches may be used, based on functions. He noted that there are four types of approaches that might be used within an M&A – Combination, Standardization, Coordination, and Intervention.

The overall degree of integration achieved following an acquisition is an issue of great interest (Table 2.5 provides the summary of selected studies on the degree of integration).

This is because an inappropriate level of integration may be detrimental to performance (Child et al., 2001). Thus a tendency to over or under integrate as a result of cultural factors hindering integration or pressuring moves towards it may result in sub-optimal solutions. Haspeslagh and Jemison (1991) have proposed a set of "metaphors" to classify acquisitions into four types depending on whether the needs for organisational autonomy and needs for strategic interdependence are high or low.

Need for Strategic Interdependence

		Low	**High**
Need for organizational autonomy	**High**	**Preservation**	**Symbiosis**
	Low	**[Holding]**	**Absorption**

Source: Haspeslagh and Jemison (1991:145)

Figure 2.4: Types of acquisition integration approaches

According to Haspeslagh and Jemison (1991:146): "Some acquisitions have a high need for strategic interdependence, and a low need for organizational autonomy. These acquisitions call for what we level an absorption approach to integration. Other acquisitions, to the contrary, present a low need for strategic interdependence, but a high need for organizational autonomy. We will call the integration approach associated with these acquisitions preservation. Other acquisitions are characterized by high needs for interdependence and high needs for organizational autonomy. We will use the term symbiosis to describe the integration approach called for in such acquisitions.....[the fourth type] would be acquisitions where the firm has no intention of integrating and creating value though anything except financial transfers, risk sharing, or general management capability ....The only integration is such acquisitions would, in a sense, be mere holding activity."

Marks and Mirvis (1998) also take a multi-dimensional view of integration ranging from full consolidation to near separation of the companies. They see this range as including such forms as separate holding company, strategic control, managed subsidiary, operational control and merged and consolidated. The order is presented in increasing levels of consolidation of the acquiring and acquired firms. Marks and Mirvis also view integration from the perspective of degree of change made in either the buyer, the target or in both firms. Similar to Haspeslagh and Jemison, they identify five approaches i.e. absorption, preservation, best of both, transformation and reverse merger.

Whereas Haspeslagh and Jemison (1991) and Marks and Mirvis (1998) view each acquisition representing a different type of integration, Schweiger (1999) notes that, within an acquisition, different types of approaches may be used, based on functions, geographical areas and product lines. He notes that there are four types of approaches that might be used within an M&A.

1. Combination – The extent to which the separate functions and activities of both the acquirer and the target firms are physically consolidated into one.
2. Standardization – The extend to which the separate functions and activities from both firms are standardized and formalized, but not physically consolidated. This is typical when acquirers formally transfer best practices across the firm.
3. Coordination – The extent to which functions and activities of both firms are coordinated.
4. Intervention – The extent to which interventions are made in the acquired firm to turnaround poor cash flow or operating profits, regardless of inherent sources of combination value.

Whichever way one looks at mergers and acquisitions there appears to be a potential continuum in the degree on integration. Child, Faulkner and Pitkethly (2001) demonstrated the cross border acquisition with varying degrees of integration. This is illustrated in figure 2.5. They suggested that the degree of integration ranges from acquisitions with little integration (1-2 on the scale, corresponding to Haspeslagh and Jemison's Preservation and Holding) to those where the integration is almost total (6-7 on the scale, corresponding to Haspeslagh and Jemison's Absorption). Symbiotic acquisitions can be arranged at intermediate points on the scale corresponding to partial integration where some but not all functions and departments of the acquired firm are integrated with the acquiring firm.

Figure 2.5 also suggests the way in which the integration of the new subsidiary may vary. With a low level of integration (1-2), regular financial and other operating figures will be required for the parent to monitor the performance of the subsidiary. With a higher level of integration (3-5), the new parent is likely to take over and run centrally whole areas of activity. This is likely to cover strategy, and may involve finance, personnel policy and systems, procurement, product development, IT systems and possibly the whole area of branding and management of the company image. The highest integration levels (6-7) correspond to total absorption into the parent organization. Brand names may be retained if they are strong but, particularly in service organisations, may be discontinued after a transitional period.

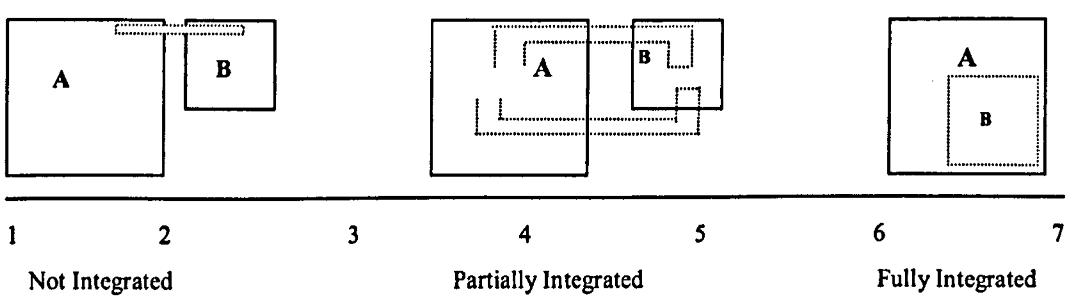


Figure 2.5: Degree of Integration

2.5.2 NATIONAL CULTURE AND INTEGRATION PRACTICES

Several studies have examined the influence of national culture on cross border M&As integration practices. Table 2.6 presents summary of selected studies on national culture and integration practices.

Research by Morosini and Singh (1994) examined the relationship between the degree of cultural distance between acquirers and acquired firms and the degree of integration and its effect on organizational performance. Their longitudinal study, of 65 western European and US firms involved in cross border acquisitions, used Hofstede's uncertainty avoidance and individualism/collectivism dimensions to characterize national culture. The results indicated that the higher the uncertainty avoidance of the acquired company's national culture, the stronger the relationship between an independence strategy (of the acquired firm) and profitability one year after acquisition. Conversely, in countries with lower uncertainty avoidance, integration was significantly related to profitability; no effect was found relating uncertainty avoidance to productivity growth. Morosini and Singh (1994) also found that in highly individualistic societies a lower level of post acquisition integration appeared to lead to higher productivity growth one year after acquisition. On the other hand, the relationship between individualism and integration was not found to influence profitability growth.

Table 2.6: Summary of studies on national culture and integration practices

Study	Sample	Key findings
Morosini & Singh (1994)	65 cross border acquisitions between Italy and Western European and US during the period 1987-1992	The higher the uncertainty avoidance of the acquired company's national culture, the stronger the relationship between an independence strategy (of the acquired firm) and profitability one year after acquisition. Conversely, in countries with lower uncertainty avoidance, integration was significantly related to profitability; no effect was found relating uncertainty avoidance to productivity growth.
Calori, Lubatkin & Very (1994)	75 cross border Acquisitions in Europe (UK and France) during the period 1987-1989	The findings tend to support the significance of Hofstede's cultural dimensions, and indicate that differences exist among integration measures practiced by national heritage of acquirer. For instance, French acquirers tend to exercise higher formal controls than do US and British acquirers. This is consistent with Hofstede's cultural dimension of uncertainty avoidance, in which France is known to score higher than both the US and UK.
Lubatkin et al. (1998)	83 French and British domestic and cross border acquisitions during the period 1987-1989	French acquirers were found to rely more on centralized headquarters-subsidiary controls, so that power and influence resides at the hierarchical top, than were the British. The research findings are consistent; national differences do in fact exist, and they are significantly related to post acquisition integration procedures employed by the acquirer.

Another study, of 75 cross border acquisitions, by Calori, Lubatkin and Very (1994), examined the integration procedures practiced by US, British and French acquirers of both British and French acquired firms. Their findings tend to support the significance of

Hofstede's cultural dimensions, and indicate that differences exist among integration measures practiced by national heritage of acquirer. For instance, their study found that French acquirers tend to exercise higher formal controls than do US and British acquirers. This is consistent with Hofstede's cultural dimension of uncertainty avoidance, in which France is known to score higher than both the US and UK. Other results indicated that the types of integration measures practiced were significantly related to post acquisition performance.

The study also found that the higher the informal personal efforts of the management of the buying firm, the higher the economic performance of the acquired firm and, conversely, the level of control exercised by the acquirer over the acquired firm's operations is negatively correlated with economic performance. These results indicate that for British and French acquired firms the use of informal integration mechanisms yield higher post-acquisition performance. Acquirers must therefore be aware of how they may be culturally predisposed to approach integration of acquired firms in an effort to maximize M&A performance.

Lubatkin et al. (1998) extended the above findings in a subsequent study. Their study of 83 French and British domestic and cross border acquisitions found a significant relationship between national heritage of acquirers and the administrative approaches used by mangers during merger integration. The French express a greater acceptance of power distance and demonstrate a greater degree of uncertainty avoidance than do the British. As a result, French acquirers, compared to the British, were found to rely more on centralized headquarters-subsidiary controls, so that power and influence resides at the hierarchical top. The research findings are consistent; national differences do in fact exist, and they are significantly related to post acquisition integration procedures employed by the acquirer.

2.5.3 DEGREE OF CONTROL

When one company acquires another it needs to exercise some control over the acquired company (Pitkethly, Faulkner and Child, 2003). Control is in many ways the antithesis of trust since the greater the level of trust between the companies the less the perceived need for right control systems (Faulkner, 1998).

Control can take a variety of forms. Control systems may be limited to control over budgets and capital expenditure. They may involve appointing staff to key positions in the subsidiary company, carrying out certain important functions like planning and personnel in the parent company, or imposing 'need for approval' requirements on identified decisions (Geringer and Hebert, 1989). The control system selected illustrates the degree to which the parent is willing to grant a level of autonomy to the newly acquired subsidiary, and may be crucial in terms of influencing the level of motivation of the acquired company personnel.

Research has also shown that managers from different countries are likely to implement different control systems and use different managerial practices in acquired firms. Table 2.7 presents a summary of a selection of studies on degree of control.

Table 2.7: Summary of selected studies on degree of control

Study	Sample	Key findings
Calori et al. (1994)	25 British firms acquired by French Firms, 21 British firms acquired by U.S. firms, 16 French firms acquired by British firms, and 13 French firms acquired by U.S. firms , 1987–1989	The French exercise higher formal control by centralization than the Americans with the exception of formal control over individual managers and financial resources. Americans exercise higher informal control through teamwork than the French. Americans exercise higher formal control through procedures than the British.
Lubatkin et al. (1998)	35 French and 48 British firms that were acquired either by French or British firms between 1987–1989	French acquiring firms rely more on managerial transfer than British firms. French firms are higher in strategic control than British firms. The British and French acquiring firms appear to adhere to their own unique mix of control structures, regardless of whether they are merging domestically or cross-nationally.

By employing a theoretical framework based on national cultural differences and governance, Calori, Lubatkin and Very (1994) examined the use of control mechanisms and showed that acquirers are influenced by their national culture (national administrative heritage). Moreover, Lubatkin, Calori, Very and Veiga (1998) found that French acquiring firms rely more on managerial transfer and use more strategic control than do British firms. In characterizing different integration styles, Child et al. (2001) call American acquirers "absorbers", Japanese acquirers "preservers", and French acquirers "colonialists". They found that any set of controls could be successful if managed effectively. Additionally, recent surveys have shown that countries differ greatly in the types of corporate governance mechanisms used (Gedajlovic and Shapiro, 1998; Short, 1994). As a result, agency theory may apply more readily in individualistic cultures, such as the United States, than in more collectivistic cultures common in Asian countries. Given this scenario, governance problems related to post-M&A integration require more study (Shimizu, et al., 2004).

2.5.4 SPEED OF POST ACQUISITION CHANGE

The pace of implementing the post-acquisition changes is a conflicting issue in the literature. Some researchers argue that immediately after the close of the deal there is a period when employees at the acquired company expect and even welcome change (Searby, 1969; Shrivastava, 1986), while other researchers argue that firms should 'go slow' and prepare employees for change and reorganization (Yunker, 1983).

Management's ability to implement changes affects the way employees perceive the trustworthiness of post-acquisition leadership. Researchers, who encourage quick change, argue that since employees anticipate reorganisation in the acquired company, quick-change implementation helps reduce uncertainty (Searby, 1969; Shrivastava, 1986). Some researchers argue that slow-change implementation is not a result of strategic planning, but a sign of ineffective management (Haspeslagh and Jemison, 1991). In a similar vein, Schmidt and Schettler (1999) argue that there is an incremental resistance to change over time.

In contrast, there is an argument that employees in a state of shock after an acquisition can only accommodate a limited amount of change initially; and, therefore, advocate a gradualist approach (Buono and Bowditch, 1989). Rosnow (1988) argues that the acquiring management requires time to learn about the acquired company before designing and implementing change. Frequent and helpful communication during this period will increase employee trust of management and will make reorganisation easier subsequently. Furthermore, a gradualist approach permits greater learning about markets and environments, especially important in cross border M&As.

As noted earlier, there is debate in the literature on the timing of post-acquisition changes; but the literature (for example, Haspeslagh and Jemison, 1991) has not paid sufficient attention to cross border acquisitions, where national culture differences would seem to suggest a gradualist approach. Quah and Young (2005) support this view that the changes should take place over a period of time and not immediately after the M&A. This not only allows the acquirer to learn about its new business and markets, but also facilitates cultural understanding (national and organisational). Rapid implementation runs the risk of a haemorrhaging of senior executives, causing long-term damage to the business.

Both management consultants and academic researchers have empirically tested the role of speed of integration on M&As performance. Table 2.8 presents a summary of a selection of studies on the speed of integration.

Table 2.8: A summary of selected studies on the speed of integration

Study	Sample	Key findings
Quah and Young (2005)	4 Cross border M&As by one American company during the period 1991–1995	The timing of changes should take place over a period of time and not immediately after the M&A. This not only allows the acquirer to learn about its new business and markets, but also facilitates cultural understanding (national and organisational). Rapid implementation runs the risk of a haemorrhaging of senior executives, causing long-term damage to the business.
Price Waterhouse Coopers (2000)	Survey of executives in 125 companies across a broad range of industries in 1999; 72% of firms were U.S.-based.	A quick implementation of changes is beneficial because it minimizes the amount of uncertainty among members of the combining firms.
Mercer Consulting (2001)	152 trans-Atlantic deals from 1994 to 1999 using 2-year post deal comparison to industry specific S&P stock price index	Success of the deal depends on careful planning, and speedy, well-directed implementation.
Olie (1994)	3 case studies of Dutch-German merger	A slow integration process can be appropriate to minimize conflicts between the merging partners.
Ranft and Lord (2002)	7 Case studies of acquisitions in high technology section between 2000-2002	A slow integration can enhance trust building between the merging firms' employees.

A number of management consulting firms have published empirical studies on M&A performance which also consider the role of speed as a potential success factor (Mercer Management Consulting, 1997; Price WaterhouseCoopers, 2000). These studies provide some evidence that speed of integration may be positively correlated with M&A success. It is typically argued that a quick implementation of changes is beneficial because it minimizes the amount of uncertainty among members of the combining firms. However, although based on large samples, these studies do not meet basic requirements of empirical academic research in terms of sampling, construct measurement, and data analysis.

The limited academic work that addresses speed of integration includes studies by Bragado (1992), Gerpott (1995), Haspeslagh and Jemison (1991), Homburg and Bucerius (2005), Inkpen, Sundaram, and Rockwood (2000), Olie (1994), and Ranft and Lord (2002). Inkpen *et al.* (2000) conducted a case-based analysis of various acquisitions of six technology-based companies. These authors identified speed of integration as an important driver of successful post acquisition integration. On the other hand, Olie (1994) notes, on the basis of several case studies, that a slow integration process can be appropriate to minimize conflicts between the merging partners. In line with that, Ranft and Lord (2002) found (also on the bases of several case studies) that a slow integration can enhance trust building between the merging firms' employees. These researchers' work is, however, entirely qualitative in nature and does not provide a statistical analysis of the relationship between speed of integration and success.

Gerpott (1995) conducted a large-scale empirical study focusing on the integration of R&D functions among merging manufacturing firms. He found that centralization of R&D in the post merger integration phase and speed of integration has a joint positive impact (i.e., an interaction effect) on M&A success. Also, based on several case studies, Haspeslagh and Jemison (1991) argue that the type of acquisition integration approach (including speed of integration) depends on the joint influence of the need for strategic interdependence and the need for organizational autonomy of the involved firms. Bragado (1992) provides an extensive discussion of the 'correct speed for post merger integration.' He argues that under certain conditions a slow approach to post merger integration may be superior to a fast approach. His key argument is that a period of studying and understanding between the employees of the two companies is often needed. This author further argues that the appropriate speed of integration depends on the 'fit' (Bragado, 1992: 27) of the involved firms, especially on their cultural fit.

In summary, we find that research on performance implications of speed of integration is very sparse. More specifically, there is very limited empirical academic study on cross border M&As performance where speed of integration is considered in depth.

2.5.5 POST ACQUISITION CHANGE

Research in this area is still highly fragmented, especially in the cross border context. Attention in the literature is given to the human resource management issues, which include human resource planning and downsizing, training, and changes to systems for communications and rewards (Napier, 1989). There is little research into the timing and effects of post-acquisition changes. Angwin (1998) suggests that there are clear parallels between post-acquisition management and corporate turnarounds, and draws upon turnaround studies such as Slatter (1984) and Grinyer et al. (1988) to identify the main areas of change involved. These major changes in management include the replacement of the Chief Executive Officer (CEO); stronger financial controls; intensive efforts to reduce production costs; an increased importance given to marketing, especially customer relations and a new product market focus; and debt reduction. The evidence also indicates that CEOs appointed from outside the acquired company will replace more subordinates and generally bring about more change than will insider CEOs who hold continuing appointments or come from other positions within the acquired firm.

There are discernible differences between approaches to post acquisition change by companies of different nationalities, irrespective of the international experience of the acquirer or the economic condition of the subsidiary. Faulkner, Child and Pitkethly (2003) found distinctive approaches were taken by US, Japanese, German and French companies to bring about change in newly acquired companies. They found that the changing process in US cross border acquisition tended to be characterized by three main features: (a) changes was initiated by the new parent company, (b) it is often effected by absorption into the parent company in the manner described by Haspeslagh and Jemison (1991), and (c) strong backing is usually given to new subsidiaries, not just in the form of finance, but also in support activities and technology. In contrast, Japanese company attitudes towards acquisition, and to implementation of change following them, differed quite markedly from US and other nationalities. Most of the change came from the subsidiaries themselves, rather than from the Japanese parent companies. However, the support provided by the Japanese parent companies, particularly finance, played a large role in making implementation of such subsidiary initiatives possible.

Faulkner et al. (2003) also found the French style tended to be 'centralist'. They either appointed a new French Managing Director or took decisions after discussion in France, or they left the local team in day to day charge of operations but determined high level strategy at headquarters. This contrasts somewhat with Calori, Lubatkin and Very's (1994) experience that the French tended to exercise high formal control of both strategy and operations. The French approach was generally effective. On the contrary, German companies were found to be less successful or less certain in their methods (Faulkner et al., 2003). There was no discernible German method of change-making, as their actions varied from appointing a Managing Director and giving orders to leaving well alone and hoping for the best. This eclectic, perhaps unfocussed, and largely non-interventionist approach achieved no turnarounds in their troubled acquisitions, but maintained profit in their profitable ones.

2.5.6 INTEGRATION STAGE COMMUNICATION IN CBM&AS

Communication has been identified as the major intervention for reducing the uncertainty of people going through M&A (Schweiger and Goulet, 2000). However, few studies have examined the impact of communication and differences in communication style in the cross border context.

In the integration phase of an acquisition a lot of decisions are made concerning the future operations of the company. These decisions are often specific and made by a small group of managers. The majority of the people in the workplace are unaware of these. In order to keep them motivated to work and committed to the company constant communication about decisions and how the change proceeds is needed (Risberg, 1996). As more information on the implications of change becomes known, it should be transmitted to the employees concerned in order to decrease the uncertainty they feel. Especially, extra attention should be paid to informing about work and role related details as they become known (Klein, 1996).

The methods and style of communication adopted by a parent company in dealing with a foreign subsidiary varies depending on the nationalities. Pitkethly et al. (2003) found the US to be professional communicators relishing the use of first names, regular meetings at all levels, notice boards with mission and vision statements on them and company newspaper. Communication between Japanese companies and their UK subsidiaries was found not as easy or open in comparison. German companies on the other had appeared to veer between the stiffly formal and the self conscious, while French companies seemed to suffer little self-doubt, communicating well amongst themselves but informing subsidiary staff only on a 'need to know' basis and adopting what one interviewee referred to as a generally 'colonial attitude'.

Although research on the impact of communication in the cross border context is sparse, a number of studies have examined the impact of communication in the domestic context. A three case study by Bastien (1987) examined the impact of acquisition on 21 acquired managers. He found the impact of communication appeared to be associated with both positive reactions toward the acquirer, stabilization of volatile situations and minimization of management resignations. Regardless of the form of communications honesty was found to be important. In a study of 51 firms, Shanley (1988) examined the effects of communication on perceived acquisition performance. There were significant positive relationships between the use of training or information programs and the placement of acquiring corporate personnel at the acquired firm's site. Similarly, Schweiger and DeNisi (1991) examined the impact of communication during a merger on a number of employees' reactions, all of which are believed to affect the success of the integration process.

On an overall basis, these studies provide enough evidence that the method and style of communication can have direct or indirect impact on the integration outcome. Further research is needed on the impact of communication in the cross border context.

2.5.7 FOSTERING INVOLVEMENT AND PROMOTING LEARNING

The management of the integration transition process can significantly affect the success of the subsequent integration (Marks and Mirvis, 1998). The objective of this process is to ensure that conditions for cooperation, commitment and learning, among people from merging firms, are created and that decisions on how to combine the firms are based on sound information (Schweiger, 1999). To that end, a number of studies have examined the integration transitions process. Studies have broadly examined two issues, involvement of acquired people in the integration process and approaches for facilitating learning between the combining firms. Table 2.9 and 2.10 provides a summary of studies focusing on fostering involvement and promoting learning, respectively.

a. Fostering Involvement

In a case study of three Dutch and German international mergers, Olie (1994) observed an effort to preserve parity (i.e., the balancing of positions assigned to acquiring and acquired firms managers) between the merging firms. This was accomplished through a transition structure of equal representation, from both firms, on the board of directors and in other key management positions. Although this structure was found initially to eliminate conflict, it did not lead to a true integration of the two firms.

Table 2.9: Summary of selected studies on fostering involvement

Study	Sample	Key findings
Olie (1994)	Three cross border Dutch and German mergers	The author observed an effort to preserve parity between the merging firm with respect to positions assigned to acquiring and acquired firms' managers.
Larsson & Finkelstein (1999)	61 domestic & cross border acquisitions during the period 1960-1989	The extent of interaction and coordination during the organizational integration process was the strongest predictor of synergy realization. The authors argue that it may not be enough for a merger or acquisition to have potential synergies to exploit. Structural and process changes must be undertaken that allow those synergies to be realized.

The study found that this structure did not reconcile the different styles of management between the Dutch (congenial and informal) and German (autocratic and formal) firms, and distrust between certain departments was never reconciled (i.e. sales departments retained their pre merger perceptions as competitors). In addition, board members felt a greater attachment to their respective home structures than to the newly combined firm. Integration did not take hold until the parity of power, responsibility and authority, between Dutch and German firms, was abandoned and board members and managers in key positions were primarily selected on the basis of capability. Only under this structure were the combined firms able to shape a common identity that allowed for the benefits of integration.

The post-acquisition structure of the successful International Computers Ltd (ICL) acquisition of Nokia-Data (ND) in 1991 (Mayo and Hadaway, 1994) supports the Olie findings. This combination created managerial positions that were granted based on capability, rather than parity, with the acquired firm overseeing a majority of the combined firm's operations in Europe. In addition, the ICL-ND combination utilized in-house integration teams, consisting of mangers from both companies, to reach conclusions together on proposals regarding organization, process and people. Training in national inter-cultural understanding between the UK and Finnish firms, respectively, and persuading managers deemed critical to the integration process to stay, aided the integration process. Moreover, an integration director position in headquarters was created to assist and support (not direct) the integration process, and full-time local integration managers were appointed to coordinate various integration activities at the local level. This transition structure exhibited that integration was a serious exercise, requiring dedicated resources and involvement of all participants, and as such the combined firm was able to understand the importance of shared education to build shared vision and values (Schweiger and Goulet, 2000).

Also supporting a high degree of involvement in integrating combining organizations is a study of synergy realization, involving 61 domestic and cross border acquisitions, by Larsson and Finkelstein (1999). They found that the extent of interaction and coordination during the organizational integration process was the strongest predictor of synergy realization. The authors argue that it may not be enough for a merger or acquisition to have potential synergies to exploit. Structural and process changes must be undertaken that allow those synergies to be realized.

b. Promoting Learning

A number of studies have focused on promoting learning during the cross border integration process. It is argued that by facilitating interaction and the sharing of information and feelings, conflict between people of combining companies will be more effectively managed, and better solutions for the new organization will be reached. These then will result in a more effective integration process.

In a study of 35 acquisitions of Central East European companies, by western companies, Villinger (1996) found that both Western and Central Eastern European firms placed greater value on manager's general business skills than on their cross border management skills (e.g. understanding of the partner's language, general sensitivity to the merger partner). Paradoxically, the author also found that these same cross-border skills proved to be more important in facilitating learning and successful integration. These findings led the author to suggest that following cross border acquisition, language training and cultural awareness workshops should become a main focus of employee development, to facilitate learning and the consequent transfer of business-related skills.

Table 2.10: Summary of studies on promoting learning

Study	Sample	Key findings
Villinger (1996)	35 Cross border acquisitions in central east European companies during ther peiod 1993-1994	The author suggested that following cross border acquisition language training and cultural awareness workshops should become a main focus of employee development, to facilitate learning and the consequent transfer of business-related skills.
Hakanson (1995)	3 cross border acquisitions by three Swedish companies	With respect to managerial and socio-cultural integration, communication, leadership, involvement of acquired people and face to face personal relationships among people from both organizations were found important to facilitate partnerships and collaborative working environments.
Haleblian & Finkelstein (1999)	449 acquisitions of manufacturer companies during the period 1980-1992	With increased experience, acquirers do learn what does and does not apply from previous contexts and utilize that information to improve the subsequent performance of acquisitions. Performance is greater in cases where firms make acquisitions similar to those that they made in the past.

Hakanson (1995) examined the integration of R&D units in three cross border acquisitions by three Swedish multinational companies. He found that managerial, socio-cultural, technical and procedural issues were critical to successful integration, especially in symbiotic acquisitions (See Haspeslagh and Jemison, 1991). With respect to managerial and socio-cultural integration, communication, leadership, involvement of acquired people and face to face personal relationships among people from both organizations were important to facilitate partnerships and collaborative working environments.

A study by Haleblian and Finkelstein (1999) addressed another aspect of learning. Rather than focusing on the process of learning, among counterparts of combining companies, they focused on whether companies learn and improve their acquisition performance with experience. In a study involving 449 acquisitions of manufacturers, they found that relatively inexperienced acquirers, after making their first acquisition, inappropriately generalize the next acquisitions. More experienced acquirers, however, appropriately distinguish between their acquisitions. The results suggests that, with increased experience, acquirers do indeed learn what does and does not apply from previous contexts and utilize that information to improve the subsequent performance of acquisitions. Moreover, performance is greater in cases where firms make acquisitions similar to those that they made in the past.

2.5.8 CHALLENGES & PROBLEMS IN CROSS BORDER INTEGRATION

Integrating the firms is a process fraught with difficulty. Researchers suggest that integration is very challenging and have identified numerous problems that the acquirer faces when integrating (Haspeslagh and Jemison, 1991; Cartwright and Cooper, 1996; Marks and Mirvis, 1998; Hubbard, 1999; Habeck, Kroger and Tram, 2000; Schweiger and Goulet, 2000; Schweiger, 2002). The problem is more complex in cross border acquisitions than in purely domestic ones given the differences of national culture between firms (Hopkins, 1999).

The literature on integration is eclectic (Schweiger and Very, 2003). While most of the studies focused on the human issues (e.g. Risberg, 1999; Larsson and Risberg, 1998; Haspeslagh and Jemison, 1991; Hambrick and Cannella 1993), few studies have concentrated on acquisition integration issues (e.g. Schweiger and Goulet, 2000; Morosini et al., 1998; Very et al., 1997; Weber et al., 1996). Based on previous research, five major issues pertaining to the integration process can be identified. Each of the issues is briefly described in the subsequent sub-sections.

a. Individual uncertainty and ambiguity

Haspeslagh and Jemison (1991:187) stated "the immediate post acquisition is pregnant with expectations, questions and reservations, among the personnel and the managers of both the acquired and acquiring organizations." During this period some employees perceive threats while others perceive opportunities. Risberg (1999), and Larsson and Risberg (1998) make a distinction between two kinds of issues: uncertainly and ambiguity. Uncertainty occurs when employees feel a lack of information. Ambiguity is characterized by the inconsistency of information provided to the employees. More communication is itself not sufficient for resolving ambiguous situations; what prevails is the consistency and clarity of the future communication flows (Feldman, 1991).

Uncertainty and ambiguity explain why employees react to a merger announcement and to the inherent changes. They are concerned about their future in the combining organization. Consequently, these issues contribute to a loss of productivity; defection of competent executives, managers and employees; absenteeism; poor morale; safety problems; and resistance to change during the first months of the post-acquisition period (Schweiger and DeNisi, 1991; Cartwright and Cooper, 1996; Marks and Mirvis, 1998). Subsequently, it contributes to value leakage and an inability to realize projected cash flows and synergies.

b. Organizational politics

M&As often lead to a change in ownership for acquired firms, which leads to changes in their organization and management practices (Schweiger and Very, 2003). Power bases are also likely to shift as authority structures change and sources of power (e.g. expertise) needed in the organization change. As these happen instability is created, as employees perceive threats or opportunities; i.e. some people will perceive that they have "gained" whereas others will perceive that they have "lost".

These conditions are ideal antecedents to organization politics – that is to say "those activities taken within organizations to acquire, develop, and use power and other resources to obtain one's preferred outcomes" (Pfeffer, 1980:7). Consequently, M&As can create an excellent context for political tactics like scapegoating, controlling information, networking or manipulating people. As Pfeffer and Salancik (1977) argued, the greater the organizational politics the greater the sub-optimization within organizations; thus, if too many people jockey for their own interests, the overall firm's performance is likely to decline.

Power and politics have rarely been the direct focus of cross border M&A research. However, two studies have focused on power and politics in the context of domestic M&As. The first is Schweiger, Ivancevich, Power (1987) who studied executive actions for managing human resources before and after a merger. They found that one of the greatest challenges for executives was to minimize warfare among employees and to avoid "playing favourites" especially in staffing decisions. In other words, effective managers were perceived as those who avoided or minimized political behaviour.

The second is research on the "theory of relative standing" which has been used to explain top-management behaviours (e.g. Hambrick and Cannella, 1993). This theory asserts that the status an employee feels for himself in a social setting is based on how he compares his status to others in a proximate social setting. According to Hambrick and Cannella (1993:736) "acquired executives are placed in a new social setting in which comparisons to acquiring executives as well as comparisons to their prior situation are inevitable and salient". This line of research suggests that the loss of standing, and resulting loss of power and stature, can lead to the turnover of executives. When this happens there may be a loss of leadership talent need to drive the changes required to realize synergies and cash flows.

Finally, political behaviour during a merger can foster so much internal organizational competition that executives, managers and employees fail to attend to external competition and other important market and business issues (Haspeslagh and Jemison, 1991). Again, the net result can be unrealized synergies and cash flows as customers defect to aggressive competitors. In conclusion, political behaviour can lead to the loss of key people, the de-motivation of others needed to implement changes to realize synergies and cash flows.

c. Voluntary departure of key people

Key people are those who are necessary for value preservation (e.g. relationships with key customers) or synergy realization (e.g. important technology knowledge). Their retention becomes critical to the success of an acquisition (Schweiger and Very, 2003). Table 2.11 presents summary of selected studies on voluntary departure of key people.

Employee or top management voluntary turnover is seen as a consequence of what Buono and Bowditch (1989) called "dysfunctional combination-related behaviours", citing the example of a merger where engineers and scientists left during the integration phase. Jemison and Sitkin (1986a) suggested that such turnover could potentially come from acquirer arrogance. Haspeslagh and Jemison (1991) underlined that those who leave are often the most talented. The reason is that they can easily find a new job.

Table 2.11: Summary of selected studies on voluntary departure of key people

Study	Sample	Key Findings
Krug & Hegarty (2001)	273 managers (182 stay, 91 leave) in 90 U.S. firms acquired by foreign firms and 54 U.S. firms acquired by U.S. firms between 1986–1989.	Perceptions of acquired firm managers regarding merger announcement, top management team interactions, and long-term effects influence whether they stay or leave.
Krug & Nigh (1998)	210 U.S. target firms acquired by a non-U.S. acquirer between 1986–1989	Top management departures in US companies acquired by a non-US firm are positively associated with the cultures between the US and the home country of the foreign MNC, the level of international integration among the subunits of multinational firms within the target industry, the foreign acquirer's US acquisition experience. Top management departures in US companies acquired by a non-U.S. firm are negatively associated with the pre-acquisition performance in the US target company, the interaction between the US - foreign country cultural distance and the international experience of the foreign acquirer, and the interaction between target company pre-acquisition performance and the US acquisition experience of the foreign acquirer.

Most of the research dealing with voluntary departure focuses on top-managers. For instance, Walsh (1988) found that acquisitions cause increased top management turnover in comparison with ordinary conditions. In most studies, researchers do not make clear distinctions between voluntary and involuntary turnover in their empirical work, although they build their framework and interpret their results from a voluntary perspective. Reviewing past research on that theme, Risberg (1999) concluded that results do not clearly help us understand why managers leave a company. But she agreed that top management voluntary turnover is a problem many acquirers face and have to overcome in order to keep valuable skills and knowledge. Therefore, departure of valuable employees is likely to threaten the intrinsic value of the integrating firms and prevents the realization of synergies and cash flows.

Weber et al. (1996) argued that national cultural differences produce more stress, negative attitudes toward the merger, and less cooperation than corporate culture differentials do in cross-border M&As. Krug and Hegarty (2001) pointed out that executives of firms acquired by foreign organizations are more likely to leave than those acquired by domestic firms. The loss of these executives viewed from a Resource Based View often represents a serious reduction in valuable resources, thereby decreasing the value of the firm acquired. Employing an upper echelons theoretical perspective, Krug and Hegarty (2001) stressed the importance of being sensitive to the perceptions of the merger by the acquired firm executives, the top management interactions, and the long-term effects of the transaction. This idea is consistent with the argument of Hitt et al. (2001a,b) that successful cross-border M&As require managers and other key personnel in the acquiring firm to develop a global mindset. A global mindset helps managers view the acquired firm not from an idiosyncratic cultural perspective, but from a broader perspective recognizing the value of different cultural perspectives.

d. Loss of customers

Many stakeholders are affected by an acquisition: customers, bankers, suppliers, and competitors (Csiszar and Schweiger, 1994; Schweiger, 2002). However, research on issues related to stakeholders is very poor. The limited research tends to focus on customers. Many researchers cite loss of clients as a major threat characterizing acquisitions, but most of them only posit relationships, interpretations or explanations for customer defection.

Hax and Majluf (1996) used the Merck-Medco merger to explain how vertical integration changed a customer-supplier relationship into competitive rivalry. Such a change in the rules of the game may benefit a merging firm's initial competitors. Customers may also leave when they perceive, like employees, uncertainty or ambiguity about the future; or when they are concerned about whether existing contracts and agreements will be honoured after a deal is closed (Csiszar and Schweiger, 1994); when the merger leads to too much concentration of their suppliers; or when they have to deal with new procedures and polices (Buono and Bowditch, 1989). Whatever the motivation for exiting, retaining and satisfying the most important customers of both firms remains necessary to sustain the firm's historical revenues, and thus avoid value leakage. Moreover, loss of customers can also affect expected synergies like cross selling that is aimed at enhancing revenues and thus cash flows.

e. Cultural resistance

Schweiger and Goulet (2000), in their review of the literature, conclude that culture is a complex issue. Organizational cultural difference and clashes are identified by most researchers and practitioners as primary cause of M&A failure, both in domestic and cross border deals. However, some research comparing domestic and cross border deals, suggests alternative findings (e.g. Larsson and Finkelstein, 1999; Morosini et al., 1998; Very et al., 1997; Weber et al., 1996). This research tends to show that the existence of cultural distance might not be directly associated with poor performance. Conclusions indicate that the relationship with performance is more complex that initially assumed. For instance Very et al. (1997) found that the level of autonomy given to an acquired firm influences the culture-performance linkage. Some researchers introduced a cultural process called acculturation, to explain performance (e.g. Nahavandi and Malekzadeh, 1988; Larsson, 1993; Very, Lubatkin and Calori, 1996). These researchers contend that the success of integration may depend upon how cultural integration is managed rather than upon initial cultural similarities (Schweiger, 2002).

Using this process perspective, Larsson (1993) connects acculturation to the reduction of conflict. In brief, questions remain about the conditions under which cultural problems and their interplay with other dimension occur and how they influence performance. The integration process at least seems to moderate the relationship. Despite these unanswered questions, research has shown that when cultural incompatibility exists, employee resistance emerges. As a consequence, target top management turnover is likely to increase and acquirers can face strong barriers for implementing their integration plan (e.g. Schweiger and Goulet, 2000). In other words, cultural resistance may have a negative impact on synergy realization and cash flows if cooperation between combining firms is not achieved.

f. Characteristics of Integration Challenges and Problems

The five challenges and problems discussed above are clearly not independent (Schweiger and Very, 2003). For instance, uncertainty and ambiguity can lead to the departure of key people, but such departure can also emanate from unfavourable organizational politics or a recruitment opportunity offered by a competitor. Moreover, each problem is likely to have a negative effect on value preservation and or synergy realization. For example, individual uncertainty and ambiguity decrease the productivity of employees, diminishing the firm's cash flow. In addition, when such a loss of productivity happens, the realization of synergies can be threatened: employees will not easily share their competencies as long as they are concerned about whether they will be retained. The same analysis can be made for the four other issues. The importance of a particular issue depends upon the strategy behind the acquisition.

2.5.9 KNOWLEDGE TRANSFER AND KNOWLEDGE-BASED VIEW

Hayek (1945) highlighted the importance of distribution of knowledge on organizational structure. Hayek (1945) explained that business activities commonly require the integration of widely dispersed bits of incomplete and frequently contradictory knowledge, which all separate organizational members possess. Over the last decade, researchers have extensively used a knowledge perspective to explain a variety of strategy topics, such as alliances (e.g., Simonin, 1999), acquisitions (e.g., Bresman et al., 1999), internal transfer of capabilities (e.g., Szulanski, 1996), and development of local competitiveness in foreign markets (e.g., Ranft and Lord, 2000).

International Context and Knowledge Transfer

Much research on knowledge transfer within and between organizations has been conducted in an international context (Inkpen and Dinur, 1998; Gupta and Govindarajan, 2000; Kogut and Zander, 1993; Ranft and Lord 2000; Subramanian and Venkatraman, 2001). This research suggests that knowledge transfer is particularly critical for multinational companies and cross-border inter-firm alliances. For example, Kogut and

Zander (1993) argue that, compared to markets, organizations better are able to transfer tacit knowledge across borders. "The multinational company" they write "arises not out of the failure of markets for buying and selling of knowledge, but out of its superior efficiency as an organizational vehicle by which to transfer this knowledge across borders" (625).

Taking a knowledge-based view of the multinational company, this research stream assumes that value creation by multinational companies is determined by their ability to transfer tacit knowledge about best practices and foreign markets across borders (e.g., Buckley and Carter, 1999). However, only limited empirical evidence exist about the role of international knowledge transfer and performance. Like most knowledge based research, attention is directed towards factors that enhance or impede knowledge transfer, without subsequently examining the link to firm performance. For example, Ranft and Lord (2000) find that differences in organizational structures influence the extent of internal transfer about new international markets among divisions. To date, limited study has examined the role of geographic and cultural distance between transfer parties and their influence on the knowledge transfer-firm performance link. This is an important void because multinational companies may face unique complexities in distant knowledge transfer (e.g., Kostova, 1999). In order to extend the knowledge-based view of the firm to a view of the multinational company, advantages and disadvantages of transferring knowledge across greater distances need further theoretical and conceptual examination.

Theories of the multinational company provide insight about the role of distance and transfer of knowledge. First, it contends that the primary reason why firms exist is because of their ability to transfer and exploit intangible assets more effectively than market mechanisms (Buckley and Casson, 1976; Kogut and Zander, 1993). Second, the internationalization process of the multinational firm is viewed as a function of the development of knowledge about foreign markets (Barkema and Vermeulen, 1998; Johanson and Vahlne, 1977, 1990). Multinational companies become better international empire builders as they learn more about foreign markets. Morosini et al. (1998) provide a compelling resource-based view explanation of the role of cultural distance on firm performance. These authors argue that bundling resources with resources from culturally distant locations endows multinational companies with more diverse resource pools, which are more causally ambiguous and socially complex. Accordingly, these resource pools are more difficult to imitate by competitors and have a better chance to serve as source of sustained competitive advantage (Barney, 1991). As an extension of the resource-based view, bundling knowledge from greater geographic and cultural distance can be expected to provide the multinational company with a richer and more diverse knowledge base.

These observations from the theory of the multinational company and the resource-based view provide an explanation for why knowledge transfer across greater distances can provide the firm with more sustained competitive advantages. However, the geographic and cultural distance between transfer parties also form a critical barrier to internal knowledge transfer. The theory of the multinational company argues that firms that expand in overseas markets face liabilities of foreignness in the form of coordination costs and cultural adaptation (e.g., Eriksson, et al., 1997; Hymer, 1976; Zaheer, 1995). Since the success of transnational transfer of organizational practices depends on various social, organizational and relational factors, this liability can bring about serious challenges to the transfer (Kostova, 1999).

The knowledge-based view, therefore, needs to incorporate the added costs of transferring knowledge across greater distances. As it raises costs of coordination and cultural adaptation, transfer of knowledge across greater distances makes it more difficult to develop combinative capabilities. For example, the transfer of complex tacit knowledge may only be possible through rich communication channels (Subramanian and Venkatraman, 2001), which require frequent cross-border visits and meetings (Bresman et al., 1999).

Greater geographic distances strain a firm's opportunity to provide these rich channels, because it becomes more costly to disburse travel expenditures to bring transfer parties together. In addition, greater cultural distances complicate the development of the ability to share knowledge, because transfer parties need to overcome greater cultural and language barriers (Zaheer, 1995). Firms may offset these greater strains on developing combinative capabilities with greater absorptive capacity. Zaheer and Mosakowski (1997) find that the effect of the liability of foreignness on firm survival diminishes with experience in the local market. However, since firms have a tendency to develop their 'international experience' incrementally, beginning near the home market (Johanson and Vahlne, 1977), firms can be expected to have less experience in distant overseas markets.

Thus, geographic and cultural distance likely also is negatively associated with absorptive capacity.

In summary, distance between transfer parties may become a double-edged sword, providing greater diversity and richness to transferred knowledge only at the expense of suppressing combinative capabilities and absorptive capacity. To avoid this, it is essential, particularly in international contexts, which transfer parties have or develop these capabilities. Only those transfer parties of distant knowledge transfer that are able to develop absorptive capacity and combinative capabilities will be able to reap the benefits of barriers to imitation associated with the enhanced social complexity and causal ambiguity in distant knowledge transfer.

2.5.10 HUMAN RESOURCE MANAGEMENT IN M&AS

The human perspective on M&A has also been the subject of research. The aim has been to identify the human toll of M&A so that non-financial aspects would also be taken into account in the management of M&A (Buono and Bowditch, 1989; Cartwright and Cooper, 1990). The concern shared by these researchers is that human aspects are not sufficiently considered in the management and integration of M&A (Schweiger and Weber, 1989; Napier, 1989; Cartwright, 1998).

a) Human Resource Management Practices in M&As

According to a considerable number of researchers (e.g., Cartwright and Cooper, 2000; Gutknecht and Keys, 1993; Meeks, 1977; Sinetar, 1981) post-merger performance is adversely affected by lowered morale, which is often linked to perceptions of unfair treatment. Employees' perceptions of justice or fairness concerning how they are treated with regard to pay, promotion, and individual consideration have important consequences for organization performance more generally (Colquit, Conlon, Ng, Porter, and Wesson, 2001) and have become an important focus of psychological research (Folger and Cropanzano, 2001; Gilliland and Paddock, 2005; Greenberg, 1990, 2001; Korsgaard and Robertson, 1995). The concept of organizational justice is underpinned by equity theory (Adams, 1965), in that people expect to receive fair rewards for their work efforts and will reduce their efforts if they experience a sense of injustice.

According to organizational justice theory, perceptions of fairness are linked to both procedural justice (how fair the organizational processes and procedures are) and distributive justice (how fairly the rewards are distributed). Employees who feel they are treated fairly and with respect have been shown to be more inclined to exhibit high levels of Organizational Citizenship Behaviours (OCBs) and do things for the organization over and above that which they are contractually obliged to do (Guest, 1998). High levels of OCB are considered to be desirable post merger to meet the demands of increased workload and increased employee flexibility (Cartwright and Cooper, 2000).

In the context of M&As perceptions of organizational justice and fairness concern not only the way in which new roles and rewards are allocated to those who are retained by the merged organization but also the ways in which termination decisions are made and the process of employee lay-offs is handled (Cartwright and Cooper, 2000). In addition, employee perceptions and future expectations concerning organizational justice and consideration are likely to shape the terms of the psychological contract (Rousseau, 1995) which acquired employees will be seeking to re-establish with their new employer. If they consider that their new employer is unjust and lacking in consideration toward employees, then the reciprocal expectations which form the basis of that psychological contract between employer and employee are unlikely to extend beyond the transactional level to the deeper, more enduring relational level. M&A researchers have only recently begun to study the concept of organizational justice (Meyer, 2001). As yet this does not appear to have been extended to include consideration of the psychological contract.

However, there is a body of research evidence to suggest that the morale of survivors is adversely affected by employee lay-offs and the resultant increase in workloads (Brockner, 1986; Gutknecht and Keys, 1993). In a survey of over 50 US M&As, Jacobs (1988) found that 80% of the respondent organizations had initiated downsizing operations post merger and in 75% of cases the work performed by the redundant employees was reallocated among the remaining workforce. Although, initially, surviving employees report feelings of guilt, anger, and/or relief at the dismissal of co-workers, over time these feelings are often replaced by fear of future dismissals and anxiety and frustration about increased workloads (Brockner, 1986; Cartwright and Cooper, 2000). Furthermore, there is some limited, mainly anecdotal, evidence that feelings of injustice among displaced executives and employees can damage the reputation and performance of the merged organization (Cabrera, 1990).

Not surprisingly, the literature has emphasized the importance of providing support, advice, and outplacement services to employees who are made redundant or are early-retired in the process of M&A (Gutknecht and Keys, 1993). The impact of organizational initiatives to assist redundant employees seems to have been little evaluated, although some years ago Allied Signal, who made 45 acquisitions over a 6-year period, attributed their success to the investment they made in a program to develop and retrain survivors (Fulmer, 1986). More recently, Summers and Holcombe (1990) conducted a small study of employees who lost their jobs following the closure of their division post merger. The employees were offered alternative employment elsewhere in the company, although this would have necessitated major relocation to another part of the US. Consequently, none of the employees took up the offer.

Summers and Holcombe (1990) conducted a questionnaire survey to ascertain how fairly the employees felt they had been treated. A correlation analysis found partial support for the notion that the offer of alternative employment contributed to their satisfaction with and perceived fairness of their employer. Unfortunately, however, the sample size was less than 30, thus limiting the generalizability of the findings. Schweiger and Very (2003) have observed that the allocation of post-merger roles and functions invariably benefit some employees and is perceived to disadvantage others. Power differentials between the organizations are considered to influence the allocation process (Halvorsen, 1984). Other criteria, such as merit, equality, and seniority, which emphasize how important it is that acquiring management are not seen to favour appointing their existing staff over acquired employees, have also been mentioned (Marks and Mirvis, 2001). Systematic selection processes present a means of ensuring the equality criterion is met. However, such processes are lengthy and time-consuming and reselection and promotion decisions are more often made on the basis of seniority, which enables decisions to be made easily, quickly, and safely, in legal terms (Serpa, 1988).

Citera (2001) conducted a simulation study to investigate the criteria on which judgements of fairness are likely to be made in M&A situations. Students were presented with four different types of acquisition scenarios and asked to make judgements. It was found that the higher the degree of expected integration the more likely individuals were to expect more unfair and fewer fair changes to occur. Child, Faulkner, and Pitkethly (2001) have presented data to suggest that changes in relation to pay, promotion, and reward mechanisms are more pronounced in cross-border than domestic M&As. In a study of European mergers Very, Lubatkin, and Veiga (1997) found that changes in the perceived objectiveness of the performance and reward procedures were significant predictors of employee stress levels.

Meyer (2001) applied an organizational justice perspective to investigate the role allocation processes in two Norwegian mergers. Earlier studies (Fried, Tiegs, Naughton and Blake, 1996; Newman and Krzystofiak, 1993) have found that the timing, criteria, and mechanisms used to allocate new roles can result in negative emotional and behavioural outcomes. In her study, Meyer (2001) conducted a series of interviews, supplemented by documentary and archival data and direct observation, to compare the experiences of key informants involved in a banking merger and an insurance merger. In terms of outcomes, Meyer discusses the comparative impact the allocation processes had on employee satisfaction and the difficulties that organizations may face in applying justice rules which satisfy both productivity- and relationship-oriented goals.

b) Human Resource management and acquisition performance

Although domestic and cross border M&As have become an essential part of the daily business environment and the number of deals is expected to increase in the future (Evans, Pucik and Barsoux, 2002), the M&A track record is clearly controversial (Schweiger, 2002). It seems that despite the frequency of cross border M&As, the discovery and exploitation of value-creating synergies serves as a major challenge and therefore often results in unsatisfactory outcomes (Schuler and Jackson, 2001). Disappointing financial results have been explained as being the result of poor target selection, strategic mismatches, financial mismanagement or incompetence, or unexpected changes in the business environment and market conditions (Cartwright and Cooper, 1990). Whilst these factors are likely to have an effect on financial performance, Cartwright and Cooper (1990) argued that such explanations are incomplete, because they do not take into account the people factor in M&A success.

Several studies have addressed the importance of human resource issues in domestic and international M&As (Napier, 1989; Buono and Bowditch, 1989; Cartwright and Cooper, 2000; Schuler and Jackson, 2001; Evans et.al, 2002). According to Evans et al (2002: 264), "there is no shortage of evidence that attention to people issues is one of the most critical elements in making acquisition strategy work." Indeed, it is hard to define a cross border acquisition in which HR issues are not involved.

When the objective of an acquisition is to establish a new geographic presence, the management of a foreign culture, language, and communication are all very important issues (Very and Schweiger, 2001; Evans et al, 2002). On the other hand, in acquisitions where the aim is to acquire technology, market share, the competences of skilled employees are needed. Therefore, retaining key employees is a principal challenge (Evans et al, 2002). When acquiring or merging internationally, companies are faced with the differences in language, culture, law, and socio-economic conditions (Very and Schweiger, 2001). Some studies have found that these cultural differences have a negative effect on cross border M&A performance (e.g. Datta, 1991; Chatterjee et al, 1992; Weber, 1996) whereas others have found a positive effect (e.g. Very, Lubatkin and Calori, 1996; Larsson and Risberg, 1998; Morosini, Shane and Sigh, 1998). In reaction to these largely mixed findings, Stahl et al (2003) state that the critical factor is not the cultural difference itself, but rather how these cultural (national and organizational) differences are managed, which is also an HR related issue (Bouno and Bowditch, 1989; Schuler et al, 2004).

Although the importance of HR issues in cross border M&As is well argued, no studies could be found on the relationship between the role of HR and cross border acquisition performance. Previous studies have focused mostly on suggesting guidelines or frameworks for effective HR management (HRM) in an M&A process (Buono and Bowditch, 1989; Hunt and Dowling, 1990; Cartwright and Cooper, 1990, 1992b; Marks and Mirvis 1998; Schuler and Jackson, 2001; Evans et al, 2002 and Schweiger, 2002).Whilst a few studies have described the role of HR in the domestic and international M&A process, still very little is known about how the role of HR impacts on cross-border acquisition success.

2.5.11 CONCLUSION

There have been a number of studies on cross border M&As integration during the last two decades. Unfortunately, most of this research, with the exception of culture and acquired firm top management turnover, has not been systematic and linked to any comprehensive theory (Schweiger and Goulet, 2000). The accumulated evidence, however, does suggest that both national and organizational culture, the management of the integration process and integration decisions play an important role in influencing a variety of outcome measures, including financial performance of cross border M&As.

The influence of the form of integration has received mixed empirical support. While several studies have reported that the integration approach may moderate the negative impacts of any cultural difference present (Morosini and Singh, 1994; Very et al., 1997; Morosini et al, 1998), others have concluded that the relationship between cultural differences and cross border acquisition performance is independent of the form of integration (Buono and Bowditch, 1989; Datta, 1991; Schoenberg and Norburn, 1998). Further research is undoubtedly needed in this area, but the implications for practitioners is that it may be dangerous to assume that managing a cross border M&As at arm's length (preservation integration) will necessarily soften the negative impact of any cultural differences. These conclusions confirm the, often cited, need for practitioners to make a detailed assessment of cultural compatibility as part of their pre-bid planning and evaluation activities. Yet, the issue remains as to which particular factors should be the focus of attention in such an assessment (Schoenberg, 2000).

To date, very little is still known about the management of the cross border integration process itself, although research has provided support for the value of involving acquired company people in the integration process and interventions to facilitate learning. Though these findings are interesting, research needs to examine conditions under which involvement may not be warranted. As noted in this literature review, in spite of the research under taken there remains many unanswered questions on what contributes to cross border M&As integration effectiveness. And, thus, many opportunities exist for future theory development and empirical research.

2.6 PERFORMANCE OF CROSS BORDER M&AS

The aim of the current section is to provide a review of the literature relating to the performance of cross border M&As. The chapter is organized as follows. The first section presents studies focusing on the impact of culture on performance of cross border M&As. Section two reviews research that deals with stock returns to shareholders following cross border M&As. The final section provides a review of research on entry mode and performance.

2.6.1 CULTURE AND PERFORMANCE OF CBM&AS

Recent years have seen a significant increase in CBM&As activity as firms pursue a simultaneous strategy of business consolidation and geographical diversification. Despite the increasing level of activity, empirical studies continue to draw attention to the poor performance record of such acquisitions (Cartwright and Cooper, 1993; Haspeslagh and Jemison, 1991). This has been traced back to an inadequate strategic rationale behind the deal, a lack of pre-acquisition planning, evaluation or post-acquisition implementation management (e.g. Cartwright and Cooper, 1992a).

Cultural differences have also been blamed for this high failure rate, for domestic and cross border deals alike (Buono and Bowditch 1989; Cartwright and Cooper, 1993; Chatterjee et al., 1992; Datta, 1991; Morosini, 1998; Morosini and Singh, 1994; Nahavandi and Malekzadeh, 1988; Sales and Mirvis, 1984; Weber, Shenkar and Raveh, 1996). Given their implicit nature, differences in e.g. national or organizational cultures seem to go unidentified throughout the M&A process, resulting in the newly acquired companies' taking a longer time, if ever, to reach their most efficient state (Gertsen, Soderberg and Torp, 1998; Morosini, Shane and Singh, 1998).

Within the M&A literature, a stream of research has specifically examined the issue of whether cultural differences contribute to CBM&As performance. However, instead of proving the commonly expected and suggested negative impact of cultural differences on the performance of CBM&As, these research results reveal contradictory findings (Teerikangas and Very, 2006).

This section presents a review of extant research on relationship between culture and performance of CBM&As. The first part addresses the empirical studies that have investigated the influence of organisational culture compatibility in CBM&As. The second part presents a review of empirical studies focusing on influence of national culture on the performance of CBM&As. The final part addresses the empirical studies that have investigated the influence of several cultures and performance of CBM&As. Table 2.12 presents the summary of selected studies on the culture-performance relationship in CBM&As.

2.6.1.1 ORGANIZATIONAL CULTURE AND THE PERFORMANCE OF CBM&AS

A commonly used definition of organizational culture focuses on the beliefs, values and assumptions shared by an organization's members (Schein, 1985). However defined, organizational culture is today regarded as important in determining an individual's commitment, satisfaction, productivity and longevity within the organization (Holland, 1985; O'Reilly, Chatman and Caldwell, 1991) as well as in understanding organizational climate (Ashkanasy, Wilderom and Peterson, 2000; Denison, 1996).

In the early 1980s, the concept was introduced into the M&A literature. Whilst some studies have highlighted the human and cultural consequences of differences in organizational cultures (Buono, Bowditch and Lewis, 1985; Marks, 1982; Sales and Mirvis, 1984), others have focused on the importance of cultural fit (Cartwright and Cooper, 1992a, 1993; Chatterjee et al., 1992; Larsson and Finkelstein, 1999). In parallel, efforts to measure the organizational culture – performance relationship through survey-based research have surfaced. In his study of organizational fit and the performance of US domestic acquisitions, Datta (1991) found differences in top management styles, but not in reward and evaluation systems, to have a negative performance impact. Weber (1996) researched the role of corporate culture fit, autonomy removal and commitment of managers to the performance of US mergers across different industries. The relationships between the variables studied were found to be complex, varying across industries and providing different results with different measures of performance.

Differences have also been found to provide potential for value creation. Krishnan, Miller and Judge (1997) studied the impact of top management team complementarity on the performance of US acquisitions. They found differences in functional backgrounds to have a positive impact on post-acquisition performance. Complementarity of top

Table 2.12: Summary of selected empirical studies on culture – performance relationship

Study	Method & Sample	Operationalization of Constructs	Key Findings
Morosini et al. (1998)	Cross-sectional survey of 52 companies that had engaged in cross border acquisitions in Italy (as acquiring or acquired firms) during 1987–1992. Survey complemented by in-depth interviews.	Independent variable: National cultural distance = based on Hofstede's (1980) four dimensions Dependent variable: Performance = percentage rate of sales growth in two post-deal years. Control variables: Relatedness, Size, Post-acquisition strategy, acquiring firm's uncertainty avoidance, Year of deal, Industry.	Acquisitions perform better the greater the distance in national cultures; Diversity in national cultures is a source of competitive advantage for a firm, as it gets access to different sets of routines.
Weber et al. (1996)	Cross-sectional survey of 52 domestic and cross-border mergers of acquired US companies during 1985–1987.	National cultural distance = Hofstede's (1980) dimensions, Organizational culture distance = perceived pre merger similarity between the firms, Autonomy removal, Stress, Attitudes toward cooperation with the acquiring firm's management team, Acquired firm's attitude toward the acquiring firm, Acquired firm managers' commitment, Acquired firm managers' readiness for cooperation.	Degree of national and corporate culture fit determines effective integration in cross-border M&A; In domestic deals, corporate culture results in lower managerial commitment; (3) in cross-border deals, national culture predicts stress better than corporate culture.
Very et al. (1996)	Cross-sectional survey of 106 European mergers during 1987–1989.	Independent variable: Acculturative stress, Perceived cultural compatibility (inclusive of measures of differences in organizational and national cultures). Dependent variable: Postmerger performance = perceptions of Postmerger performance with regard to earnings, sales and market share. Control variables: Merger relatedness, Administrative involvement of acquired firm managers in merger, Relative size, Age of merger Domestic vs. cross border merger	Acculturative stress is a complex phenomenon, sometimes influenced by national culture; the influence of national culture is difficult to predict, it can result in attraction or stress, depending on the countries and cultures involved.

(Continued)

Study	Method & Sample	Operationalization of Constructs	Key Findings
Larsson and Risberg (1998)	Case survey on a sample of 62 studied cases of domestic and cross-border M&A during 1960–1989.	Achieved level of acculturation, Employee resistance, Degree of synergy realization, Domestic vs. cross-border M&A, _ Organizational culture = management styles of companies.	Cross-border deals achieve greatest levels of synergy realization.
Krug and Hegarty (1997)	Sample of 270 domestic and foreign acquisitions of US companies during 1986–1988.	Domestic vs. cross-border acquisition, Cumulative top management turnover, Country of origin of acquiring company.	Higher turnover rate in US firms acquired by foreign vs. domestic firms.
Very et al. (1997)	Cross-sectional survey of 106 European mergers during 1987–1989.	Independent variable: Perceived cultural compatibility (inclusive of measures of differences in organizational and national cultures), autonomy removal, relative size. Dependent variable: Postmerger performance = perceptions of Postmerger performance with regard to earnings, sales and market share. Control variables: Merger relatedness, Age of merger Domestic vs. cross-border merger.	A cultural view of relative standing in the performance of European M&A: no performance difference between domestic and cross-border M&A; sometimes, domestic M&A are more difficult; national culture can have a positive impact.
Larsson and Finkelstein (1999)	Case survey on a sample of 61 studied cases of domestic and cross-border M&A during 1960–1989.	Independent variables: Combination potential = similarity of marketing, and production operations, complementarity of marketing and production operations , Organizational integration = 1) extent of operational interaction, 2) coordination mechanisms and structures, Employee resistance, Management style similarity = degrees of formality vs. participation Domestic vs. cross-border deal	Strategic, financial, organizational and human resource perspectives should be considered in parallel in M&A; complementary deals provide greatest synergy potential; organizational integration is important.

Source: Based on Teerikangas and Very (2006: S44) management team members was seen as a means of enhancing organizational learning and lowering turnover rates. Based on their study, Larsson and Finkelstein (1999) argue that complementarity of operations is a useful way of explaining M&A success, as it represents the potential for synergy realization in a deal.

2.6.1.2 NATIONAL CULTURE AND THE PERFORMANCE OF CBM&AS

Early studies on culture in M&As were made by American and British scholars. With the rise of cross border deals, European scholars began to take an increasing interest in the phenomenon. Given the richness of national cultures on the European continent, the concept of national culture was introduced into the M&A literature (Cartwright, 1998; Gertsen, Soderberg and Torp, 1998).

National culture can a priori be described using a similar definition as the one used for organizational culture with the level of analysis being the national one. It defines the 'shoulds' and the 'oughts' of life that impregnate the minds of a country's citizens, their 'collective programming of the mind' (Hofstede, 1980). As compared to organizational or other cultures, national culture operates at a deeper level (Berger and Luckmann, 1967; Hofstede, 1980). Often national boundaries are used as a convenient proxy for national culture (Bhagat and McQuaid, 1982), as in much of the cross-cultural literature. This framing is somewhat theoretical and imprecise, however, given the existence of minorities and regional cultures within the national boundaries of any country (Teerikangas and Very, 2006).

Amongst the earliest works on the impact of national culture on CBM&As is the work of Olie (1990), who looked at culture and integration problems in cross border mergers. He argued that the impact of national culture can result in the nationalistic bias of organizational members. Nationalism could result from historical animosities and prejudices or pure chauvinism per se (Mazzolini, 1974). Later, the buying firm's behaviour throughout the M&A process has been found to depend on its national background (Angwin, 2001; Calori, Lubatkin and Very, 1994; Lubatkin et al., 1998; Child, Faulkner and Pitkethly, 2000, 2001; Faulkner, Child and Pitkethly, 2003; Larsson and Lubatkin, 2001; Pitkethly, Faulkner and Child, 2003).

Whilst cultural differences are frequently associated with poor performance for domestic M&As, the relationship seems to be inverse for cross border deals. Thus, differences in national cultures would appear not be an impediment, but a potential success factor for CBM&As. Morosini, Shane and Singh (1998) found cross border acquisitions to perform better as the distance between the national cultures involved increased. These findings were echoed in Schweiger and Goulet (2000). This would seem to suggest that the assumed negative relationship between cultural differences and the performance of CBM&As does not hold for national cultures. This would suggest that the culture–performance relationship is more subtle and complex than is assumed (Teerikangas and Very, 2006). It is recommended that researchers use greater care when discussing 'cultural differences' in the context of M&A.

2.6.1.3 SEVERAL CULTURES AND THE PERFORMANCE OF CBM&AS

Some studies have looked at the simultaneous presence and impact of several cultures on CBM&As. The earliest work to mention the simultaneous presence of organizational and national cultures in CBM&As is Olie's (1990, 1994). Whilst elements of both organizational and national cultures impact CBM&As, clashes will depend on the sought degree of integration (Olie, 1990). David and Singh (1994) added professional culture to this definition of cultural distance. With regard to the performance impact, Weber, Shenkar and Raveh (1996) studied the role of national and corporate culture fit in determining the effective integration of domestic and cross-border mergers. In domestic deals, differences in organizational cultures were found to result in lower top management commitment and cooperation between the partners. In cross border deals, national culture differences predicted stress, negative attitudes toward the merger and cooperation better than organizational culture, which had a positive effect. They concluded that in cross border deals, both national and corporate cultures determine success.

Very, Lubatkin and Calori (1996) focused on the formation of acculturative stress in domestic and cross border European mergers. They found acculturative stress to be a complex phenomenon, sometimes influenced by national culture, but not necessarily in the expected direction. Depending on the dimensions of acculturative stress and the home countries of the participating companies, acculturation could either produce stress or attraction. In some cases of domestic mergers, acculturative stress was greater than in cross border ones. These findings were further refined in a study looking at relative standing and its impact on the post-merger performance of European firms (Very et al., 1997). Interestingly, the study revealed little evidence of cultures clashing as had been reported by prior US studies. Actually, a positive link between post merger performance and differences in organizational cultures was found. Furthermore, there was no performance difference between domestic and cross-border mergers. Thus, the clashing of national cultures was not particularly evident in the sample studied and the authors concluded that acquirers should not underestimate the impact of organizational culture in domestic mergers. In this line, Larsson and Risberg (1998) argued that as compared to domestic one; cross border M&As achieve highest levels of acculturation and synergy realization. The authors explain this with the possibly greater awareness of cultural differences in cross border versus domestic deals. However, Krug and Hegarty's (1997) study showed that US firms acquired by foreign firms suffered a higher turnover rate than those acquired by domestic ones.

Whilst studies in this stream of research have included greater cultural complexity in their research design than the previously reviewed studies, the results do not seem to clarify the problem at stake. For one, it seems that cultural differences occur in domestic and cross border M&As alike (Very, Lubatkin and Calori, 1996; Very et al., 1997; Weber, 1996), hence the call for managers not to under-estimate the cultural clash occurring in domestic M&A. For another, these studies seem to have difficulties in estimating the impact of organizational and/or national cultures in domestic and/or cross-border deals.

In line with other reviews (e.g. Schoenberg, 2000; Stahl and Voigt, 2003), Teerikangas and Very (2006) concluded that current findings differ in terms of the impact of cultural differences on CBM&As. The shared finding is that cultural differences impact the performance of both domestic and cross border deals. Moreover, all studies suggest that cultural differences should be included in the decision making, evaluation and integration processes of CBM&As. However, with current knowledge, it is challenging to predict the nature and direction of the impact of cultural differences on CBM&As.

To conclude, it seems that one has to be careful with predicting the impact of organizational, national or other cultures on M&As. There seem to be diverse sources of complexity that currently prevent us from answering 'yes' or 'no' to the relationship to the question of whether differences between culture affect CBM&As performance (Teerikangas and Very, 2006).

2.6.2 SHAREHOLDERS' STOCK RETURN ON CBM&AS

Most research on the financial performance of CBM&As has focused on stock returns surrounding announcement dates. Virtually all researchers have reported large positive average abnormal returns to targets, a result that is not surprising given the significant premiums typically involved in CBM&As. Conversely, these same researchers found surprisingly small abnormal returns to acquirers over the announcement period.

Parallel to the research on announcement period returns, a smaller body of work has investigated long run post acquisition stock return. Overall, cross border M&As of all public and private targets do not result in significantly negative long run returns, whereas cross-border acquisitions of targets which are publicly quoted do result in significantly negative long run returns.

This section presents literature focusing shareholders stock return in CBM&As. The section is divided into two parts. Part one provides a review of literature on short run stock return in CBM&As and, part two reviews studies focusing on long run stock returns in CBM&As.

2.6.2.1 SHORT RUN STOCK RETURNS IN CROSS BORDER M&AS

In all short run event studies researchers try to estimate the effect of the acquisition announcement on market prices of underlying securities, and consequently increments in the returns to shareholders. Table 2.13 presents the summary of selected short run event studies on CBM&As.

While cross-border acquisitions have received some attention in the literature only a limited body of research exists on the impact of cross border acquisitions on returns of acquiring firms. For example, Doukas and Travlos (1988) focus on US acquiring firms and find that, on average, there is no significant impact on bidders' wealth. However, there is considerable variation over their sample of firms with positive abnormal returns arising if the acquiring firm is entering new markets or new industries. The authors regard this evidence as supporting the multinational network hypothesis, the rationale here being that there are lower (higher) marginal returns if the acquiring firm already has (does not have) a presence in the target country.

Other studies that have focussed on returns to bidders based on a sample of US firms include Fatemi and Furtado (1988), Markides and Ittner (1994) and Datta and Puia (1995) all of which find either non-significant positive abnormal returns or, in the case of Datta and Puia, negative abnormal returns.

Table 2.13: Summary of selected short term event studies on CBM&As

Study	Sample	Model used	Summary of findings
Doukas and Travlos(1988)	301 foreign acquisition by US between 1975-1983	MM	Insignificant positive abnormal returns of around 2% for the US bidder in the time period (10, b 10) days around the announcement day.
Kang (1993)	102 Japanese acquisitions of US firms between 1975 - 1988	MM	For Japanese bidders, the *CAR(* - 1,O) and the *CAR (* - 1, 1) are 0.59% and 0.51 %, which are statistically significant
Corhay and Rad (2000)	84 Western and 10 Eastern European, 17 US foreign M&As between 1990 - 1996	MM	The CAR for the sample of Western European acquisitions was 1.44% for a 5-day period (25, 15; while regarding the US acquisitions the CAR (240, 140) was 4.5 % and was statistically significant
Gregory and McCorriston (2005)	333 acquisitions in US, EU and rest of the world by UK firm between 1984 - 1995	MM	For US acquisitions short-run returns are positive but again not statistically significant. The CAR results for investment in other regions vary being negative for acquisitions in the EU and positive for those in the rest of the world but neither is statistically significant
Eun et al. (1996)	225 foreign acquisitions of U.S. firms by non US firms between 1979-90	Mean-Adjusted return technique	Examining cross border acquisitions in the US, they show that bidding firms sourced from Japan experienced positive abnormal returns while UK firms experienced considerable negative abnormal returns. Acquiring firms based in Canada experienced mildly positive abnormal returns that were considerably below those experienced by Japanese firms.
Cakici, Hessel and Tandon (1996)	195 foreign firms acquiring US targets between 1983-1992	MM	Foreign AC experience positive and significant abnormal CAR of nearly 2% over days (10, þ 10).

Key: AC = Acquiring Companies' Shareholders, MM = Market Model, CAR = Cumulative Abnormal Return

In terms of non-US countries, Kang (1993) investigates the abnormal returns of Japanese bidders in the US and finds positive abnormal returns to Japanese firms. Corhay and Rad (2000) find weak evidence that cross border acquisitions is wealth-creating based on a sample of Dutch firms. They also find evidence that the benefits from internalisation are greater for firms having less international exposure and making acquisitions outside their main industrial activity. Recently, Gregory and McCorriston (2005) estimated CARs with an event window (-3, 1) for cross border acquisitions by UK firms in the US, EU and rest of the world. The results indicated that short-run returns are positive for US acquisitions but again not statistically significant. The CAR results for investment in other regions vary, being negative for acquisitions in the EU and positive for those in the rest of the world but neither is statistically significant.

In terms of cross-country comparisons, Eun et al. (1996) have shown that the returns to acquiring firms are likely to vary across countries. Examining cross border acquisitions in the US, they show that bidding firms sourced from Japan experienced positive abnormal returns while UK firms experienced considerable negative abnormal returns. Acquiring firms based in Canada experienced mildly positive abnormal returns that were considerably below those experienced by Japanese firms. Cakici et al. (1996) also report significantly positive abnormal returns around the event date for acquirers from Japan, Australia, the UK and the Netherlands.

2.6.2.2 LONG RUN STOCK RETURNS IN CROSS BORDER M&AS

Although there has been an exponential increase in the number and size of CBM&As during the past decade, there is limited empirical evidence on long horizon share returns in CBM&As. Table 2.14 summarises the results of selected long run studies CBM&As performance.

The four studies by Conn and Connell (1990), Danbolt (1995), Black et al. (2003) and Aw and Chatterjee (2004), examine cross border acquisitions of publicly quoted targets.

Despite the variation in methodology and sample, all four studies report significantly negative post-acquisition returns. Aw and Chatterjee (2004) directly compare cross-border with domestic acquisitions, and find that in cross-border acquisitions returns are lower although not significantly so. The studies by Eckbo and Thorburn (2000) and by

Gregory and McCorriston (2005) examine cross border acquisitions of both publicly and privately held targets. In contrast to the other cross border long run studies, neither study finds evidence of significantly negative long run returns. Neither study reports returns separately for public and private acquisitions.

Table 2.14: Summary of selected Long Run Event studies on CBM&As

Study	Bidder Country	Target Country	Period	Sample Size	Methodology	Share returns (%)	Length of Event Period (Months)
Conn and Connell (1990)	US	UK	1971–1980	35	Market model, CARs	11.5	12
	UK	US	1971–1980	38	Market model, CARs	22.6	12
Danbolt (1995)	Non-UK	UK	1986–1991	50	Market model, CARs	9.8	5
Eckbo and Thorburn (2000)	US	Canada	1964–1983	394	Market model, CARs	3.7	12
Aw and Chatterjee (2004)	UK	Non-UK	1991–1996	41	Market model, CARs	24.4	24
Black et al. (2003)	US	Non-US	1985–1995	361	Size/ market-to-book / BHARs	22.9	60
Gregory and McCorriston (2005)	UK	Non-UK	1985–1994	333	Size / market-to-book portfolio BHARs	9.3	60
Conn et al. (2005)	UK	Non-UK	1984 – 1989 & 1990 – 1998	4344	BHARs/ CTAR	-0.07	36

Notes: CARs = Cumulative Abnormal Returns, CTAR = Calendar Time Abnormal Return, BHARs = Buy-and-Hold Abnormal Returns

A drawback with four of the studies (Conn and Connell, 1990; Danbolt, 1995; Eckbo and Thorburn, 2000; and Aw and Chatterjee, 2004) is their use of the market model methodology, the weaknesses of which are now well documented. Market models suffer from parameter instability (Coutts et al., 1997), are inferior to multi index models (Fama and French, 1992), and are subject to statistical biases which have led to more reliable test statistics being employed than those employed in these studies (Lyon et al., 1999). However, the two studies by Black et al. (2003) and by Gregory and McCorriston (2005) do address some of these methodological concerns.

Recently, Conn, Cosh, Guest and Hughes (2005) examined the announcement and post-acquisition share returns of UK acquirers in 1140 cross border acquisitions and 3204 domestic acquisitions. Domestic public acquisitions result in negative announcement and post-acquisition returns, whilst cross-border public acquisitions result in zero announcement returns and negative post-acquisition returns. In contrast, both domestic and cross-border private acquisitions result in positive announcement returns and zero post-acquisition returns. Overall findings indicate that cross border acquisitions result in lower long run returns than domestic acquisitions. In cross-border acquisitions, those involving high-tech firms perform relatively well, as do those with low national cultural differences.

The tentative overall conclusion is that cross border M&As of all public and private targets do not result in significantly negative long run returns, whereas cross-border acquisitions of targets which are publicly quoted do result in significantly negative long run returns.

2.6.3 ENTRY MODE AND PERFORMANCE

Several researchers have examined post acquisition performance using measures other than abnormal stock returns. One such research stream compared the performance of CBM&As with the performance of other entry mode (joint ventures and greenfield investments). Table 2.15 presents a summary of selected studies on entry mode and performance.

Prior research suggested that returns to CBM&As are generally negative, confirming that FDI is inherently risky (Lee and Caves, 1998). Following this line of reasoning, several scholars attempted to demonstrate the inherent risk of CBM&As by adopting a transaction cost economics (TCE) perspective. For example, Li and Guisinger (1991) found that M&As and joint ventures were more likely to fail when compared with greenfield ventures because of the often significant transaction costs involved with JVs and M&As (especially in the negotiations and post-merger integration). Their results were confirmed by a subsequent study published by Nitsch et al. (1996). These authors examined the performance of 300 Japanese subsidiaries in Europe and found that the ones initiated by

Table 2.15: Summary of selected empirical research on entry mode and performance

Study	Sample	Dependent variable	Independent variable	Key findings
Barkema et al. (1996)	Data were collected from Foreign ventures of 13 large non - financial Dutch firms between 1966– 1988.	Longevity of the venture	Firm level: level of foreign experience Country level: cultural blocks of cultural distance	The longevity of foreign ventures is more strongly and negatively related to cultural distance in the case of double-layered acculturation (JVs and acquisitions), than in the case of single layered acculturations (WOSs and start-ups). The longevity of foreign ventures is more strongly and positively related to prior foreign expansion experiences in the case of double layered acculturation than in the case of single layered acculturation.
Li and Guisinger (1991)	85 foreign controlled business failures in U.S. between 1978– 1987	Business failures (foreign controlled vs. domestic)	Entry mode (acquisitions 65%, others 35%) ownership types, cultural distance	The failure rate of foreign-controlled firms in the U.S. is significantly lower than the failure rate of domestically owned firms. Acquisitions and JVs are more likely to fail than greenfield. Cultural distance is positively associated with failure.
Nitsch et al. (1996)	124 and 173 Japanese subsidiaries in Europe, 1992– 1994	Subsidiary performance	Entry mode (acquisitions, greenfield, JV,)	The greenfield mode is the best, JV is not far behind in terms of the subsidiary performance by entry mode. Acquisitions have at best mixed performance.
Shaver (1998)	213 U.S. entries by foreign manufacturing firms in 1987	Entry mode (acquisition vs. greenfield), investment survival until 1992	Firm level: Experience, parent R&D intensity, etc. Industry level: pre-entry industry growth, post-entry industry growth, industry concentration, US firms' international operation.	The choice of mode of entry influences the survival of the foreign subsidiary. Since firms choose entry mode based on their resource availability, researchers need to control the self-selection in examining the influence of mode of entry on performance outcomes.
Beckman and Haunschild (2002)	300 acquisitions by publicly held service manufacturing firms in the US between 1986– 1997	Premium paid by the focal firm for the acquisition	Firm level: premium experience of network partners, acquisition size of network partners, etc. Network level: network diversity, network partner industry, network multiplexity	The greater the diversity: of network partners' premiums, of the size of network partners' acquisitions, of a focal firm's network, the lower the premium a focal firm will pay on its current acquisition. The more multiplex the relationship between a firm and its network partners, the stronger the relationship between partner diversity and the premium a focal firm will pay on its current acquisition.

acquisitions performed much worse than those that were created by greenfield investments or joint ventures.

Following a different line of reasoning based on different theoretical approaches, such as contingency theory or organizational learning, another group of scholars reached different conclusions. For example, Shaver (1998) recently questioned the methodologies employed in the early research on entry modes and performance. He adopted a contingency view approach and suggested that the choice of the best entry mode is not a random but a strategic decision based on the firm resources and industry context. He stated that "empirical models that do not account for this and regress performance measures on strategy choice variables are potentially misspecified and their conclusions are incorrect" (Shaver, 1998: 571). Incorporating often unobserved firm characteristics, he showed that the survival ratio of entries by M&As was not significantly different from the one resulting by greenfield investments. Another study supporting international market entry by CBM&As, compared with greenfield entries, was conducted by Vermeulen and Barkema (2001). They adopted an organizational learning perspective, arguing that greenfield entries tend to be more simple and rigid, which leads to higher failure rates than with M&As. In contrast, M&As provide new knowledge and perspectives and thus help firms avoid path dependence and build new capabilities.

Another research stream examined the relationship between performance and the degree of learning achieved from previous experience. For example, using an organizational learning perspective, Barkema et al. (1996) analyzed whether firms were able to reduce the cultural barriers and enhance the performance of different entry mode and governance structure alternatives by learning from their prior experience. Their results show that the longevity of foreign ventures is negatively related to cultural distance, especially in cases of double-layered acculturation, but that the longevity of cross-border M&As and their performance are positively influenced by previous experience in the same or similar countries. Previous experience provides additional benefits, such as being part of a network. Employing a network learning perspective, Beckman and Haunschild (2002: 92) argued that "firms use the experience of their network partners and learn by sampling that experience". Partners' experiences can help firms in learning new skills (Hamel, 1991), discovering unknown financing options, gathering important information about the specific industry in which they are investing, and learning about the general institutional context at the local level. It also provides information that can be useful in evaluating potential target firms for acquisition.

2.6.4 CONCLUSIONS

The current chapter reviews literature focusing on performance of CBM&As. Research on performance of CBM&As has three main streams. The first research stream explores the relationship between culture and performance of CBM&As. The second, which is common in the finance literature, examines issue of wealth creation to shareholders by CBM&As. The third stream examines post M&As performance using relatively longer term measures than stock price responses in comparison with other modes of entry.

Despite the widely accepted view that cultural differences have an impact on the performance of CBM&A, a review of extant research provides contradictory findings. In line with other reviews (e.g. Schoenberg, 2000; Stahl and Voigt, 2003 and Teerikangas and Very 2006) we can conclude that current findings differ in terms of the impact of cultural differences on CBM&As. All studies suggest that cultural differences should be included in the decision making, evaluation and integration processes of CBM&As. However, with current knowledge, it seems challenging to predict the nature and direction of the impact of cultural differences on CBM&As. Future research could develop on the current arguments by taking into account both the complexity of the cultural setting involved and the dynamic nature of the CBM&As process.

Most research on the financial performance of CBM&As has focused on stock returns surrounding announcement dates. A smaller body of work has investigated long run post acquisition stock return. But, both short term and long term event studies have a number of methodological limitations. Further, event studies capture the capital market's prediction of the magnitude, nature and viability of the merger process.

Integrating the various research findings, we can conclude that moving into international markets has a high potential for the investing firm, but that the entry mode is a critical decision entailing important effects on the success of the investment and, therefore, on firm performance. However, several questions still remain unanswered to understand the best entry modes into foreign markets. Therefore, research is needed that employs different theoretical perspectives to better understand the predictors of wealth creation from cross border M&As entry (Shimizu, et al., 2004).

In summary, previous studies have examined the culture-performance relationship and financial performance of CBM&As. In terms of long term performance, more research is needed to explore the factors influencing the performance of CBM&As.

This chapter has provided the literature review on acquisition motives, pre- and post-acquisition management and acquisition performance. The next chapter will present the methodology adopted to address the research question.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

The chapter outlines the methodology adapted in this research. The chapter starts with a discussion of the choice of research design. The second section explains the criteria that were used to select the cross border acquisitions. Section three provides information about the sample size. Next, section four describes the selection of key informants. Section five describes the development of questionnaire. Section six illustrates how the key constructs in the research model were operationalized. A description of the sample and response rate is presented in section seven. The last section examines biases that may affect the validity of the survey responses and describes techniques used to check the validity of the survey constructs.

3.1 CHOICE OF RESEARCH DESIGN

The purpose of this research is to gain a deeper understanding of the factors that relate to the management of cross border acquisition and performance. The study explores acquisition motives, pre- and post-acquisition management issues and acquisition performance. The study is interested in the perception of top managers involved in managing cross border acquisition. As the data on acquisition implementation strategy is not publicly available, this study adopts a cross-sectional research design in order to collect information related to acquisition management. This is consistent with prior studies that have focused on the issues related to implementation of acquisition strategy such as Datta and Grant, (1990), Datta (1991), Capron, et al., (1998), Ranft and Lord (2000), Schonberg (2004).

In order to collect primary data, the study opted for a structured questionnaire survey. In general, a survey involves structured, paper-and-pencil measurement, and is an alternative to observational methods of primary research (Dillon et al., 1994). Surveys and questionnaires are the most commonly used method of data collection in the study of organization. According to Emory and Cooper (1991) surveys are the appropriate methodology when information is needed on perceptions and on past events. Similarly, the current study intends to explore the perceptions of corporate managers on issues related to the management of cross border acquisitions.

Even though the data collection strategy chosen in this research is quite common in business studies (Ghauri and Gronhaug, 2002), the strategy of relying on a questionnaire survey with one single individual as an information source needs some amplification. Accordingly the survey technique will be scrutinized below.

Structured surveys are quite appropriate for large-scale studies. All informants are replying to the same questions, it is quite simple to administer, and it is relatively easy to tabulate and analyze (Churchill, 1999). However, major weaknesses are also recognized: problems concerning interpretation of the questions, terms used in the instrument could be misunderstood by the informants, wrong persons could answer the questionnaire, and the response rate is often rather low (Ghauri and Gronhaug, 2002). Although these are important weaknesses, it is possible to reduce these problems by executing a proper design. In addition, the alternatives to a mailed questionnaire were few and with major challenges. The reason for not using archival data was simple; the archival data did not contain the information needed for measuring degree of integration or post-acquisition performance. Moreover, very little information about the underlying variables was available. On the other hand, interviewing was not feasible given the time and financial constraint facing the researcher.

3.2 POPULATION UNDER STUDY: A GEOGRAPHICAL RESTRICTION

Initial identification of cross border acquisitions was accomplished through the Mergers and Acquisitions Database of the Thomson One Banker. The Thomson One Banker database provides comprehensive secondary information about mergers and acquisitions including cross border deals. The sample includes those deals in which the acquirer bought a 100 percent equity stake in the acquired company. In order to be selected in the sample, the acquisitions have to meet three additional criteria, concerning the buyers' country, the target country and the time frame. These three selection criteria are discussed below.

All completed acquisitions made by UK firms in foreign countries formed the target population of this study. UK acquirers were selected for four reasons. First, throughout the 1990s, the UK ranked among the countries with the highest cross border acquisition activity (UNCTAD, 2000). Secondly, by holding the buyers' country constant it is possible to control for possible home country effects. Moreover, by having only UK acquirers, the need for questionnaire translations can be avoided. Language differences among respondents challenge the ability to compare survey data and threaten the validity of the operationalization of the constructs. The selection of UK firms justifies the use of one English-language survey. Finally, having only UK acquirers facilitates the collection of information about acquiring firms that is comparable across firms. Similar information about UK firms could be obtained from databases, such as OSIRIS and FAME. As a result, keeping the host country constant increases both the reliability and construct validity of the study (Cook and Campbell, 1979; Schwab, 1999).

In order to increase the external validity of this study, an effort was made to maximize the number of target countries in which UK firms make cross border acquisitions. Today's global competitive landscape increasingly extends beyond economically developed countries to include emerging markets, particularly those countries that are moving toward market economies. Accordingly, the sampling frame included target countries with both developed and developing economies. The target country regions include the USA and Canada, the European Union and Asia Pacific. The name of the acquirer firm and target firm was collected from Thomson One Banker. Other relevant information (such as deal date, industry classification of firms, private or public company) is also available in the Thomson One banker data base.

This study examined cross border acquisitions that were completed during the 5-year period from 2000 through 2004 inclusive. This time frame was selected for several reasons. First, this period is characterized by intense cross border acquisition activity. Secondly, this study will rely heavily on informants' recollection of events through the survey instrument. Acquisitions made prior to 2000, therefore, were excluded from this study as they potentially create a retrospective bias. Finally, since 2004 is the final year used for selection of acquisitions, there was at least a two-year time lag between completing the deal and administering the survey. This is consistent with the time-frames employed in prior research. This allows for a more accurate assessment by key informants of the integration approaches and controls for the inherent instability during periods directly following major organizational change (Buono and Bowditch, 1989; Jemison and Sitkin, 1986a,b; Lamont, Williams and Hoffman, 1994).

3.3 THE SAMPLE

Constraining the population to the above-mentioned selection criteria provided a sampling frame of 2,792 by 915 UK Companies – 1,028 deals were completed in the US and in Canada, 1239 deals were completed in the EU, and 525 deals were completed in the Asia pacific region. When acquiring firms have engaged in multiple acquisitions, only the most recent cross border acquisition will be selected for inclusion in this study.

3.4 THE KEY INFORMANT

Information about the cross border acquisition was collected through a structured questionnaire, which was mailed to one key informant in the organization. Generally, the key informant approach is a technique of data collection about a social setting through interviewing or asking a section of people about a certain research problem (Seidler, 1974). Hence, the informants were not randomly chosen. Further, these individuals were asked to answer on behalf of an aggregated unit, often an organization or a relationship between organizations. However, relying on a single key informant in an organization can be problematic in different ways. First, asking informants to assess highly complex issues on behalf of an organization may increase the random measurement errors just because of the difficulties of answering such questions (Phillips, 1981). Second, systematic error may occur, for example, due to inadequate knowledge, ignorance or lack of interest in the survey topic contributed to the key informants (Phillips, 1981). Third, it is impossible to detect whether the error variance in measurements is due to systematic sources of error, or whether it is generated due to random errors (Bagozzi, 1980). Fourth, the problem of common method variance can be extensive (Podsakoff and Organ, 1986). Because the measure of two or more hypothesized correlated variables come from the same single source, any defect in this source may ruin the measures on all variables.

In order to improve the quality of collected data, care needs to be taken both before and after the data collection. Especially, important are precautions regarding the selection of key informants as well as the design of the questionnaire. Collecting information from both sides (i.e. through a key informant in the headquarters and one key informant in the foreign subsidiary) could probably solve some of the above problems (Bagozzi, et al., 1991; Phillips, 1981). However, this study is concerned with the principal's view of the cross border acquisitions that occur between headquarters and affiliates, and likewise, the principal's assessment of the performance of the affiliate. Hence, collecting equivalent data from an informant in the foreign subsidiary was considered irrelevant, and certainly would not increase the possibility of validating the data. Moreover, if it had been necessary to collect dyadic data in this way, only a single key informant would be representing each part of the organization. One represents the principal and one the agent, who in many cases may also have divergent and conflicting interests, even though they by definition belong to the same organization. Instead, choosing a sample of multiple informants from all possible informants in the headquarters of each multinational company may increase the validity of the study (Seidler, 1974). However, such a design is extremely resource demanding and increases the possibility of non-response bias, and bias related to ignorance and knowledge differences among the informants (Golden, 1992; Kumar et al., 1993).

In accordance with the logic of multiple informant approach, and before the decision about a single key informant strategy was taken, the present study tried to identify several persons in each company that could be targeted as potential respondents. The typical response from the companies was that they did not want to use so much resource on one single study, and that in many cases it was only one person (often the Chief Executive officer or Business Development Director) that really had the expertise to answer the questions. Consequently, this study chose a single key informant when collecting the data and each single informant answered a structured questionnaire. This strategy is consistent with others studies where performance and acquisition integration in various dimensions have been investigated, for example, Datta and Grant, (1990), Datta (1991), Capron, et al. (1998), and Ranft and Lord (2000).

Given the focus of this study, the key informants were those persons in the organization that had appropriate knowledge about the research issue and were willing and able to talk about it by completing the questionnaire (Campbell, 1995). In most cases, this person was the Chief Executive or Business Development Director. The procedure to identify these persons was the following. First, the name of the acquirer firm was collected from Thomson One Banker database. Then, the biographies of the directors were checked in the company websites with the intension of identifying the person responsible for managing mergers and acquisitions or business development. The joining date of the person identified was checked in order to ensure that the person was actually working for the company during the acquisition, and was serving the company at the time when the survey was carried out. In some cases, companies were called by phone to identify a key informant in the company. Based on the results of the website search and telephone conversation, a list of key informants and potential survey participants was assembled. Some private company websites were not available, and some company websites did not provide any contact details of the managers responsible for mergers and acquisitions. After removing such companies, the sampling frame reduced from 915 to 798 companies. The final list includes 798 key informants from companies that had acquired at least one foreign company in the 2000 to 2004 period.

3.5 DEVELOPMENT OF THE QUESTIONNAIRE

This section outlines the different steps of the questionnaire development. Successively, the section discusses the writing of the questions, the questionnaire construction and the survey implementation. In short, writing questions deals with the kind of information being sought and the questionnaire structure. The questionnaire construction deals with question wording and the response structure being used. Finally, the survey implementation phase involves the writing of a cover letter, preparing the mail-out package and conducting follow-ups.

3.5.1 Writing of the questions

Writing questions is the translation from the research question(s) into survey questions. It is necessary to explain how each survey question is closely related to the research (sub) question (Dillon et al., 1994). The main purpose of the questionnaire was to obtain data on the acquisition management. The main building blocks of the research model are: the motives for cross border acquisition, the pre-acquisition management, the post acquisition management, and post acquisition performance

Several sources were used to develop the questionnaire. The main source was the literature on acquisition strategy, as discussed in the literature review section. The general theory did not only indicate the research gaps in this research field, but also provided valuable instruments which tested several relations within the general framework. The use of questions developed by other researchers is sometimes encouraged in survey research for several reasons. First, it reduces the time needed for testing. And second, it allows a comparison of results across a number of studies (Dillon et al., 1994).

Contribution came from Schoenberg (2004), Child et al. (2001), and Ranft et al. (2000). As indicated in the theoretical overview, Schoenberg (2004) empirically tested how differences in management styles impact the performance of cross border acquisitions. In addition, the relationship between management style compatibility and cross border acquisition performance was found to be contingent upon the level of integration imposed by the post-acquisition process.

A number of other questionnaires were used or adapted to translate research questions into survey questions. The study adapted the questionnaire developed by Child et al. (2001) to predict the relationship between integration and post acquisition performance. The questionnaire developed by Ranft et al. (2000) was also adapted to predict determinants of employee retention. Moreover, the study adapted the questionnaire of Datta and Grant (1990) to measure the cultural differences. Others questionnaires consulted were: Datta (1991), Capron, et al., (1998), Chatterjee et al. (1992).

3.5.2 Questionnaire construction

This section briefly outlines the rules taken into account when constructing the different questions. Although these rules sometimes seem straightforward, it is very important to reflect on all these different aspects. For example, the difficulties brought about by the problems with question wording exceed most other sources of distortion in surveys (Emory and Cooper, 1991).

Particular attention was paid to the question wording. The questionnaire consists of words which typically come from the strategy literature, such as 'integration', 'centralization', 'performance measurement', 'strategic motive', etc. These words may not be fully understood by everyone in an organization, however, as we addressed the questionnaire to corporate (and business unit) managers it was supposed that these strategic terms did not pose any problems to these people. An attempt was made to avoid terms which could have different interpretations. For example, there is often confusion between "mergers" and "acquisitions". In the literature these words has been used interchangeably. However, mergers and acquisitions bring different types of organizational change. Consequently, these words were not used in survey questions. The questionnaire used terms such as 'international acquisition' and avoided word such as 'international M&As'. All questions were very neutral, there were no loaded questions. Moreover, the questionnaire did not use any strong adjectives.

A second major decision in the questionnaire construction concerns with the degree and form of structure imposed on responses. There are two general types of response formats. In open-ended questions the respondent is free to choose any response deemed appropriate. Open response questions are better suited when the objective is to discover opinions and degree of knowledge (Emory and Cooper, 1991). As the purpose of this research is to test relations between different constructs quantitatively, the study relied on closed-ended itemized questions. More particularly, Likert scales were used for the majority of questions. For questions related to the company background and general acquisition information, a dichotomous response pattern was used, where the respondents had to tick the item if the answer was 'yes'.

Closed-ended questions are preferable in larger surveys. The survey took about 25 minutes to complete, which is relatively long. Partly due to the length of the questionnaire, this alternative was chosen. This approach has also an advantage in that it reduces interviewer bias, although the enumeration of the different alternatives can also bias the results because it sometimes suggests which answer is appropriate. However, this is less the case when the opinions and perceptions of the respondent are asked for, as was the case in this survey.

As noted earlier, Likert scales were used for the majority of the questions. Likert scales are commonly used when measuring attitudes. It is defined as a scale "which consists of a number of evaluative statements concerning an attitude object" (Dillon et al., 1994). Likert scales are frequently used in strategy research. For example, all of the questionnaires that served as an input for this research project used Likert scales.

The success of Likert scales depends to a large extent on the quality of the scale items. According to Dillon et al. (1994), the scale items should fulfil the following requirements: (1) they should capture all relevant aspects of the attitude object, (2) they should be unambiguous, and (3) they should be sensitive enough to discriminate and thus create variability. In order to increase the variability, 5-point Likert scales was chosen rather than 3-point Likert scales. Generally, the Likert scales were presented in the following format:

No importance				Very important
1	2	3	4	5

Depending on the nature of the questions, the labels were changed (see Appendix B for the full questionnaire). For example, 'very similar' – 'very different' when the respondents were asked to evaluate the cultural difference between the acquired and acquiring company (Section D, question 2). An effort was made to maintain a consistent layout. All questions with Likert scales had the same format, as was also the case for the questions with a dichotomous answer pattern.

Although the questionnaire to a large extent was based on existing questionnaires which had been pre-tested, the questionnaire used in this study was also pre-tested. A draft questionnaire was sent to 50 potential respondents in order to check whether the respondents found the questionnaire comprehensible and easy to complete. In total 11 questionnaires was returned without any suggestion for modifications. In addition, four doctoral researchers who were undertaking research in the international business area as well as using a questionnaire survey were asked to comment on the questionnaire. Some minor word changes were suggested which were incorporated into the final questionnaire.

3.5.3 Survey implementation

The final part of the development of the questionnaire was the effective implementation of the survey. Special attention was paid to the writing of a cover letter and to the introduction to the questionnaire (included in appendix A). The cover letter was intended to introduce the subject.

The purpose and innovation of the research project were explained at the beginning of the cover letter. The letter was personalized by including the respondent's name in each letter and stressing how important was the contribution of the respondent. The letter also assured confidentiality and promised a summary of the research findings. The letter was sent using the official letter head of the University of Sheffield. In addition, the letter was signed by the supervisor in order to increase credibility. Finally, the letter again stressed the confidentiality with which the data would be treated. At the end of the questionnaire, the respondents were asked to give their opinion and further comments. Very few respondents provided additional comments.

The mail-out package consisted of the following items: a cover letter, an introduction to the questionnaire, the questionnaire itself, and a self-addressed, stamped return envelope. The respondents were requested to fill out the questionnaire at their earliest convenience. After four weeks a reminder letter was sent.

Executives because of their demanding schedules often have limited time and interest in completing surveys. Consequently, response rates for surveys are often low. Particularly when soliciting participation by top managers, the development of the survey instrument is a critical stage to ensure an acceptable response rate. Therefore, Dillman's (1978) Total Design Method was closely followed in constructing the survey, writing the cover letter, and administering the surveys. However, Cycyota and Harrison (2002) found that certain response enhancement techniques, such as a monetary incentive, advance notice or follow-up, that has been used in general public, customer-level, or employee-level populations, are not effective for executive level populations.

Cycyota and Harrison recommend considering new or stronger ways of increasing response rates from executives.

In addition to optimizing the cover letter and survey instrument through pre-tests, two ways to maximize response rate were used in the current study. The increasing familiarity of executives with the use of the Internet makes it a medium worthy of consideration. Administering the survey via the Internet facilitated the application of manipulation techniques, such as personalization and follow-up (Sudman and Blair, 1999). Response rates were expected to increase when conducting the survey both on-line as well as through traditional mail. Finally, since executive surveys concern topics at the firm-level, rather than the individual-level, Cycyota and Harrison (2002) argue that personal-level incentives (e.g., the one-dollar monetary incentive) are less effective for enhancing response rates of executives. Rather, using a firm-level incentive was expected to enhance response rates. Rewarding survey participation with an executive summary was expected to be a stronger incentive to elicit data from executives.

Thus, to enhance and facilitate data collection in a timely and cost effective manner the survey was administered by using pre-selection of the survey population, distributing the survey via mail, fax, or email, offering the choice to complete the survey through hard-copy or Internet, and presenting a firm-level incentive.

3.6 OPERATIONALIZATION OF THE CONSTRUCTS

The study adapted the established scales used by other researchers in the field of international business and strategy research. Three management researchers examined the survey instrument for both content and face validity. In addition, five managers from five firms participated in a pre-test of the survey. Following the pre-tests, slight wording and ordering modifications were made to improve the clarity and organization of the survey.

3.6.1 ACQUISITION MOTIVES

Through a review of previous mergers and acquisitions research (e.g. Seth, et. al., 2000; Walter and Barney, 1990) a list of possible motives for conducting a cross border acquisition was developed. In addition, this study has used an adapted version of the Kreitl and Oberndorfer (2004) instrument to investigate the acquisition movies. The respondents indicated the importance of strategic motives on a scale where 1 indicates 'no importance' and 5 indicates 'very important'. The list of motives is included in Appendix B.

3.6.2 PRE-ACQUISITION MANAGEMENT ISSUES

3.6.2.1 Evaluating target firms

Through a review of prior research on acquisition (e.g. Galpin and Herndon, 2000; Very and Schweiger, 2001; Marks and Mirvis, 1998; Ernst and Young, 1994) a list of factors considered in evaluating a target firm was developed. The respondents were asked to indicate the extent to which the company evaluated each of the factors relating to the acquired firm. The respondents indicated the extent to which each of the factors was evaluated on a scale where 1 indicates 'very little evaluation' and 5 indicates 'very thorough evaluation'. The list of seventeen factors is included in Appendix B.

To identify a parsimonious set of variables to determine the underlying constructs governing the set of seventeen items evaluated regarding the target firm, exploratory factor analysis (EFA) using varimax rotation was used to extract the underlying factors. The EFA initially produced 5 factors for the 17 items evaluated during the pre-acquisition stage.

A content analysis (Cavusgil and Zou, 1994; Despande, 1982) was carried out to eliminate items that had inconsistent substantive meanings with the factor or that had low factor loadings from further analysis. This purification process resulted in the elimination of three items relating to the target firm: the acquired firm's technological competence, the acquired firm's market position and, the acquired firm's fixed asset value. The remaining 14 items were again factor analysed and produced four non-overlapping factors, as shown in Appendix C. The four factors explain a total of 71.63 percent of the observed variance, with Cronbach's α ranging from 0.64 to 0.85. The acceptable lower limit for Cronbach's α of 0.60 in exploratory research (Hair, Anderson, Tatham and Black, 1998, p. 118) is met by all of the factors. The four factors relating to the pre-acquisition evaluation of the target firm are used in the subsequent analysis. The interpretation of each of these factors is also presented in Appendix C. These four factors can be summarized in the following way: **Factor 1:** Investment and financing issues; **Factor 2:** Employee and business capability; **Factor 3:** Legal, Tax and IT compatibility; **Factor 4:** Strategic and organizational fit.

3.6.2.2 Pre-acquisition problems

Through a review of previous research on acquisition (e.g. Very and Schweiger, 2001; Haspeslagh and Jemison, 1991) a list of pre-acquisition management problems was developed. The respondents were asked to indicate the extent to which they experienced the problems during the pre-acquisition phase. The list of nineteen problems is included in Appendix B.

An attempt was made to identify a parsimonious set of variables to determine the underlying dimensions governing the full set of nineteen pre-acquisition problems. EFA using varimax rotation was used to extract the underlying factors. The EFA initially produced 5 factors for the 19 pre-acquisition problems.

A content analysis (Cavusgil and Zou, 1994; Despande, 1982) was conducted to remove items that had inconsistent substantive meanings with the factor or that had low factor loadings from further analysis. This purification process resulted in the elimination of three pre-acquisition problems: increased personal pressure to conclude the deal, maintaining the confidentiality of the negotiation, and collecting information about the acquired firm. The remaining 16 pre-acquisition problems were again factor analysed and produced five non-overlapping factors, as shown in Appendix C. Five factors explained a total of 69.77 percent of the observed variance (all the factors are above the acceptable lower limit of 0.60 with Cronbach's α ranging from 0.62 to 0.87). The interpretation of each of these factors is also discussed in Appendix C. The five factors representing pre-acquisition problems experienced can be summarized in the following way: **Factor 1:** Tax, accounting, legal and regulatory issues; **Factor 2:** National and corporate cultural issues; **Factor 3:** Negotiation issues; **Factor 4:** Communication issues; **Factor 5:** Deal structuring issues.

3.6.2.3 Acquisition Experience of Acquiring Firm

The respondents were also asked to indicate the extent of acquisition experience on a Likert-type scale of 1 (indicating 'no experience') to 5 (indicating 'great experience'). "Great experience" was determined by considering those scoring 4 and 5. "Little experience" was determined by considering those scoring 3, 2 and 1. A dummy variable was created where '1' indicates an acquirer with great experience and '0' indicates acquirer with little experience.

3.6.3 DETERMINANTS OF EMPLOYEE RETENTION

3.6.3.1 Top Management Retention

First, respondents were asked to indicate the importance of retaining top management (1 = 'not important' to 5 = 'extremely important'). A frequency distribution revealed that a total of 46 acquirers wished to retain the top management team of the acquired firm. This was determined by considering those scoring 4 and 5. Thus, the subsample consists of 46 cross border acquisitions. The top management retention of the acquired firm was measured using an item adapted from Shanley (1994). Respondents were the asked to indicate the extent to which the prior top management team of the acquired firm had been retained one year after acquisition, on a Likert-type scale anchored from 1 ('no retention') and 5 ('full retention'). This contract has been reversed in order to make the construct consistent with the hypothesised relationship. Thus, the original scale '5 = complete turnover' becomes '1 = complete turnover" and, the original scale '1 = little or no change' becomes '5 = full retention'. This reversed construct of top management retention has been used in subsequent analysis.

3.6.3.2 Post-Acquisition Autonomy of the Acquired Firm

The degree of organisational autonomy granted to the acquired company in the post acquisition period was measured using an instrument adapted from that previously utilised by Datta and Grant (1990) and Schoenberg (2004). Respondents were asked to indicate the locus of decision making (1 = acquiring firm; 2 = acquired company, 3 = jointly) for 18 separate operational and strategic decisions affecting the acquired firm (listed in Appendix B). All of the eighteen decision items loaded strongly (>0.6) onto a single component. An aggregate measure of autonomy was calculated by averaging the factor scores on all the items. Results for this measure were compared with responses on the single-item measure developed by Hambrick and Cannella (1993) to assess "overall autonomy," which also was included in the survey. The two measures were highly correlated ($r = 0.91$, $p < 0.001$).

3.6.3.3 Acquirer's Commitment to the Acquired Firm

Indication of acquirer commitment was measured using an instrument adapted from that previously utilized by Ranft and Lord (2000). The four items in this measure assessed various dimensions of the acquirer's corporate commitment to the success of the acquisition. First, respondents indicated to what extent they agreed or disagreed with the statement that the acquirer was visibly committed to making the acquisition a success (1 = strongly disagree; 5 = strongly agree). The remaining items assessed other potential indicators of commitment: support for continued training and development of the acquired firm's employees; support for travel and liaison between the acquired firm and the acquiring firm; the use of positive public relations. Factor analysis of the items extracted a single factor. An aggregate measure of commitment was calculated by averaging factor scores on the four items.

3.6.3.4 Financial Incentives

The survey presented respondents with items assessing the use of four different types of financial incentives (following Ranft and Lord, 2000) that might be used to encourage employees to stay with a company. These items included (1) short-run incentives, (2) long-term contracts, (3) stock options, and (4) performance bonuses (Balkin and Gomez-Mejia, 1990; Gerhart and Milkovich, 1990). Respondents were asked to indicate on a five-point scale the extent to which each type of incentive were offered (1 = no extent; 5 = great extent). Factor analysis on these items (with varimax rotation) extracted two factors (with eigenvalues >1). The first factor consisted of short-run incentives and long-term contracts, i.e., each linked to a specific time frame for retaining an employee. The second factor consisted of stock options and other types of bonuses, i.e., linked directly to performance outcomes of the newly merged business. An overall score for each of the factors was calculated by averaging the scores for the items that loaded on each factor. Because each measure appeared to tap into a different type of financial incentive, both measures were used in subsequent analyses.

3.6.4 POST-ACQUISITION MANAGEMENT ISSUES

3.6.4.1 Level of Integration

The operationalization of level of integration is based on Child, et al's (2001) measure of degree of integration. The degree of integration was assessed using a composite measure linked to the occupancy of key positions by acquiring company appointees including those of CEO, financial director, operations director, sales and marketing director, R&D director, HRM, and/or other equivalent staff. The integration is the mean number of key positions (ranging from 0 to 7) held by acquiring company appointees (where 1-2 indicates low level of integration, 3-5 indicates partial integration and 6-7 indicates full integration).

3.6.4.2 Organizational Cultural Differences

Organizational fit refers to the extent to which the combining firms are similar or different along several organizational dimensions prior to the acquisition. This was measured using five items adapted from previous studies (Chatterjee et al., 1992; Datta, 1991; Uhlenbruck and De Castro, 2000). The respondents were asked to determine the extent to which the acquired firm differed from the acquiring firm in (1) General management style, (2) Values, beliefs and philosophy, (3) Reward and evaluation systems, (4) Approach to risk taking, (5) Culture of home countries. Each item was measured on a Likert-type scale, anchored from 1 ('extremely different') to 5 ('extremely similar'). The EFA produced 1 factor for the 5 measures of organizational cultural differences. One factor explained a total of 70.69 percent of the observed variance. A composite measure of organizational cultural difference was calculated by averaging the scores for the items that loaded on single factor.

3.6.4.3 Knowledge Transfer

This variable captures the extent to which knowledge was transferred to and from the acquired and the acquiring firms. The focus on knowledge transfer both from and to the acquisition allows for the transfer assessment of unique capabilities of the parent firm as well as local knowledge of the target firm. The operationalization of this variable builds on Capron et al's (1998) measure of resource deployment between targets and acquirers, and Schoenberg's (2004) measure of transfer to and from acquired firms. Knowledge transfer was measured by asking respondents to indicate the extent to which knowledge had been transferred (since the acquisition was completed) to and from the acquired firm in the following areas: Research and Development, Product and Service design, Purchasing / Supplier relation, Service / Manufacturing operations, Marketing and Sales, Distribution / Outlets, Customer Service, Strategic Planning, Financial Reporting, Investment Appraisal, Personnel / HRM). For each of the above activities the respondents were asked to indicate the extent to which benefits based on transferring skills had actually been achieved at the time of data collection. Each item was measured on a Likert-type scale, anchored from 1 ('no skill transfer') to 5 ('significant skills transfer').

EFA produced two factors for the eleven measures of knowledge transfer, which explained a total of 69 percent of the observed variance (with eigenvalues >1). The first factor consisted of the activities Research and Development, Product and Service design, Purchasing / Supplier relation, Service / Manufacturing operations, Marketing and Sales, Distribution / Outlets, and Customer Service. The second factor consisted of the activities Strategic Planning, Financial Reporting, Investment Appraisal, and Personnel / HRM. An overall score for each of the factors was calculated by averaging the scores for the items that loaded on each factor. As each measure appears to tap into a different type of knowledge transfer, both measures were used in subsequent analyses. Factor one ($\alpha = 0.87$) was named as "Knowledge transfer – Functional areas" and factor two ($\alpha = 0.83$) as "Knowledge transfer – General management".

3.6.4.4 Retention of Top Management

The operationalization of this construct has been discussed in previous section i.e. top management retention.

3.6.5 ACQUISITION PERFORMANCE – THE DEPENDENT VARIABLE

Acquisition performance was measured using the acquiring management's assessment of the extent to which the original performance expectations for the acquisition had been met. The instrument comprised nine financial performance criteria synthesised from theoretical and empirical studies of acquisition objectives (Trautwein, 1990; Walter and Barney, 1990). Each item was measured on a Likert-type scale, anchored from 1 ('not met') to 5 ('fully met').

An attempt was made to identify a parsimonious set of variables to determine the underlying dimensions governing the full set of nine measures of acquisition performance. Exploratory factor analysis (EFA) using varimax rotation was used to extract the underlying factors. The EFA produced 3 non-overlapping factors for the 9 measures of acquisition performance, as shown in Appendix D. Three factors explained a total of 74.26 percent of the observed variance (with Cronbach's α ranging from 0.81 to 0.89). The interpretation of each of these factors is also provided in Appendix D. These three factors can be summarized in the following way: **Factor 1:** Market share and sales growth; **Factor 2:** Earning per share (EPS) and Share price; **Factor 3:** Profitability.

This study adopted a subjective measure of performance in view of the established difficulties in obtaining objective measures (Very et al., 1997; Larsson and Finkelstein, 1999; Schoenberg, 2004). For instance, share market measures of acquisition performance based on abnormal returns methodology require limiting the sample to acquisitions made by publicly quoted firms. Moreover, share market gives information only on expected ex-ante acquisition performance rather than that actually achieved ex-post (Larsson and Finkelstein, 1999). Similarly, comparable accounting measures of performance for individual cross border acquisition are typically not available, due to national differences in accounting standards and difficulties in disaggregating the performance of individual operating units from consolidated accounts (Larsson and Finkelstein, 1999).

More positively, empirical support for the validity of subjective performance measures is available from a number of separate methodological studies. Dess and Robinson's (1984) widely cited investigation into the relationship between objective and subjective performance measures concluded that "the Top Management Team's perception of how well their firm had performed - measured in a subjective and relative sense – was consistent with how the firm actually performed" (Dess and Robinson, 1984: 271). Similarly, others have found that manager's subjective performance assessments correlate strongly with objective measures within samples that range from new ventures (Brush and Vanderwerf, 1992) to international joint ventures (Glaister and Buckley, 1998).

3.6.6 CONTROL VARIABLES

A number of control variables were included in the analysis of the pre-acquisition evaluation of the target firm, post acquisition management and top management retention. The justification for the selection of different sets of control variables in each chapter is presented below.

a. Pre-acquisition evaluation of target firm and acquisition performance

The control variables included are: (1) regional origin of target firm, (2) attitude of target firm, (3) prior profitability of target firm, and (4) prior acquisition experience of acquiring firm.

To the extent that acquiring firms believe that targets from particular foreign nationalities can provide certain requirements of the acquisition, for example, access to specific markets or types of technology, these targets will be chosen in preference to potential targets of a different nationality when the acquisition is made. Such deliberate choice of location can facilitate smooth synergy realisation and acquisition outcome. Therefore, the regional origin of a target firm may influence the subsequent acquisition outcome. To control for the potential effect of the regional origin of the target firm, respondents were asked indicate the origin of the target firm in an open-ended question. The analysis revealed that acquisitions were either completed in Europe or in North America. A dummy variable was created where '1' indicates 'North America' and '0' indicates 'Europe'.

Haspeslagh and Jemison (1991) argued that the nature of the bid negotiations influences the atmosphere that surrounds an acquisition within the target and acquiring firm and raises organisational expectations of what post-acquisition life will hold. The nature of negotiations, therefore, may influence the subsequent acquisition implementation and performance. The respondents were asked to indicate in a five-point scale (following Schoenberg, 2004) the attitude of the acquired firm's board towards the acquisition (1 = no resistance to being acquired; 5 = Major resistance to being acquired).

Prior research has shown that prior profitability of the acquired firm may affect cross border acquisition performance directly (Bleeke et al., 1993). To measure relative performance, an item on the survey asked respondents to indicate the profitability (return on capital employed) of the acquired firm relative to the acquiring firm at the time of acquisition (from 1 = 'very poor' to 5 = 'very good').

Prior research found a positive relationship between the acquisition experience of the acquiring firm and performance (Barkema, Bell and Pennings, 1996; Bruton, Oviatt and White, 1994; Fowler and Schmidt, 1989). Acquisition experience was measured in two ways. First it was computed as the number of acquisitions completed by the acquiring firm. The respondents were asked (following Zollo and Singh 2004) to indicate the total number of domestic and cross border acquisitions completed before the cross border acquisition under consideration. A company with no prior acquisitions is considered to have no acquisition experience and with five or more acquisitions is considered to have a great deal of experience. The respondents were also asked to indicate the extent of acquisition experience on a Likert-type scale of 1 (indicating 'no experience') to 5 (indicating 'great experience'). The two measures of acquisition experience have a significant high positive correlation. The measure of acquisition experience indicated on the Likert-type scale by the respondent was used in the analysis of the pre-acquisition evaluation of the target firm and acquisition performance.

b. Determinants of top management retention

The control variables included are relative size of the acquired firm, acquisition relatedness and prior profitability of the acquired firm.

The size differences between an acquiring firm and target firm can affect the top management turnover (Walsh, 1989). A very large firm is likely to have a supply of skilled managers to replace the managers in a smaller acquired firm. This would not be the case as the size differences between the acquiring and target firm reduces. Moreover, the managers in the smaller target firm may be less skilful when managing in a larger and perhaps more bureaucratic context. Consequently, target firm top management retention is likely to vary negatively with an increase in the size differences between the acquiring firm and target firm. Relative size was operationalised as the ratio of the sales turnover of the acquired firm to that of the acquiring firm at the time of the acquisition (following Krishnan et al, 1997, and Schoenberg, 2004).

Walsh (1988) suggested that top management turnover following a related merger or acquisition would be higher that the turnover following an unrelated merger or acquisition. He argued that the acquiring firm's management team is familiar with a target firm's business in a related merger or acquisitions. Consequently, the acquiring company can afford to lose many of the target firms managers. However, in an unrelated merger or acquisition, the acquiring firm might be dependent upon the target firms' managers and thus the management of the acquiring firm should be interested in retaining managers of the target firm (Walsh, 1989). Pitts (1976) suggested that, in unrelated merger or acquisition, the acquiring firm cannot afford to lose the product and market experience of the target firm's management. The acquisition was considered related if the acquirer and the acquired firm operated in the same industry, and not related if they are operated in different industries. The respondents were asked to indicate the industry acquiring firm was operating in as well as the industry of the target firm. To control for potential effects of relatedness, the relatedness of the acquired firm and the acquirer was coded '1'if 'related' and '0' if 'not related' acquisitions.

Target firms' top managers that express open hostility with the prospect of a merger or acquisition are unlikely to remain in the target firm (Walsh, 1989). To control for potential affect of attitude of target firms' management, the respondents were asked to indicate in a five-point scale (following Schoenberg, 2004) the attitude of the acquired firm's board towards the acquisition (1 = No resistance being acquired; 5 = Major resistance being acquired).

c. Post-acquisition management and acquisition performance

Three control variables were included in the analysis of post-acquisition management issues and performance: (1) the acquired firm's performance relative to the acquirer's at the time of the acquisition, (2) the relatedness of the acquisition and (3) the acquiring firm's acquisition experience.

As indicated earlier, prior research has shown that prior profitability of the acquired firm may affect cross border acquisition performance directly (Bleeke et al., 1993). To measure relative performance, an item on the survey asked respondents to indicate the profitability (return on capital employed) of the acquired firm relative to the acquiring firm at the time of acquisition (from 1 = 'very poor' to 5 = 'very good').

Prior research suggests that related acquisitions should be more successful than unrelated ones because both tangible and intangible resources can be more easily combined when a firm extends its activities into a related area (Bettis 1981; Lubatkin 1987). To control for potential effects of relatedness, the relatedness of the acquired firm and the acquirer was included in the analysis and was coded as a binary variable. The acquisition was considered related if the acquirer and the acquired firm operated in the same industry as indicated by the respondent (Lubatkin, Merchant, and Srinivasan 1993).

As mentioned earlier, previous research found a positive relationship between acquisition experience of acquiring firm and performance (Barkema, Bell and Pennings, 1996; Bruton, Oviatt and White, 1994; Fowler and Schmidt, 1989). To control for potential affect of acquisition experience, the respondents were asked to indicate the extent of acquisition experience on a Likert-type scale of 1 (indicating 'no experience') to 5 (indicating 'great experience'). The measure of acquisition experience indicated on the Likert-type scale by the respondent was used in the analysis of post-acquisition management issues and performance.

3.7 SAMPLE DESCRIPTION AND RESPONSE RATE

Based on the results of the website search and telephone enquiries, a list of key informants and potential survey participants was assembled. This procedure produced a population of 798 firms. After contacting executives at these firms, 207 firms were eliminated because they had a policy of not participating in survey research, or the executives indicated that they did not have time or the capacity to take part in the study. This resulted in a final sampling frame of 591 international acquirers.

In April 2006, 591 questionnaires each with a covering letter and return envelope were posted to potential survey participants. To provide motivation for accurate responses, the respondents were guaranteed anonymity and were promised a summary report of research findings if requested. After three reminders (by means of telephone, e-mail, or follow-up post), 69 questionnaire were returned, of which 65 were fully completed and usable, effectively a response rate of 11%.

Given the well-documented difficulties of obtaining questionnaire responses from executives (Harzing, 1997) and the decreasing rate of response from executives (Cycyota and Harrison, 2006), the study's response rate of 11% can be considered satisfactory. This response rate is similar to that reported in other academic studies of executives. For instance, Graham and Harvey (2001) achieved a response rate of nearly 9% from CFOs, and Mukherjee, Kiymaz and Baker (2004) obtained an 11.8% response rate in a survey mailed to 636 CFOs who were involved in acquisitions management. Moreover, some studies have reported lower response rates than that reported in this study. For example, Koch and McgGrath's (1996) study had a 6.5% response rate. Likewise, Lepak et al.'s (2003) study was successful in obtaining only a 6.5% response rate.

The responses can be assumed to be reliable as they were received from top level executives who had been directly involved in managing the international acquisition process. An examination of the job titles revealed 12 Chief Executive Officers, 16 Finance Directors or Chief Financial Officers, 23 Business Development Directors, 8 Managing Directors, 6 Executive Directors. The sample represents acquisition activity on two continents: North America and Europe. In North America, the acquired firms are from the USA and Canada (21 and 9 respectively). Europe is represented by 35 acquisitions.

A number of survey biases may have affected the validity of the survey responses. The following sections discuss these biases regarding the current study.

3.8 NON RESPONSE BIAS

Non response bias arises when respondents provide different responses than would have been provided by members of the population that did not respond to the survey

(Schwab, 1999). For example, key informants for cross border acquisitions that have underperformed may decide not to respond. In this scenario, the results may not correctly reflect the conduct of poor performing acquisitions and restricts performance variance among informants that do respond.

Given that the response rate was 11%, tests were conducted to check for potential non response bias. Participating firms were compared to non-participating firms in terms of the transaction value and total sales. The average transaction value of cross border acquisitions included in the sample was £251 million, which is not significantly different from the average transaction value (£218 million) for acquisitions of non-participating firms (t=0.406, p=0.685).

In addition, late respondents were compared to early respondents. Late respondents can be assumed to be similar to non-respondents, as they may not have responded if a second fax or e-mail had not been sent (Schwab, 1999).

Table 3.1: Comparisons of early and late respondents

	Early Respondents (n = 39)		**Late Respondents (n = 26)**		**T-test**
	Mean	S.D.	Mean	S.D.	
Prior performance	4.22	1.23	3.97	1.45	0.57
Relative size	5.32	2.15	5.10	1.75	0.47
Level of integration	2.51	0.87	2.16	1.12	0.14
Organizational culture	2.89	0.95	2.69	1.34	0.72
Knowledge transfer – Functional	2.47	0.78	2.17	0.89	1.23
Knowledge transfer – General management	3.10	0.89	3.23	1.43	0.76
Autonomy	1.88	0.34	1.74	0.21	-0.57

Comparing late respondents to early respondents makes it possible to examine potential differences in terms of selected variables that are used in the current study. Thus, to further assess the generalizability of the sample, additional t-tests were conducted to compare the means between early and late respondents. Table 3.1 shows the comparison of the early and late respondents in terms of mean difference.

3.9 RETROSPECTIVE BIAS

Using survey research to examine events from the past requires respondents to recollect information. This potentially exposed the study to retrospective bias because some information may be lost or distorted over time. In addition to using a research design and survey instrument intended to prevent such bias as much as possible, responses concerning acquisitions made in 2004 were compared to acquisitions made in 2000 in order to assess potential retrospective bias.

The t-tests for mean differences were calculated as shown in Table 3.2. There were no statistically significant differences in means between responses concerning acquisitions made in 2000 compared to acquisitions made in 2004. Collectively, these findings suggest that retrospective bias does not influence the current study.

Table 3.2: Comparisons of 2000 and 2004 acquisitions

	2000 (n = 18)		**2004 (n = 25)**		**T-test**
	Mean	S.D.	Mean	S.D.	
Prior performance	3.19	1.65	3.37	1.13	0.77
Acquisition experience	4.10	1.71	3.93	1.36	0.39
Relative size	4.58	1.48	4.20	1.56	0.73
Level of integration	2.51	0.87	2.16	1.12	-0.39
Organizational culture	2.34	1.53	2.18	1.12	0.72
Knowledge transfer - Functional	3.19	1.19	3.03	1.35	0.57
Knowledge transfer – General management	3.45	1.23	3.21	1.65	0.79
Autonomy	1.56	0.34	1.34	0.35	-0.27

3.10 RESEARCH FRAMEWORK

The conceptual framework is illustrated in Figure 3.1. The acquisition process starts with acquisition intent followed by the pre-acquisition management process. The key employees are identified and retained by offering incentives after the pre-acquisition management phase. Then, the post-acquisition management process starts. The study conjectures that cross border acquisition performance is determined by the pre-acquisition evaluation of the target firm and post-acquisition management issues.

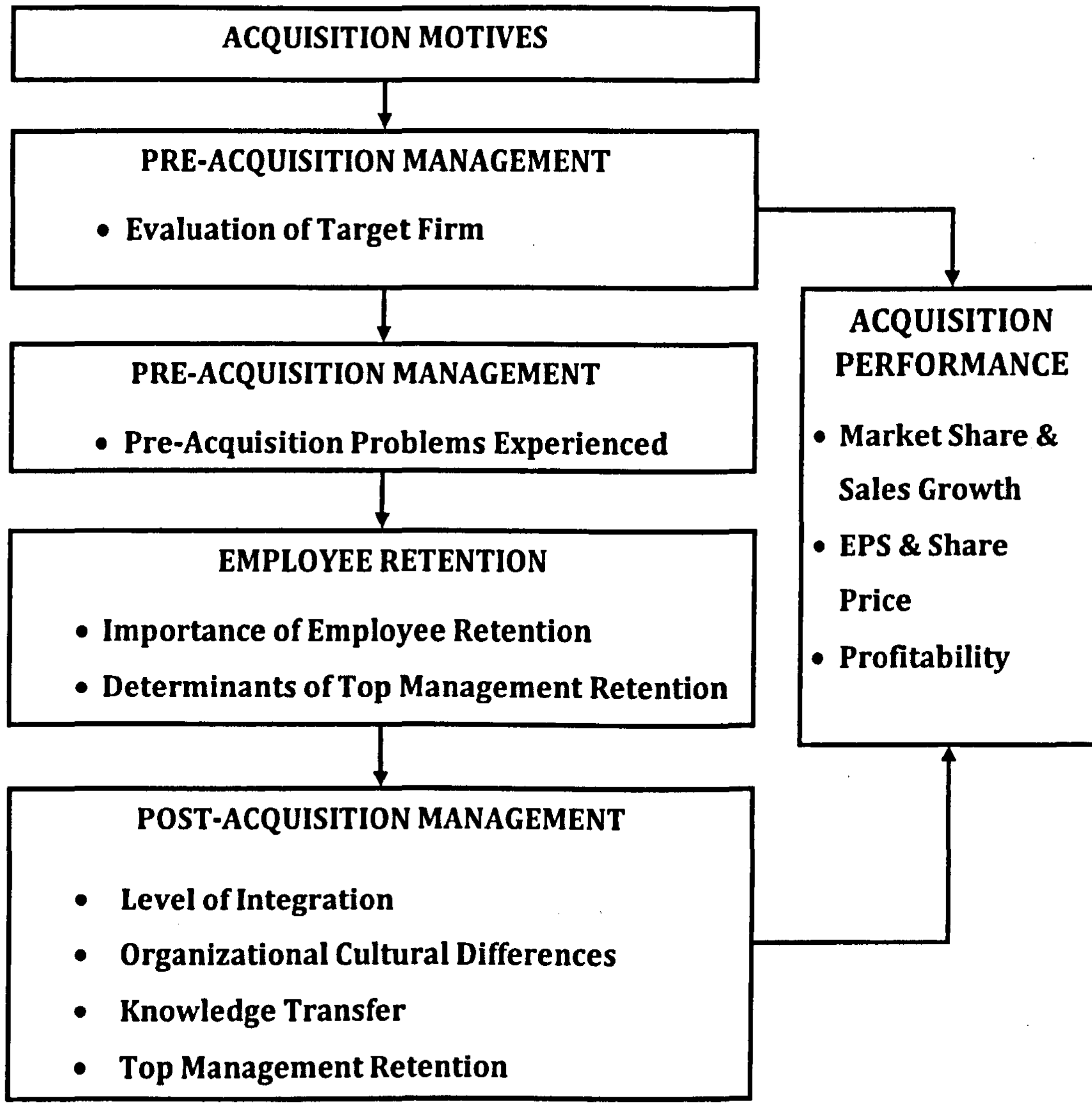


Figure 3.1: The conceptual framework – The impact of the pre-acquisition evaluation of target firm and post- acquisition management process on cross border acquisition performance

3.11 SUMMARY

This chapter presented the research methodology adopted. To examine the effect of pre-acquisition and post-acquisition management issues on acquisition performance, this study required the collection of primary data. The study used a cross-sectional research design to investigate the impact of pre- and post-acquisition issues on acquisition performance. A survey instrument was constructed, which was largely comprised of items based on scales that have been developed and used by researchers in previous international business and acquisition research. The chapter also discussed the way this study examined the biases that could affect the validity of the survey responses.

This chapter has presented the research methodology employed to address the research question. The next chapter will present the recent trends in cross border acquisition undertaken by UK firms.

CHAPTER FOUR

RECENT TRENDS IN UK CROSS BORDER M&As

4.0 INTRODUCTION

This chapter reviews recent trends in cross border M&As and provides a description of the sample characteristics of the study. At first, the chapter presents secondary data on recent trends in UK cross border M&As in order to better locate the findings of the study from primary data. The following section presents the type of cross border acquisitions undertaken by UK firms during the current takeover boom, the process undertaken in their management and the outcomes achieved.

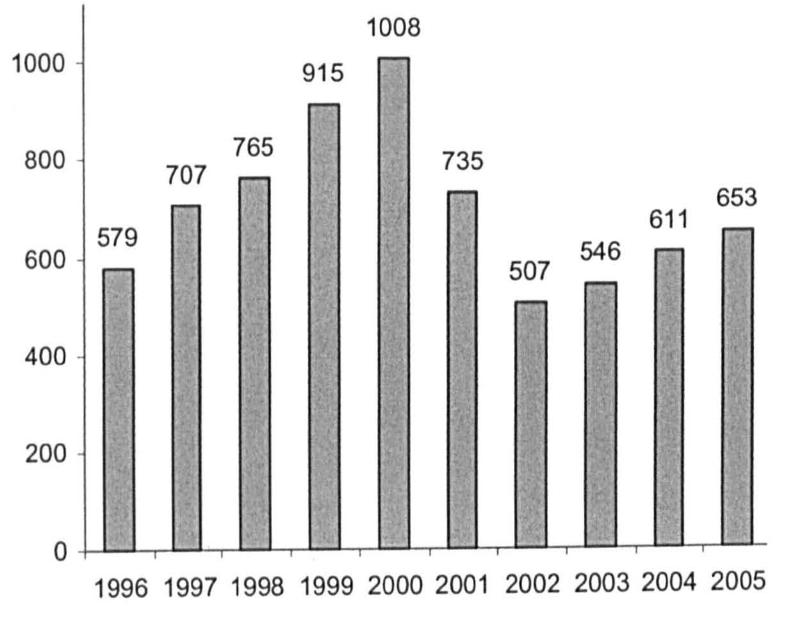
Cross border M&As involving UK companies are becoming a much more regular feature of M&As. The scale of cross border mergers and acquisitions has increased rapidly in recent years. The UK is more involved in this process than any other EU country: UK-based multinational companies have purchased more firms abroad than any other nationality, while Britain has also been the largest seller of firms to foreign multinationals (European Industrial Relations Observatory, 1998).

This chapter starts with a review of the recent trends in cross border M&As involving UK companies in terms of number, value, area, sectoral and industrial distributions during the period 1996-2005.

4.1 OVERALL TRENDS OF UK CROSS BORDER M&AS

Over the past ten years there has been a great deal of cross border M&A activity involving UK companies. Between 1996 and 2005, UK companies acquired 7026 foreign companies. Figure 4.1 presents the annual number of cross border M&As involving UK companies during the 1996-2005 period.

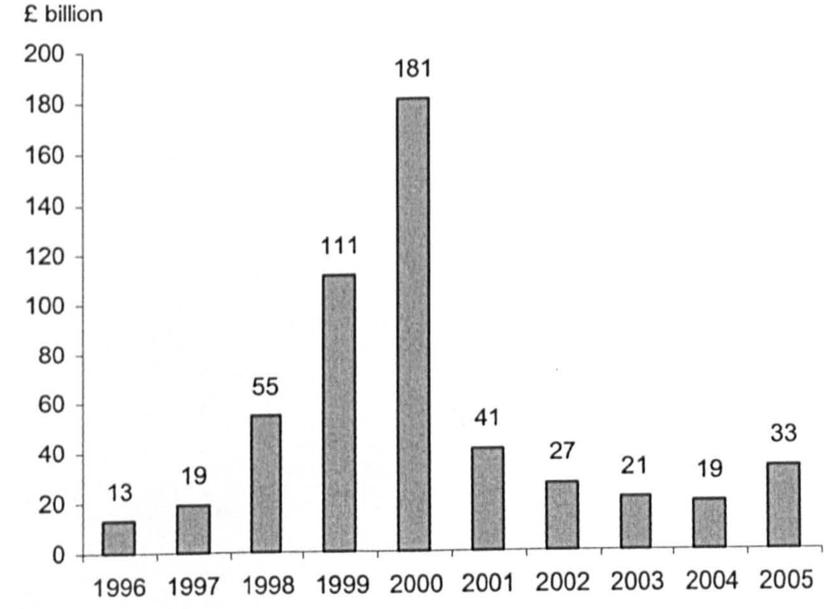
The number of cross border deals increased each year from 1996 peaking in 2000 with 1008 deals. The number of deals declined rapidly in the following two years. The decline in cross border M&As in 2001 and 2002 was experienced globally (Export development Canada, 2003). Since 2002 cross border deals by UK companies have risen each year rising to 653 in 2005.



Source: Thomson One Banker Database (2006)

Figure 4. 1: Number of completed cross border M&As involving UK companies

In terms of values, UK companies acquired £520 billion worth of foreign companies from 1996 to 2005. Figure 4.2 shows the value of cross border M&As involving UK companies for the ten year period.



Source: Office for National Statistics (ONS), 2006

Figure 4.2: Value of cross border M&As involving UK companies

The value of cross border deals increased each year from 1996, peaking in 2000 at £181billion, which accounts for 35 percent of the total deal value during 1996-2005. In 2001, the deal value sharply declined and continued to decline in subsequent years until experiencing a slight increase in 2005. This decline in the value of cross border M&As was experienced globally.

4.2 AREA ANALYSIS OF CROSS BORDER M&AS

Table 4.1 shows the distribution of UK cross border M&A activity by target areas. UK companies invested most heavily in developed countries through the acquisition of foreign companies. Over the last period, European Union (EU) companies were the most significant targets for UK companies, with about 38% of all deals completed within the EU region. Attention has also been increasingly directed towards US and Canadian companies. Between 1995 and 2005, UK companies acquired 2005 US firms, which accounted for 29% of all cross border deals. Asia Pacific was the third most significant target for UK companies. These three regions accounted for approximately 82% of all the M&A deals.

Table 4.1: Total number of completed UK cross border deals during 1996-2005

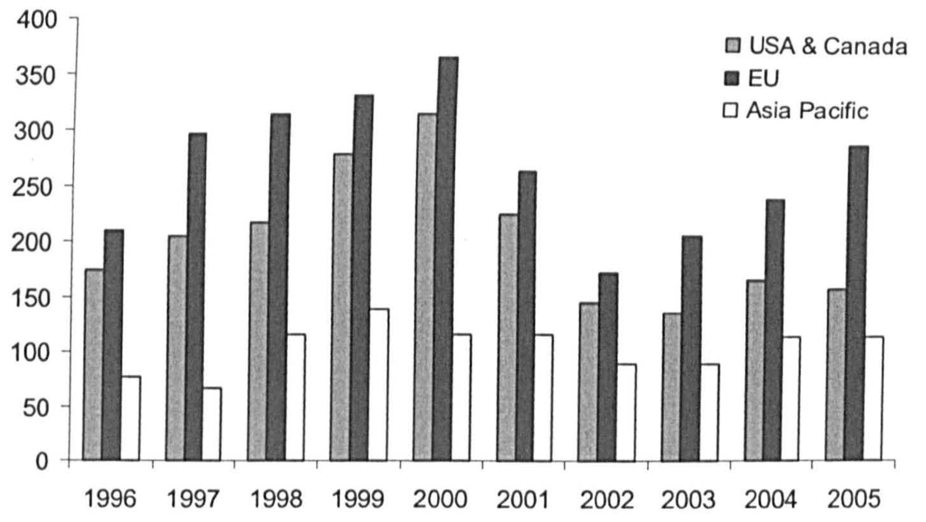
Areas	Total no of deals	% of total	Cumulative %
USA & Canada	2005	29	29
European Union[1]	2672	38	67
Asia Pacific[2]	1035	15	82
Others	1314	18	100
Total	7026	100	

Source: Thomson One Banker Database (2006)

[1] From 1996 the EU also includes Austria, Finland and Sweden. From 2004 the EU also includes Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

[2] Asia pacific includes Asia, Australia and New Zealand

The trend of cross border M&A activity by UK firms across the Triad over the 10 years is shown in Figure 4.3. Each year the greatest number of cross border deals was completed within the EU, followed by USA & Canada, then Asia Pacific. During the second half of the period, however, more M&A activity has been directed towards EU companies and in the Asia Pacific region.



Source: Thomson One Banker Database (2006)

Figure 4.3: Area analysis of cross border activity by UK companies, 1996-2005

4.3 SECTORAL TRENDS ACROSS THE TRIAD

Cross border M&As have occurred in a large number of sectors. The sectoral distribution of cross border deals across the Triad is shown in Tables 4.2, 4.3 and 4.4.

The USA and Canada

Table 4.2 shows the sectoral distribution of cross border deals in the USA and Canada. During the period 1996-2005, the share of the manufacturing sector in all cross border deals was the largest followed by the service sector. UK companies completed 52 percent of all deals in the manufacturing sector over the period. This share was fairly constant over the period, except for a sharp decrease from 51% in 2001 to 39% in 2002. However, the percentage of deals then gradually increased from 49% in 2003 to 56% in 2005.

Table 4.2: Sectoral distribution of CBM&As in USA & Canada (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1996-05
Primary	3.5	4.9	3.7	5.8	5.5	3.6	6.3	4.4	7.3	1.9	4.7
Manufacturing	56.3	52.5	56.3	53.0	55.1	51.1	38.9	49.6	50.6	56.1	52.5
Services	40.2	42.6	40.0	41.0	39.4	45.3	54.9	45.9	42.1	42.0	42.7
Total	100	100	100	100	100	100	100	100	100	100	100

Source: Thomson One Banker Database (2006)

During the period, about 43% of all deals were completed in the service sector by UK companies. The share of the service sector in all cross border deals increased slightly from 40% in 1996 to 45% in 2001. The percentage of service sector deals increased dramatically from 45% in 2001 to 55% in 2002, mirroring the decline of manufacturing; with subsequent deals declining to 46% in 2003 and 42% in 2005.

The European Union

The sectoral distribution of cross border deals in the EU is shown in table 4.3. During the period 1996-2005, the share of the manufacturing sector in all cross border deals was the largest followed by the service sector. UK companies completed about 51 percent of all deals in the manufacturing sector over the period and about 46% in the service sector.

Table 4.3: Sectoral distribution of Cross border M&As in EU (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1996-05
Primary	2.4	3.4	2.5	2.1	1.9	3.4	3.5	3.4	2.5	3	2.4
Manufacturing	51.2	50.5	47	50.9	47.7	46.4	50.3	45.4	49.4	49	51.2
Services	46.4	46.1	50.5	47	50.4	50.2	46.2	51.2	48.1	48	46.4
Total	100	100	100	100	100	100	100	100	100	100	100

Source: Thomson One Banker Database (2006)

Asia Pacific

Table 4.4 presents the sectoral distribution of cross border deals in the Asia Pacific region. During the 1996-2005 period, in contrast to the other two regions of the Triad, the share of the service sector in all cross border deals was the largest followed by the manufacturing sector. UK companies completed about 52 percent of all deals in the service sector over the period. The share of the service sector in all cross border deals gradually increased from 47% in 1996 to 60% in 2005. In contrast, the percentage of deals in the manufacturing sector slightly decreased from 40% in 1996 to 35% in 2005.

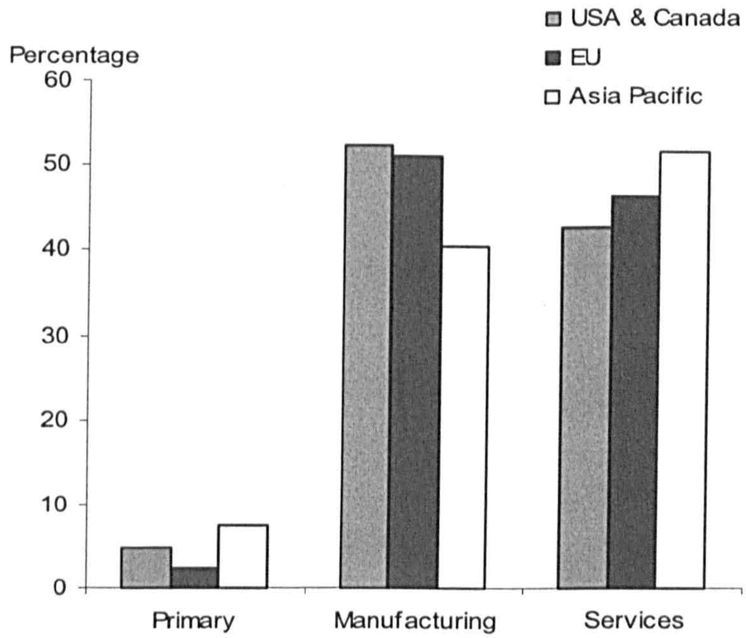
Table 4.4: Sectoral distribution of cross border M&As in Asia Pacific (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1996-05
Primary	13.0	9.1	6.1	5.8	5.2	6.0	12.0	8.9	7.9	5.3	7.5
Manufacturing	40.3	45.0	47.0	43.0	42.0	28.0	40.0	46.0	42.0	35.0	40.5
Services	46.8	45.0	45.0	51.0	53.0	66.0	48.0	46.0	50.0	60.0	51.8
Total	100	100	100	100	100	100	100	100	100	100	100

Source: Thomson One Banker Database (2006)

4.4 SECTORAL DISTRIBUTION: A COMPARATIVE ANALYSIS

Figure 4.4 shows the sectoral distribution of cross border M&As across the Triad involving UK companies over the 1996-2005 period. The share of the manufacturing sector is less in the Asia Pacific region than in the EU and the USA and Canada. In contrast, the share of the service sector is higher in the Asia Pacific region than in the EU and the USA and Canada.



Source: Thomson One Banker Database (2006)

Figure 4.4: Sectoral distribution of UK CBM&As across the Triad (%), 1996-2005

Overall, UK companies tend to acquire more manufacturing companies in the EU and USA and Canada than in the Asia Pacific. On the other hand, UK companies tend to acquire more service companies in the Asia Pacific than in the EU, and USA and Canada.

4.5 INDUSTRIAL DISTRIBUTION ACROSS THE TRIAD

The USA and Canada

The industry distribution of UK cross border M&A activity in the USA and Canada by time period is shown in Table 4.5. Over the period most M&A activity was in high technology and industrials. The high technology sector accounted for about one quarter of all cross border deals by UK companies and industrials about 17%.

Table 4.5: Industry distribution of CBM&As by UK companies in USA & Canada
(% of completed deals)

	1996 - 1998		1999 - 2001		2002 - 2005		Total 1996-2005	
	No	%	No	%	No	%	No	%
Consumer Products and Services	85	14.3	129	15.9	89	14.8	303	15.1
Energy and Power	24	4.05	41	5.05	30	5	95	4.74
Financial services	32	5.4	41	5.05	50	8.33	123	6.13
Healthcare	35	5.9	43	5.3	46	7.67	124	6.18
High Technology	103	17.4	201	24.8	133	22.2	437	21.8
Industrials	129	21.8	131	16.1	81	13.5	341	17.0
Materials	80	13.5	71	8.74	58	9.67	209	10.4
Media and Entertainment	58	9.78	76	9.36	48	8	182	9.08
Real Estate	3	0.51	4	0.49	11	1.83	18	0.9
Consumer Staples	16	2.7	20	2.46	21	3.5	57	2.89
Retail	14	2.36	25	3.08	11	1.83	50	2.49
Telecommunications	14	2.36	30	3.69	22	3.67	66	3.29
Total	593		812		600		2005	100

Source: Thomson One Banker Database (2006)

The third most active sector was Consumer products and services, which accounted for about 15% of all cross border deals during the period 1996-2005. Materials were the fourth most attractive sector in the USA and Canada, accounting for about 10% of the total M&A activity.

The European Union

Table 4.6 presents the industry distribution of UK cross border deals in the EU during the period 1996-2005. Industrials, high technology, consumer products, services and the retail sector are industries where most cross border M&As occurred.

About one third of all cross border deals were completed in the two sectors of industrials and high technology. Consumer products and services was the third most active sector in terms of cross border activity in the EU, with 15% of all deals.

Table 4. 6: Industry distribution of CBM&As by UK companies in the EU

(% of completed deals)

	1996-1998		1999-2001		2002-2005		Total 1996-2005	
	No	%	No	%	No	%	No	%
Consumer Products and Services	118	14	181	19	107	12	406	15.2
Energy and Power	23	2.8	23	2.4	28	3.1	74	2.77
Financial services	53	6.5	51	5.3	57	6.3	161	6.03
Healthcare	32	3.9	25	2.6	52	5.8	109	4.08
High Technology	100	12	209	22	139	15	448	16.8
Industrials	150	18	131	14	180	20	461	17.3
Materials	119	15	79	8.3	80	8.9	278	10.4
Media and Entertainment	74	9.1	88	9.2	92	10	254	9.51
Real Estate	31	3.8	31	3.2	39	4.3	101	3.78
Consumer Staples	17	2.1	37	3.9	29	3.2	83	3.11
Retail	66	8.1	57	6	60	6.7	183	6.85
Telecommunications	34	4.2	44	4.6	36	4	114	4.26
Total	817		956		899		2672	100

Source: Thomson One Banker Database (2006)

Asia Pacific

The industry distribution of UK cross border M&As activity in the Asia Pacific is shown in Table 4.7. Financial services, media and entertainment, consumer products and services, and high technology industries experienced the highest proportion of cross border M&As over the period.

Financial services accounted for 14% of Asian companies acquired by UK companies. The number of cross border deals in financial services significantly increased from 31 in the period 1996-1998 to 60 in the period 2002-2005.

The materials sector was the second most active in the Asia Pacific, accounting for 13% of all the cross border deals. The share of cross border deals in consumer products and services, high technology and, media and entertainment is relatively similar over the period. Each of these sectors accounted for 11% of all cross border deals. The number of deals has gradually increased over the periods in consumer products and the high technology sectors. On the other hand, the number of deals has decreased during the period in the media and entertainment sector.

Table 4. 7: Industry distribution of CBM&As by UK companies in the Asia Pacific region
(% of completed deals)

	1996-1998		1999-2001		2002-2005		Total 1996-2005	
	No	%	No	%	No	%	No	%
Consumer Products and Services	31	12	43	12	44	11	118	11
Energy and Power	23	8.9	21	5.7	34	8.3	78	7.5
Financial services	31	12	49	13	60	15	140	14
Healthcare	8	3.1	7	1.9	14	3.4	29	2.8
High Technology	21	8.1	46	12	52	13	119	11
Industrials	38	15	30	8.1	37	9.1	105	10
Materials	41	16	32	8.7	57	14	130	13
Media and Entertainment	25	9.7	49	13	39	9.6	113	11
Real Estate	4	1.6	9	2.4	5	1.2	18	1.7
Retail	7	2.7	20	5.4	12	2.9	39	3.8
Consumer Staples	12	4.7	32	8.7	35	8.6	79	7.6
Telecommunications	15	5.8	31	8.4	19	4.7	65	6.3
Total	258		369		408		1035	

Source: Thomson One Banker Database (2006)

4.6 THE SAMPLE CHARACTERISTICS OF THE STUDY

The sample characteristics of the study are presented in this section. Specifically, the section provides a description of the types and area distribution of cross border acquisitions undertaken by UK firms in the recent takeover boom. In addition, a description of the process undertaken in managing the cross border acquisitions and the outcomes achieved is provided.

a. Area distributions of cross border acquisitions

Table 4.8 shows area distribution of UK cross border activity by sample and population. In the case of the cross border sample, UK companies invested most heavily in Europe.

Table 4.8: Area distributions of the UK cross border acquisitions

Areas	% of total sample	% of total population
USA & Canada	46	29
Europe	53	38
Asia Pacific	0	15
Others	0	18
Total	100	

Similarly, in the case of the cross border population, UK companies invested most heavily in European Union. However, in terms of percentage, 53% of the sample companies have invested in Europe, whereas a lower percentage (38 percent) of firms in the population has invested in European Union.

Table 4.8 also shows that 46 percent of the sample firms invested in USA & Canada compared to 29% of firms in the population. A total of 15 percent of the firms in the population invested in the Asia Pacific region. In contrast, no sample firms invested in the Asia pacific region.

Table 4.9: Target country distribution of the sample firms

Countries	Frequency	Percent	Cumulative percent
USA	21	32.3	32.3
Canada	9	13.8	46.2
Netherlands	5	7.7	53.8
Sweden	4	6.2	60.0
Germany	9	13.8	73.8
Spain	2	3.1	76.9
France	4	6.2	83.1
Belgium	3	4.6	87.7
Italy	3	4.6	92.3
Russia	3	4.6	96.9
Switzerland	2	3.1	100
Total	65	100	

Table 4.9 shows the target country distributions of the sample firms. About 32 percent of these target firms are from the USA followed by about 14 percent of firms from Canada. In Europe, about 14 percent of target firms are from Germany followed by about 8 percent from the Netherlands. The percentage of target firms from other European countries varies from about 3 to 6 percent.

b. Sector distribution of cross border acquisitions

Table 4.10 shows the sectoral distribution of the sample firms. In the sample, the service sector has the largest share of cross border deals, followed by the manufacturing sector.

Table 4.10: Sectoral distributions of UK cross border acquisitions (N = 65)

Sector	% of total sample	% of total population
Primary	10.8	4.8
Manufacturing	38.5	49.1
Service	50.5	46.1
Total	100	

In contrast, the share of the manufacturing sector in the total population is the largest followed by the service sector. About 38 percent of the sample acquired firms were operating in the manufacturing sector, compared to a 48 percent of acquisitions in the population.

Table 4.11 presents the industry distribution of the cross border acquisitions. The share of consumer products and services in the sample of acquired firms as well as in the total population is the highest. The share of acquisitions in the telecommunication sector in the sample is about 14 percent, whereas it is only 5.2 percent in the total population.

Table 4.11: Industry distributions of UK cross border acquisitions (N = 65)

Industries	% of total sample	% of total population
Consumer Products and Services	17.9	16.6
Energy and Power	11.0	6.6
Financial services	5.3	8.9
Healthcare	4.2	8.1
High Technology	12.8	16.1
Industrials	12.7	11.2
Materials	13.0	10.9
Media and Entertainment	3.6	7.9
Real Estate	1.5	4..3
Retail	2.1	5.6
Consumer Staples	2.1	2.9
Telecommunications	13.8	5.2
Total	100	100

c. Typology of cross border acquisitions undertaken

Table 4.12 shows for the sample the acquired company size by sales turnover. Over 90 percent of the acquired firms are small and medium size enterprises (SMEs). Only 10 percent of the acquired firms are large enterprises. Norburn and Schoenberg's (1994) sample of UK cross border acquisitions was also largely composed of UK firms that had acquired foreign SMEs (70 percent) in Europe.

Table 4.12: Acquired company size by sales turnover (N = 65)

Sales turnover	Percent	Cumulative percent
0-10 million	44.6	44.6
10-50 million	46.2	90.8
50+ million	10.5	100
Total	100	

The nature of the cross border deals is presented in table 4.13. About 89 percent of the deals are friendly (agreed). In contrast, only 11% of cross border deals in the sample were contested.

Table 4.13 Nature of cross border acquisition deals (N = 65)

	Percent	Cumulative percent
Agreed	89.2	89.2
Contested	10.8	100
Total	100	

Table 4.14 shows the industry relatedness between the acquired and acquiring firm. About 88 percent of deals were in related industries compared to only 12 percent of deals in unrelated industries. This is consistent with Norburn and Schoenberg's (1994) sample, where 87 percent of UK firms made acquisitions in horizontally related product-markets. It appears that UK firms have a tendency to acquire foreign firms operating in the same industry.

Table 4.14: Industry relatedness of the acquired firm (N = 65)

	Percent	Cumulative percent
Related	87.7	87.7
Unrelated	12.3	100
Total	100	

Table 4.15 shows the ownership structure of the acquired and acquiring firms. About 61 percent of acquired firms were privately managed companies (owner-managed and not-owner managed). In contrast, only about 15 percent of acquiring firms were privately managed companies. About 74% of acquiring companies were publicly quoted companies compared to only 12 percent acquired firms. Clearly, for the most of the UK firms acquired privately managed foreign firms. This is similar to Norburn and Schoenberg (1994) whose sample had a high percentage (66 percent) of foreign private acquired firms.

Table 4.15: Ownership structure of the acquired and acquiring firm (N = 65)

	Acquired firm (%)	Acquiring firm (%)
Publicly quoted company	12.3	73.8
Division/Subsidiary of quoted company	26.2	10.8
Private, owner-managed	44.6	7.7
Private, not owner-managed	16.9	7.7
Total	100	

Table 4.16 shows the prior profitability of the acquired firms in the sample. Only 21 percent of the acquired firms were poorly performing, compared with about 50 percent

of the acquired firms that had good performance. This suggests that UK firms tend to acquire well performing foreign firms. This is consistent with Angwin and Savill (1997) who found that acquiring firm desired to purchase financially healthy target firms.

Table 4.16: Prior profitability of the acquired firm (N =65)

	Percent	Cumulative percent
Poor	21.1	21.1
Average	29.2	50.3
Good	49.7	100
Total	100	

Overall, the sample statistics suggest that UK firms mostly acquired privately managed SMEs operating in the same industry. Moreover, the sample of UK firms tended to acquire profitable firms that had a friendly attitude towards the deal.

d. Cross border acquisition management process

This sub-section provides a brief description of the overall management process undertaken by the UK firms in managing foreign acquired firms. Specifically, sub-section presents a description on top management turnover, communication method used and, level of integration.

Table 4.17 shows the change in the top management of the acquired firm. The acquired firms' top management was not changed or changed a little in approximately 71 percent of the acquired firms. Significant turnover occurred in only about 23 percent of the acquired firms' top management teams. This tends to indicate that the UK firms considered the top management teams of the acquired firms to be a valuable human asset, retaining them after completing the acquisition.

Table 4.17: Change in top management of the acquired firm (N = 65)

	Percent	Cumulative percent
No change	40.0	40.0
Little change	30.8	70.8
Moderate turnover	6.2	76.9
Major turnover	16.9	93.8
Complete turnover	6.2	100
Total	100	

Table 4.18 presents the rank order, based on the mean measure, of communication methods used by UK firms to communicate with the managers of the acquired company during the integration process. The most frequently used communication method by UK

firms includes "use of first name" (ranked 1st), "phone conversation" (ranked 2nd) and, "E-mail message" (ranked 3rd). The highest ranked communication methods tends to suggest that UK firms emphasized frequent use of informal communication methods compared to formal communication methods such as "written memos" (ranked 5th), "establishing notice board to present mission and vision statement" (ranked 7th) and, "longer more detailed reports or studies" (ranked 8th).

Table 4.18: Communication method used by UK firms

Rank	Communication method used	Mean	S.D
1	Use of first name	4.65	0.92
2	Phone conversations	4.30	1.04
3	E-mail messages	4.22	1.04
4	Holding regular meeting at all levels	3.86	1.16
5	Written memos	3.02	1.22
6	Socialize outside work	2.87	1.19
7	Establishing notice board to present mission and vision statement	2.75	1.29
8	Longer more detailed reports or studies	2.71	1.24

N = 65; S.D = Standard deviation; The mean is average on a scale of 1 (= 'Hardly ever') to 5 (= 'very frequently')

Table 4.19 shows the level of integration of the acquired firm within the acquiring firm. For about 68% of the sample firms there was little integration, with only 3 percent of the sample firms fully integrated with the acquiring firm. About one-third of the acquired firms were partially integrated with the acquiring firms. Overall, this suggests that UK firms tend to adopt a "preservation" type integration strategy more than a "absorption" type integration strategy.

In general, UK firms appear to adopt a preservation type integration strategy in which the top management team is retained, while communicating informally during the integration process.

Table 4.19: Level of integration of the acquired firm (N=65)

	Percent	Cumulative percent
Little integration	67.7	67.7
Partial integration	29.2	96.9
Full integration	3.1	100
Total	100	

e. Cross border acquisition outcome

Table 4.20 shows the outcome of the acquisition for the sample firms. About 84 percent of the acquisitions were considered successful by the management of the acquiring firms. The success rate is considerably higher than those reported in previous studies (e.g., Datta and Puia, 1995; Aw and Chatterjee, 2004). The fact that only one out of the 65 acquired firms were subsequently divested indicates that the reported success rate is not unrealistic. The reason for the divestment was to "separate businesses that has different capital requirements".

Table 4.20: The outcome of the acquisition (N = 65)

	Percent	Cumulative percent
Little success	2.6	2.6
Modest success	13.0	15.6
Successful	34.4	50.0
Very Successful	50.0	100
Total	100	

4.7 Conclusions

Increasingly companies have expanded beyond their domestic markets to participate in the global market place. In so doing, companies can choose, for example, to export, establish new operations or acquire existing companies. Cross border M&As are now a much more regular activity of companies in the UK. Between 1996 and 2005, UK companies acquired 7026 foreign companies. In terms of value, UK companies acquired £520 billion worth of foreign companies over the period. The highest number of transactions was completed during the period 1999-2001.

The area analysis shows that EU companies are the most significant target for UK companies followed by the USA and Canada. The number of deals has also gradually increased in the Asia Pacific region over the last ten years. In terms of sectoral distribution, UK companies tend to acquire more manufacturing companies in the EU and the USA and Canada than in the Asia Pacific. In contrast, UK companies tend to acquire more service sector companies in the Asia Pacific region than in the EU and the USA and Canada. In the USA and Canada, the most active industrial sector groupings were in high technology and industrials. Similarly, industrials and high technology were the most active industrial sectors in the EU. In contrast, the financial services sector was the most active industrial sector in the Asia Pacific region. In short, UK companies have acquired EU and North American technology over the last decade, whereas UK companies have tended to acquire Asian financial services over the same period.

The analysis of the sample reveals a number of distinctive characteristics. The analysis of the sample reveals that UK firms acquired either European or North

American firms. The greatest numbers of acquisitions were in the USA followed by Germany, Canada and the Netherlands. The sectoral distribution shows that UK firms tend to acquire most firms in the service sector, followed by the manufacturing sector and the primary sector. The industry distribution shows that UK firms acquired most firms in the consumer product and service sectors followed by the telecommunication sector and high technology sector. Analysis of the cross border acquisition types shows that UK firms mostly acquired privately managed SMEs operating in the same industry. Moreover, UK firms tend to acquire profitable firms that have a friendly attitude towards the deal.

Analysis of the overall management process reveals a number of distinctive approaches. UK firms tend to adopt a preservation type integration strategy in which top management were retained and top managers were frequently communicated with informally during the integration process. A high percentage of acquisitions were considered successful by the management of the acquiring firm. Further evidence of acquisition success for the sample firms is the fact that only one acquired firm was subsequently divested.

This chapter has examined the recent trends in UK cross border acquisitions, the process undertaken in their management and overall outcome achieved. The next chapter will explore the specific reasons for UK firms engaging in cross border acquisitions.

CHAPTER FIVE

MOTIVES FOR CROSS BORDER ACQUISITIONS

5.1 INTRODUCTION

Cross border mergers and acquisitions (CBM&As) have become the dominant means of internationalisation, accounting for approximately 60% of all foreign direct investment inflows (Hopkins, 1999). Consistent with this, cross border acquisitions now represent over 25% of all global M&As transactions, a considerable rise from the proportion of 15% ten years ago (Schoenberg and Seow, 2005). In 2003, firms invested over $297 billion in cross border M&As, with the European Union accounting for over 40% of this activity. British companies have consistently been the most active cross border acquirers within this region. In 2005, British companies spent nearly £62 billion on foreign firms (Armitstead, 2006). The total values of acquisitions abroad was nearly a third higher than in 2004 and double the levels of the previous two years, according to data compiled by *Thomson Financial.*

Yet, in parallel to this rise in activity, there has been increasing recognition of the poor performance of many cross border M&As. An examination of CBM&As performance studies (see Eun, Kolodny and Scheraga 1996; Danbolt, 2004) reveals that target firms are clear winners. This may justify the reasons for target firms to engage in cross border deals. But as the empirical literature suggests the bidding firms in cross-border deals do not always win, it is difficult to conclude that the huge growth of cross border M&As activities has been for financial benefit only. Therefore, it has become an empirical necessity to discover what motivates the bidding firms to acquire foreign targets.

This chapter examines the reasons why firms engage in cross border acquisitions. Specifically, the objectives of this study are:

a) To identify the relative importance of factors motivating the decision to acquire foreign target firms by UK acquiring firms.
b) To provide a parsimonious set of factors influencing CBM&As for the sample.
c) To test hypotheses on the way in which the relative importance of factors motivating CBM&As may vary with the sample characteristics.

The rest of the chapter is set out in the following way. The next section reviews the literature relating to motives for CBM&As. The third section develops the hypothesis of the study. The findings and discussion are in the fourth section. A summary and conclusions are provided in the last section.

5.2 LITERATURE REVIEW

Most of the prior literature describes M&As as ways predominately to achieve additional market share or synergies (Walter and Barney, 1990; Schmitz and Sliwka, 2001). Such motives indicate that M&As are means to realise the strategies of the acquiring or merging parties. Discussing M&A motives from other perspectives adds additional dimensions to the picture: agency theory (Kesner et al., 1994), hubris (Weston and Weaver, 2001; Berkovich and Narayanan, 1993; Roll, 1986; Seth et al., 2000) and empire building (Trautwein, 1990) indicate the existence of more than one motive for M&As. Hitt et al. (2001a) also suggested multiple motives for firms to complete CBM&As.

Several of the same motives are identified by various authors, while some of them overlap. The main motives discussed in the literature include the following:

5.2.1 TO FACILITATE FASTER ENTRY INTO FOREIGN MARKET

As compared to internally generated product developments and new business, acquisitions allow the firm to enter a new market more rapidly. It is argued that in general it is expensive, difficult and time consuming to build up a global organization and a competitive presence due to issues such as differences in culture, liability of foreignness, different business practices and institutional constraints. Cross-border M&As offer significant time saving in this respect. For example, cross-border M&As allow immediate access to a local network of suppliers, marketing channels, clients and other skills. Heineken, the Dutch Brewing group, acquired an 88 percent stake in Cruzcampo, Spain's largest brewer (Willman and Bickerton, 1999). With its existing ownership of the El Aguila brewing operation, this cross border acquisition resulted in Heineken having 37 percent of Spain's beer market (the third largest in the Europe). Heineken's intention was to integrate Cruzecampo with El Aguila and increase the distribution of its own premium lager beer through the combined firm's channels. Executives at Heineken believed that its acquisition and subsequent integration of the assets it owned in Spain would result in much faster market penetration by its own premium product than would be possible using only Heineken-specific distribution channels.

Martin, Swaminathan and Mitchel (1998) have suggested that CBM&As can be used to access new markets as well as expanding the market for a firm's current goods. Similar conclusions have been drawn by Datta and Puia (1995) who stated that CBM&A activity provides the opportunity for instant access to a market with established sales volume. UNCTAD, 2000) also indicated that cross-border mergers provide the fastest means for international expansion compared to greenfield investment or a joint venture. For instance, in the world financial services sector, Merrill Lynch paid $5.3 billion to buy Mercury Asset Management, a London based money manager (Raghavan and Callan, 1997). At the time (1997), this was the largest cross border acquisition by a US based securities firm. This transaction made Merrill the fourth largest asset manager in the world. Thus, the acquisition of Mercury resulted in a significant global presence for Merrill that would have required many years to develop through internally generated efforts.

Research on entry mode choice also suggests that acquisition is more appropriate for a faster entry into new market compared to greenfield investment (Shimizu, et al., 2004). If the investor has a short amount of time to penetrate the foreign market, the only available choice will be acquiring an existing firm. In fact, greenfield entries require a much slower and more moderated approach. Hennart and Park (1993) found that the timing of the investment influenced the mode of entry choice. Specifically, if the target market has a high growth rate, the choice of an acquisition allows the investor to penetrate it more quickly.

5.2.2 INCREASE MARKET POWER

Market power exists when the firm can sell its products above the existing competitive market prices or when it's manufacturing distribution, and service costs are lower than those of competitors. Market power is a product of the firm's size, the degree of sustainability of its current competitive advantage, and its ability to make decisions today that will yield new competitive advantages for tomorrow (Hitt et al., 2001a).

Cross border acquisitions are used to increase market power when the firm acquires: (a) a company competing in the same industry and often in the same segments of the primary industry, (b) a supplier or distributor, or (c) a business in a highly related industry (Hitt et al., 2001a). If a company operates within a concentrated market where there are fewer competitors, merging via horizontal integration could provide the company with even more market power. Having more market power also means having the ability to impact and/or control prices. Through vertical acquisitions, firms seek to control additional parts of the value-added chain. Acquiring either a supplier or a distributor or an organization that already controls more parts of the value chain than does the acquiring firm can result in additional market power. Market power can also be gained when the firm acquires a company competing in an industry that is highly related.

5.2.3 ACCESS TO AND ACQUISITION OF NEW RESOURCES AND TECHNOLOGY

A number of studies have examined the motivation for cross border M&As from the resource-based and organizational learning perspectives (Barkema and Vermeulen, 1998; Madhok, 1997; Vermeulen and Barkema, 2001). These studies suggest that cross border M &As are motivated by an opportunity to acquire new capabilities and learn new knowledge. Today's products rely on so many different critical technologies that most companies can no longer maintain cutting edge sophistication in all of them (Ohmae, 1989).

Tapping external sources of know-how becomes imperative. Acquisition of an existing foreign business allows the acquirer to obtain resources such as patent-protected technology, superior managerial and marketing skills, and special government regulation that creates a barrier to entry for other firms. Shimizu et al. (2004) endorses this by suggesting that firms may engage in M&As to exploit intangible assets. This line of reasoning is consistent with Caves (1990) who argues that acquisition of a foreign competitor enables the acquirer to bring under its control a more diverse stock of specific assets which enables it to seize more opportunities.

5.2.4 DIVERSIFICATION

Diversification is a well documented strategy for firm expansion and has been suggested as one of the dominant reasons for cross-border M&As. Sudarsanam (1995) notes that diversification is generally defined as enabling the company to sell new products in new markets. This implies that the target company in an acquisition operates in a business unrelated to the buyer firm.

It is argued that international acquisitions not only provide access to important resources but also allow firms an opportunity to reduce the costs and risks of entering into new foreign markets. Seth (1990a) reported that geographical market diversification is a source of value in cross border acquisitions. This is because the sources of value such as those associated with exchange rate differences, market power conferred by international scope, ability to arbitrage tax regimes, are unique to international M&As. Moreover, as economic activities in different countries are less than perfectly correlated, portfolio diversification across boundaries should reduce earnings volatility and improve investors' risk-return opportunities.

Firms may make cross-border M&As on the basis that industry returns across economies may be less correlated than within an economy (Vasconcellos and Kish, 1998). As intensified global competition and rapid technology development have led firms to focus on their core activities, the need for product diversification has become less important (Morck and Yeung, 1999), although geographical diversification plays a role.

5.2.5 IMPROVED MANAGEMENT

Sirower (1997) noted that managers try to maximize shareholder value by either replacing inefficient management in the target firm or seeking synergies through the combination of the two firms. Gaughan (1991) claims that some M&As are motivated by a belief that the acquiring firm's management can better manage the target's resources. The acquirer may feel that its management skills are such that the value of the target would rise under its control.

The improved management argument may have particular validity in the case of large companies making offers for smaller companies. The smaller companies, often led by entrepreneurs, may offer a unique product or service that has sold well and facilitated the rapid growth of the target. As the target grows, however, it requires a very different set of management skills than proved necessary when it was a smaller business. The growing enterprise may find that it needs to oversee a much larger distribution network and may have to adopt a very different marketing philosophy. Many decisions that a larger firm make require a vastly different set of managerial skills than those of smaller company as a result of the dramatic growth. The lack of managerial expertise may be a stumbling block in the growing company and may limit its ability to compete in the broader market place. These managerial resources are an asset which the larger firm can offer the target (Gaughan, 1991).

5.2.6 SYNERGY

Bradley, Desai and Kim (1988) and Trautwein (1990) argue that firms engage in M&As in order to achieve synergies. Synergies stem from combining operations and activities such as marketing, research and development, procurement and other cost components, which were hitherto performed by separate firms. It is argued that by combining operations and activities, M&As can increase a firm's capacity and opportunity to reduce costs through economies of large-scale production, pooling resources to produce a superior product and generate long-run profitability.

Gaughan (1991) argues that synergy is probably the most common argument for entering a merger according to most theorists. Synergy is often characterised as 1+1>2, meaning that the ability of a corporate combination to be more profitable than the individual profit of the firms that were combined i.e. NPV $Firm_{AB}$ > NPV $Firm_{A}$ + NPV $Firm_{B}$. Brealey and Myers (2003) define synergy as the capability to make a corporate combination more profitable than the profit of the two individual firms. Likewise, Sirower (1997) holds that synergy increases competitiveness and resulting cash flows beyond what the two companies are expected to accomplish independently. There are many opinions regarding how to obtain synergy effects. Gaughan (1991), among others, mentions replacement of inefficient management, whereas others points to economies of scale and more efficient marketing and administration as means to gain synergies. There are two main types of synergy – *operating* and *financial*. The former entails efficiency gains that are often the result of a horizontal or a vertical merger. The latter involves the lowered costs of capital that can be obtained through combining two or more companies.

In the specific context of CBM&As, the literature on corporate foreign investment describes various means by which they may create value. Acquiring an existing foreign facility provides a means for the rapid exploitation of the potential for synergistic gain compared with de novo entry. Porter (1991) suggested that one source of operating synergy comes from the potential to transfer valuable intangible assets, such as transfer of skills, between the combining firms. If a firm has know-how that can be used in markets where the sale or lease of such knowledge is inherently "inefficient", then the firm will tend to exploit it through its own organization. Although different versions are developed by various scholars (e.g., Williamson, 1975; Rugman, 1982), all assume that transacting in the international market entails substantial costs which will reduce the value of proprietary information. Faced with this cost, a firm will be likely to internalize the transaction and use the proprietary information within its expanded organization. Gains may also be realized form "reverse internalization": firms acquire skills and resources from CBM&As that are expected to be valuable in their home markets. A related source of synergistic gains in cross border acquisitions focuses on market development opportunities. In order to efficiently utilize their "excess" resources for long-run profitability, firms will invest abroad when growth at home is limited or restricted and in the presence of trade barriers which restrict exports.

In identifying the motives for cross border M&As, researchers have also used the financial synergy approach. Financial synergy can be achieved by lowering the costs of internal financing (Weston et al., 2001). Acquiring target firms with high levels of cash may be a cost effective solution for firms aiming to lower their cost of capital. Hence acquisitions that involve targets with high levels of cash are likely to be motivated by synergy. Finally, reducing the cost of capital is useful as an argument for cross border M&As in two ways. First; the acquiring firm obtains access to the acquired firm's financial network. Second; the prestige of being a large internationalised firm may sometimes lower the rate of interest (Seth, et. al., 2000).

5.2.7 MANAGERIAL MOTIVE

The managerialism hypothesis suggests that managers embark on M&As in order to maximize their own utility at the expense of their firm's shareholders (Seth, Song and Pettit, 2000). Managers can have private or personal reasons for their behaviour and make investments which from an economic point of view may seem irrational, but for the individual can be of high value. The empire-building theory maintains that managers want firm growth for personal reasons and acquisitions provide this growth. An important aspect of this is the wage explanation, whereby the salary paid to managers is a function of the size of the company (Mueller, 1969). Motives like power and prestige are also stressed (Ravenscraft and Scherer, 1987), for instance, managers in large companies have an easier route to senior positions on important committees and the board of directors (Pfeffer and Salancik, 1978).

Managers may engage in conglomerate mergers in order to decrease their employment risk, which is largely un-diversifiable. The risk consists of loosing their job, professional reputation, etc. The risk associated with managers' income closely relates to the firm's risk (Amidhud and Lev, 1981). Another factor creating incentives to acquisitions is free cash flows, meaning cash flows more than required to fund all projects that have a positive net present value discounted at the relevant cost of capital. This cash flow belongs to the shareholders, but used for investment instead, managers cause their firms to grow beyond the optimal size. A solution to this problem lies in issuing debt in exchange for stock, so the contract forces the managers to pay out future cash flows (Jensen, 1986). The managers' time horizons relate to their tenure and tend to be shorter than the shareholders' time horizons. Managers will not have an interest in cash flows that cover the period after the end of their term of office (Jensen and Meckling, 1976).

While managerialism has been proposed as a motive for domestic M&As, it may also be relevant for cross border M&As if managers have the incentive and the discretion to engage in M&As aimed at empire building (Seth, Song and Pettit, 2000). In an integrated capital market, firm-level diversification activities to reduce risk are generally considered non-value maximizing as individual shareholders may duplicate the benefit from such activities at lower cost. However, managers may still seek to stabilize the firms' earnings stream by acquiring foreign (rather than domestic) firms, given low correlations between earnings in different countries. Foreign acquisitions may be more satisfactory vehicles for risk reduction than domestic acquisitions, and in the absence of strong governance mechanisms to control managerial discretion, managers may overpay for these acquisitions.

5.3 HYPOTHESES DEVELOPMENT

The literature gives little indication of what to expect in terms of the relative importance of a set of motivating factors for cross border acquisition. It may be conjectured, however, that the relative importance of the motives would vary with the underlying key characteristics of the sample. For the purposes of this study these characteristics are identified as regional origin of the target firm, sector of operation and pre-acquisition performance of the target firm.

Regional origin of the target firm

There is no prior literature that provides an extensive examination of the strategic motives of cross border acquisition according to the choice of nationality of the foreign firm. Foreign firm choice will presumably hinge on the tasks to be accomplished by the acquisition and the particular characteristics required from a target. To the extent that

UK firms believe that targets from particular foreign nationalities can provide certain requirements of the acquisition, for example, access to specific markets or types of technology, these targets will be chosen in preference to potential targets of a different nationality when the acquisition is made. The fundamental motive for the acquisition may then be expected to vary according to the nationality of the foreign target. This leads to the first hypothesis:

Hypothesis 1: The relative importance of strategic motives for CBM&As will vary with the regional origin of the target firm

Industry of operation

The motives for carrying out M&As from the acquiring firm's perspective tend to be different across various industries (see Walter and Barney, 1990; Brouthers et al., 1998). Recently, Kreitl and Oberndorfer (2004) argued that motives vary across industry and time and found that more emphasis was placed on certain motives in engineering consulting firms than in other manufacturing sectors. Several of the strategic motives appear to lend themselves more readily to acquisitions in the manufacturing sector, for example, product rationalization and economies of scale, and transfer of complementary technology/exchange of patents, than they do to acquisitions in the service sector where risk sharing, shaping competition and the use of acquisition to facilitate cross border expansion appear to be more relevant. To the extent that this is the case it would be expected that strategic motivation would vary with the industry sector of the acquisition, which is reflected in the second hypothesis:

Hypothesis 2: The relative importance of strategic motives for CBM&As will vary with the industry of the target firm.

Pre-acquisition performance of the target firm

An acquiring company can correct an efficiency problem in the target firm, which will increase the target's value and creates synergistic gains. To detect a situation in which the target's inefficiencies can be improved the target's performance prior to the acquisition is examined for inefficient management. According to Servaes (1991) the largest synergistic gains are possible when an efficient firm acquires an inefficient firm. Therefore, an acquirer may be motivated to acquire a poorly performing foreign firm with a view to turning it around, for example by replacing inefficient management of the acquired firm. On the other hand, an acquirer may be motivated to acquire a profitable foreign firm in order to realize synergic benefits such as economies of scale or cost reduction. The fundamental motive for the cross border acquisition may then be expected to vary according to the pre-acquisition performance of the target firm. This leads to the third hypothesis:

Hypothesis 3: The relative importance of the strategic motivates for CBM&As will vary according to the pre-acquisition performance of the target firm.

5.4 FINDINGS AND DISCUSSION

5.4.1 RELATIVE IMPORTANCE OF THE STRATEGIC MOTIVES

The rank order of the twenty strategic motives for cross border acquisition by UK companies, based on the mean measure of importance, is shown in Table 5.1. The median measure is exceeded by nine acquisition motives, of which "to enable presence in new market" (3.55), "to enable faster entry to market" (3.54), "to facilitate cross border expansion" (3.52), "gain new capabilities" (3.42), "gain strategic assets" (3.26), and "increase market power" (3.09) constitute the first six with the highest degree of importance. It is clear from the Table 5.1 that the managers perceived their motives for international expansion to be strongly influenced by growth-oriented factors. The highest ranked strategic motives are concerned with relative competitive positions in new markets.

Considering the motives in terms of their underlying theoretical explanations, it is apparent that, for this sample the main strategic motives are underpinned by the theories of strategic positioning and the resource based view (RBV). The first three ranked motives are concerned with improving the firm's competitive position through the use of acquisitions that may be characterized as most importantly allowing the UK firms to enter new foreign markets at speed and/or consolidating existing market positions.

The leading set of motives also lends support to the RBV of acquisitions, particularly when it is recognized that the acquisition takes place because the acquirer lacks the necessary capabilities or assets required for remaining competitive in the foreign market. Where one firm wishes to acquire a capability that it does not have but is possessed by a target firm (such as tangible resources, for example, capital, machinery and land, and intangible resources, for example, capabilities, organizational culture, and know-how) then an acquisition may facilitate obtaining these capabilities.

Table 5.1: Relative Importance of Strategic Motives for CBA by UK Companies

Rank	Motivation	Mean	Standard deviation
1	To enable presence in new markets	3.55	1.392
2	To enable faster entry to market	3.54	1.668
3	To facilitate international expansion	3.52	1.511
4	Gain new capabilities	3.42	1.223
5	Gain strategic assets	3.26	1.350
6=	Increase market power	3.09	1.444
6=	Gain efficiency through synergies	3.09	1.400
8=	Acquire complementary resources	3.08	1.315
8=	Increase market share	3.08	1.461
10	Enable product diversification	2.86	1.488
11	Obtain non-manufacturing scale economies	2.31	1.198
12	Obtain economies of large scale production	2.17	1.269
13	To reduce risk of the business	1.95	1.067
14	Cost reduction	1.92	1.136
15	Elimination or reduction of competition	1.66	1.020
16	Enable the overcoming of regulatory restrictions	1.63	1.098
17	Turn around failing acquired firm	1.62	1.041
18=	Redeploy assets to the acquisition	1.54	0.772
18=	Replace inefficient management of acquired firm	1.54	0.867
20	Tax reasons (savings)	1.32	0.773

Notes: N = 65
The mean is the average on a scale of 1(='no importance') to 5 (= 'very important');
"=" shows the motives having same rank in terms of mean values.

The most important acquisition motive for the surveyed firms was to enable presence in new markets. Thus, expanding the acquiring firm's market portfolio to reach new markets was obviously a top priority for the surveyed firms. The importance of presence in new markets supports Ingham et al.'s (1992) study of British firms where the penetration of new geographic market was ranked second.

To enable faster entry to market was highly ranked. Cross border mergers and acquisitions are the fastest means for firms to expand their production and markets internationally (Chen and Findlay, 2003). When time is crucial, acquiring an existing firm in a new market with an established distribution system is far more preferable to developing a new local distribution and marketing network. For a latecomer to a market or a new field of technology, cross border M&As can provide a way to catch up rapidly. With the acceleration of globalisation, and enhanced competition, there are increasing pressures for UK firms to respond quickly to opportunities in the fast changing global economic environment. Thus, for UK companies seeking to compete in nations outside their home base, acquiring a firm is a much faster way to reach this objective as compared to the time required to establish a new facility and new relationships with stakeholders in a different country.

The third ranked motive was to facilitate international expansion. The desire to expand from the national domestic market activity is not surprising for the UK firms as the search for new markets and market power are a constant concern for firms in the increasingly competitive environment. In conditions of rapid change and high innovation costs, expansion through external means has become an absolute necessity (Child et al., 2001). A company can expand through greenfield or mergers and acquisitions. When expanding abroad via direct investment, firms face greater risks than local firms due to their lack of familiarity with the host market. Thus, the firm often prefers the lower risk of acquisition once a foreign firm is thought suitable for the purpose of international expansion (Caves, 1996).

Other important motives for cross border M&As for UK acquiring firms are to acquire strategic assets and capabilities which encompass technology, improving R&D capabilities and management know-how. This finding is consistent with Granstrand and Sjolander (1990) who suggested that firms with low skills may enter the foreign market via M&As, which allow the firms to obtain the new technological resources and other strategic assets. Caves (1990) endorses this by suggesting that foreign acquisitions may be motivated by the quest to bring a more diverse collection of specific assets under the acquirer's control and to enable more opportunities to be seized. This explanation is also in line with the views of Hill, Hwang and Kim (1990) who pointed out that foreign acquisition by MNCs may be motivated by strategic objectives. Bresman, Birkinshaw and Nobel (1999) also suggest that cross-border M&A is an effective way to expand the knowledge base of a firm.

The ranking of the motives revealed that British CBM&As are not driven by diversification motives (rank 10 and 13) or the motive to reduce costs (rank 11 and 14). Firms usually pursue diversification in order to reduce earnings volatility and improve investors' risk-return opportunities. However, one of the disadvantages of acquisitions that are motivated by diversification is the tendency to stretch the acquiring company's management (Gaughan, 1991). The ability to successfully manage a firm in one industry does not necessarily extend to other businesses. Moreover, the acquiring company is providing a service (i.e. diversification) to stockholders that they can accomplish better themselves (Levy and Sarnat, 1970). For instance, a steel company that has a typical pattern of cyclical sales may consider acquiring a pharmaceutical company exhibiting a recession-resistant sales pattern. Financial theory states that the managers of the steel company are doing their stockholders a disservice through acquisition of the other company. If stockholders in the steel company wanted to be stockholders in the pharmaceutical firm, they could easily adjust their portfolio to add shares of the pharmaceutical firm. Stockholders can accomplish such transactions in a far less costly manner than through a corporate acquisition.

To enable the overcoming of regulatory restrictions (ranked 16) appears not to be an important motivation for British cross border acquisitions. This is not surprising as most of the regulatory restrictions were removed before 2000 (the acquisitions were completed in the 2000 to 2004 period). Regulatory reform and deregulation in the 1990s in industries such as telecommunications (the WTO agreement on basic telecommunications services came into effect in 1998), electricity and finance played a significant role in the remarkable increases in M&As in both developed and developing countries (UNCTAD, 2000). The promotion of regional integration in the 1990s, as in Europe and North America, provided opportunities for expansion through cross border M&As. However, regulatory restrictions appear now to be less important factors for making an acquisition overseas.

The motive of tax reasons (savings) is ranked lowest indicating CBM&As by UK firms are not driven by tax reasons. Weston et al. (2001) suggested that the synergies resulting from tax savings is not sufficiently significant to motivate an acquisition which appears to be supported by this study.

5.4.2 FACTOR ANALYSIS OF STRATEGIC MOTIVES

Due to potential conceptual and statistical overlap, an attempt was made to identify a parsimonious set of variables to determine the underlying dimensions governing the full set of twenty strategic motives. Exploratory factor analysis (EFA) using varimax rotation was used to extract the underlying factors. The EFA initially produced seven factors for the 20 strategic motives.

A content analysis (Cavusgil and Zou, 1994; Despande, 1982) was conducted to remove items that had inconsistent substantive meanings with the factor or that had low factor loadings from further analysis. This purification process resulted in the elimination of three motives: Enable the overcoming of regulatory restrictions, tax reasons (savings) and, to reduce risk of the business. The remaining 17 motives were again factor analysed and produced six non-overlapping factors, as shown in Table 5.2. Six factors explained a total of 71.50 per cent of the observed variance (with Cronbach's α ranging from 0.54 to 078.). The remainder of this section discusses the interpretation of each of these factors.

Factor 1: Synergies. The first factor had high positive loadings on the following four strategic motives: obtain economies of large scale production, obtain non-manufacturing scale economies, gain efficiency through synergies, and cost reduction. This first factor was, therefore, interpreted to be a motive related to synergies.

Factor 2: Market development. This factor had high positive loading on three strategic motives: to facilitate international expansion, to enable presence in new markets, and to enable faster entry to market. It was interpreted that this second factor reflects market development.

Factor 3: Target improvement. This factor had high positive loading on three strategic motives: turn around failing acquired firm, replace inefficient management of acquired firm, and redeploy assets to the acquisition. This factor was interpreted as a motive to improve the target.

Factor 4: Market power. The fourth factor had high positive loading on the three strategic motives: increase market power, increase market share, and elimination or reduction of competition. Therefore, this factor was interpreted as a motive related to market power.

Factor 5: Acquiring strategic resources. This factor had high factor loading on three strategic motives: acquiring complementary resources, gain strategic assets, and gain new capabilities. This factor was interpreted as a motive to acquire strategic resources.

Factor 6: Product diversification. This factor had high factor loading on one strategic motive: enable product diversification. This factor was interpreted as a motive for product diversification.

Table 5.2: Factor analysis of strategic motives for cross border acquisitions

Factors	Factor loads	Eigenvalue	% Variance explained	Cumulative percent	Cronbach's alpha
Factor 1: Synergies		3.61	21.27	21.27	0.78
Obtain economies of large scale production	.858				
Obtain non-manufacturing scale economies	.773				
Gain efficiency through synergies	.773				
Cost reduction	.493				
Factor 2: Market Development		2.77	16.29	37.57	0.68
To facilitate international expansion	.774				
To enable presence in new markets	.773				
To enable faster entry to market	.697				
Factor 3: Target Improvement		1.84	10.84	48.41	0.62
Turn around failing acquired firm	.841				
Replace inefficient management of acquired firm	.768				
Redeploy assets to the acquisition	.489				
Factor 4: Market Power		1.42	8.40	56.81	0.68
Increase market power	.813				
Increase market share	.681				
Elimination or reduction of competition	.574				
Factor 5: Acquiring Strategic Resources		1.30	7.66	64.48	0.54
Acquire complementary resources	.698				
Gain strategic assets	.671				
Gain new capabilities	.663				
Factor 6: Product Diversification		1.19	7.02	71.50	N/A
Enable product diversification	.882				

Notes: Principal component factor analysis with varimax rotation. K-M-O Measure of sampling adequacy = 0.649. Bartlett's test of Sphericity = 379.071, $p < 0.000$.

5.4.3 STRATEGIC MOTIVATION AND SAMPLE CHARACTERISTICS

To further investigate the underlying nature and pattern of the strategic motivation for this sample of cross border acquisitions, the analysis was developed by considering the strategic motives in terms of the characteristics of the sample. For each of the relevant characteristics of the sample under consideration, the means and standard deviations of the five factors and the individual strategic motives comprising each factor, the rank order of the individual strategic motives and the appropriate test statistic for comparing differences in mean scores are reported in Table 5.3 to 5.5.

Strategic motives and origin of the target firm

The rank order of strategic motivation according to the geographical region of the acquisition, North America or Europe, is shown in Table 5.3. Some of the motives have a similar rank; however, there are several differences in rank order according to the location of the acquisition. The joint highest ranked motive for North American acquisitions is to gain new capabilities while for European acquisitions this motive is ranked sixth. UK firms appear to believe that North American firms provide access to specific capabilities more readily than do European firms. Acquisition of new capabilities appears to be an essential step, because today's products rely on so many different critical technologies that most companies can no longer maintain cutting edge sophistication in all of them (Ohmae, 1989). In this respect it appears that North American firms have developed these capabilities more than European firms.

The highest ranked motive for European acquisitions is to enable presence in new markets whereas for North American acquisitions this motive is ranked fourth. It appears that it is more of a priority for UK firms to gain presence in the Europe than in North America. The desire to access the European market tends to support the survey findings of Jansson et al., (1994) in which "nearness and potential of the single market" was identified as the main reason for cross border M&As in Europe by UK manufacturing firms.

Similar variations exist in the case of other motives such as increase market share, enable product diversification, and replace inefficient management of acquired firm. For acquisitions in Europe, the motive to increase market share is ranked fifth; in contrast, the same motive is ranked tenth for North American acquisitions. It appears that for UK firms it is relatively more important to increase market share in the European market than in North America. This finding supports a survey reported by

KPMG management consulting (1998) where increasing market share was identified as one of the most important motives for M&As in Europe by UK firms.

Table 5.3: Strategic motives for cross border acquisitions: Origin of the target firm

Factors	Group	Rank	Mean	SD	T-value
Factor 1: Synergies	North America Europe		2.21 2.49	0.93 1.00	-1.13
Obtain economies of large scale production	North America Europe	13= 11	1.82 2.43	1.15 1.30	-1.99**
Obtain non-manufacturing scale economies	North America Europe	11 12	2.32 2.30	1.15 1.24	0.08
Gain efficiency through synergies	North America Europe	9 6=	2.89 3.24	1.42 1.38	-.99
Cost reduction	North America Europe	13= 13	1.82 2.00	1.15 1.13	-0.62
Factor 2: Market Development	North America Europe		3.51 3.55	1.17 1.22	-0.15
To facilitate international expansion	North America Europe	3 2	3.46 3.57	1.52 1.51	-0.27
To enable presence in new markets	North America Europe	4 1	3.43 3.65	1.37 1.41	-0.63
To enable faster entry to market	North America Europe	1= 4	3.64 3.46	1.74 1.62	0.43
Factor 3: Target Improvement	North America Europe		1.71 1.45	0.77 0.57	1.56
Turn around failing acquired firm	North America Europe	15 16	1.79 1.49	1.13 0.96	1.12
Replace inefficient management of acquired firm	North America Europe	12 17	1.89 1.27	0.95 0.69	2.91**
Redeploy assets to the acquisition	North America Europe	17 15	1.46 1.59	0.74 0.79	-0.67
Factor 4: Market Power	North America Europe		2.51 2.68	1.09 1.00	-0.66
Increase market power	North America Europe	6 9	3.07 3.11	1.51 1.41	-0.10
Increase market share	North America Europe	10 5	2.75 3.32	1.48 1.41	-1.57
Elimination or reduction of competition	North America Europe	16 14	1.71 1.62	0.89 1.11	0.37
Factor 5: Acquiring Strategic Resources	North America Europe		3.17 3.30	1.05 0.84	-0.54
Acquire complementary resources	North America Europe	8 8	2.93 3.19	1.51 1.15	-0.76
Gain strategic assets	North America Europe	7 3	2.96 3.49	1.45 1.23	-1.52
Gain new capabilities	North America Europe	1= 6=	3.64 3.24	1.22 1.21	1.31
Factor 6: Product Diversification	North America Europe				
Enable product diversification	North America Europe	5 10	3.21 2.59	1.61 1.34	1.64

Notes: The mean for the factors is the mean of the factor scores; the mean for the individual motives is the average on a scale of 1 (= 'no importance') to 5 (= 'very important'). $*p < 0.1$; $**p < 0.05$, $p*** < 0.01$

For North American acquisition, the motive to enable product diversification is ranked fifth, whereas, for European acquisition this motive is ranked tenth. It appears that it is more of a priority for UK firms to enable product diversification in North America than in Europe. To remain competitive in the North American market, UK firms may have acquired firms that enable product diversification.

The motive to replace inefficient management of the acquired firm is ranked twelveth for North American acquisitions and ranked seventeenth for European acquisitions. It appears that for UK firms it is relatively more important to replace inefficient management in North American acquired firms than in European acquired firms. The management of UK firms may believe that they can better manage the North American firm's resources.

Despite the variations in ranking, Table 5.3 shows that there is lack of support for hypothesis 1, in that the relative importance of the strategic motives does not vary significantly between the origins of target firm. None of the factors have mean scores that are statistically different. With regard to individual motives, only the relative importance of two - obtain economies of large scale production ($p<0.05$) and replace inefficient management of acquired firm ($p <0.05$) are found to vary significantly between region of the target firm. The mean score for the motive - obtain economies of large scale production, is higher for acquisitions in Europe than those in North America. In the case of replace inefficient management of the acquired firm, the mean score is higher for acquisition in the North America than those in the European Union.

It may be concluded that similar motives are driving CBM&As in the EU and North America, with little significant variation in terms of the relative importance of the motives.

Strategic motives and sector of acquisition

To facilitate the statistical testing of the strategic motives, the industry of the acquisition was categorised in the conventional way by distinguishing between manufacturing and service sectors. The strategic motivation for cross border acquisitions by sector of operation is shown in Table 5.4.

The rank order of the strategic motives has a degree of similarity for the two sectors, however, there are some differences. For instance, the highest ranked motive for acquisitions in the manufacturing sector is to gain strategic assets while this motive is ranked tenth in the service sector. It appears that it is more of a priority for UK firms to gain strategic assets in the manufacturing sector than in service sector. This suggests that UK firms lack the necessary strategic assets to operate and compete effectively in the foreign manufacturing sector. Thus, acquisition allows UK firms to obtain necessary and/or new technological resources and others strategic assets in order to seize opportunities in the foreign market (Caves, 1990).

The highest ranked motive in the service sector is to enable faster entry into the market while this motive is ranked fourth in the manufacturing sector. It appears that it is more of a priority for UK firms to enable faster entry into the service sector than in the manufacturing sector. The importance of faster entry into the service sector supports Kang and Johanson's (2000) study where the growth of cross border M&As in the service sector e.g. telecommunications, media and financial services, was seen as the efforts of firms to capture new markets quickly and to offer a more integrated global service.

Increase market power is ranked third for acquisitions in the service sector whereas this motive is ranked ninth in the manufacturing sector. It appears that it is relatively more important for UK firms to increase market power in the service sector than in manufacturing sector. If industry competition is higher in the service sector than in the manufacturing sector, a UK firm may choose to acquire an existing company in the service sector in order to increase industry concentration.

There is moderate support for hypothesis 2, in that two of the six factors have mean scores that are significantly different, i.e., market power ($p < 0.01$) and product diversification ($p < .05$) both with mean scores higher in the service sector. Two of the three individual motives constituting the market power factor, i.e., increase market power ($p < 0.01$) and increase market share ($p < 0.01$), show means significantly higher for acquisition in the service sector compared to those in the manufacturing sector. The market power factor and the individual motives to increase market power, to increase market share and to eliminate or reduce competition, may be viewed as a set of largely defensive motives designed to consolidate and protect the UK firms' positions in foreign markets. Given that this set of motives is relatively more important for cross border acquisitions in the service sector than it is for motives in the manufacturing sector it may be argued that cross border acquisitions in the service sector are a more proactive response to competitive pressure than is the case for cross border acquisitions in the manufacturing sector.

Table 5.4: Strategic motives for cross border acquisitions: Sector of acquisition

Factors	Group	Rank	Mean	SD	T-value
Factor 1: Synergies	Manufacturing		2.35	1.00	-0.17
	Service		2.39	0.96	
Obtain economies of large scale production	Manufacturing	12	2.17	1.32	-0.01
	Service	12	2.17	1.22	
Obtain non-manufacturing scale economies	Manufacturing	11	2.28	1.18	-0.22
	Service	11	2.34	1.23	
Gain efficiency through synergies	Manufacturing	6	3.03	1.46	-0.41
	Service	9	3.17	1.33	
Cost reduction	Manufacturing	13	1.94	1.21	0.16
	Service	13	1.90	1.04	
Factor 2: Market Development	Manufacturing		3.42	1.30	-0.84
	Service		3.67	1.04	
To facilitate international expansion	Manufacturing	3	3.47	1.55	-0.30
	Service	5	3.59	1.47	
To enable presence in new markets	Manufacturing	2	3.50	1.48	-0.34
	Service	4	3.62	1.29	
To enable faster entry to market	Manufacturing	4	3.31	1.75	-1.27
	Service	1	3.83	1.53	
Factor 3: Target Improvement	Manufacturing		1.50	0.58	-0.82
	Service		1.64	0.78	
Turn around failing acquired firm	Manufacturing	16	1.53	1.02	-0.75
	Service	15=	1.72	1.06	
Replace inefficient management of acquired firm	Manufacturing	17	1.39	0.76	-1.52
	Service	15=	1.72	0.96	
Redeploy assets to the acquisition	Manufacturing	14	1.58	0.73	0.51
	Service	17	1.48	0.82	
Factor 4: Market Power	Manufacturing		2.30	1.01	-2.79***
	Service		2.98	0.95	
Increase market power	Manufacturing	9	2.64	1.43	-3.03***
	Service	3	3.66	1.26	
Increase market share	Manufacturing	8	2.72	1.46	-2.26***
	Service	6	3.52	1.35	
Elimination or reduction of competition	Manufacturing	15	1.56	1.05	-0.93
	Service	14	1.79	0.97	
Factor 5: Acquiring Strategic Resources	Manufacturing		3.21	0.95	-0.36
	Service		3.29	0.92	
Acquire complementary resources	Manufacturing	7	2.97	1.34	-0.71
	Service	7=	3.21	1.29	
Gain strategic assets	Manufacturing	1	3.53	1.29	1.79
	Service	10	2.93	1.36	
Gain new capabilities	Manufacturing	5	3.14	1.31	-2.13***
	Service	2	3.76	1.02	
Factor 6: Product Diversification	Manufacturing				
	Service				
Enable product diversification	Manufacturing	10	2.58	1.62	-1.75**
	Service	7=	3.21	1.23	

Notes: The mean for the factors is the mean of the factor scores; the mean for the individual motive is the average on a scale of 1 (= 'no importance') to 5 (= 'very important'). *p < 0.1; **p < 0.05, p*** < 0.01

The finding that market power as a strategic motive is relatively more important for cross border acquisitions in the service sector than those in the manufacturing sector is consistent with McCann (1996) and Kreitl and Oberndorfer (2004). McCann (1996) found that the M&A-motive of increasing the firm's market share is very highly ranked in service sectors such as transportation and travel, financial services, professional service sectors, etc. Kreitl and Oberndorfer (2004) found market share was the third highest ranked motive in the consulting service sector. They argued that market share provides a consulting firm with name recognition and reputation for its expertise, a factor which reduces cost in marketing and sales.

The individual motive constituting the product diversification factor, i.e., enable product diversification ($p < 0.05$), shows means significantly higher for cross border acquisition in the service sector compared to that in manufacturing sector. It appears that it is more of a priority for UK firms to enable product diversification in service sector than in manufacturing sector.

On the whole, there is moderate support for hypothesis 2, indicating that motives for cross border acquisitions to an extant do vary according to the sector of acquisition.

Strategic motive and Pre-acquisition performance of foreign firms

The rank order of strategic motivation according to the pre-acquisition performance of target firms is shown in Table 5.5. Some of the motives have similar rank between profitable target firm and not-profitable firm, although there are some differences in rank order according to the pre-acquisition performance of the target firm. The highest ranked motive when acquiring a profitable firm is to facilitate international expansion, whereas this motive is ranked fourth in the case of a not-profitable firm. It appears that it is more of a priority for UK firms to acquire a profitable firm than to acquire a not profitable firm for facilitating international expansion. This is not surprising as acquiring a profitable firm can facilitate international expansion more easily than that of a not profitable firm.

Similar variation exists in the rank order of other motives. The motive to increase market share is ranked sixth for acquiring a profitable firm. The same motive is ranked tenth for acquiring a not profitable firm. It appears that it is relatively more important for UK firms to acquire a profitable firm than to acquire a not profitable firm in order to increase market share. The market share of a profitable firm is expected to be higher than that of a not profitable firm. Thus, acquiring a profitable firm can result in a relatively higher market share for the acquiring firm.

Table 5.5: Strategic motives for cross border acquisitions: Performance of target firms

Factors	Group	Rank	Mean	SD	T-value
Factor 1: Synergies	Profitable		2.43	1.00	0.92
	Not-Profitable		2.16	0.90	
Obtain economies of large scale production	Profitable	12	2.24	1.27	0.81
	Not-Profitable	13	1.93	1.28	
Obtain non-manufacturing scale economies	Profitable	11	2.38	1.17	0.88
	Not-Profitable	12	2.07	1.28	
Gain efficiency through synergies	Profitable	8	3.14	1.38	0.49
	Not-Profitable	8	2.93	1.48	
Cost reduction	Profitable	13	1.98	1.16	.73
	Not-Profitable	15=	1.73	1.03	
Factor 2: Market Development	Profitable		3.54	1.27	0.11
	Not-Profitable		3.51	0.94	
To facilitate international expansion	Profitable	1	3.60	1.55	0.74
	Not-Profitable	4=	3.27	1.38	
To enable presence in new markets	Profitable	2=	3.52	1.46	-.40
	Not-Profitable	1	3.67	1.17	
To enable faster entry to market	Profitable	2=	3.52	1.63	-.16
	Not-Profitable	2	3.60	1.84	
Factor 3: Target Improvement	Profitable		1.46	0.53	-1.73*
	Not-Profitable		1.91	0.96	
Turn around failing acquired firm	Profitable	17	1.38	.667	-2.41***
	Not-Profitable	11	2.40	1.59	
Replace inefficient management of acquired firm	Profitable	16	1.48	0.86	-.99
	Not-Profitable	15=	1.73	0.88	
Redeploy assets to the acquisition	Profitable	15	1.52	0.70	-.35
	Not-Profitable	17	1.60	0.98	
Factor 4: Market Power	Profitable		2.64	0.95	0.35
	Not-Profitable		2.51	1.30	
Increase market power	Profitable	6=	3.16	1.46	0.68
	Not-Profitable	9	2.87	1.40	
Increase market share	Profitable	6=	3.16	1.39	0.74
	Not-Profitable	10	2.80	1.69	
Elimination or reduction of competition	Profitable	14	1.60	0.92	-0.88
	Not-Profitable	14	1.87	1.30	
Factor 5: Acquiring Strategic Resources	Profitable		3.25	0.93	0.03
	Not-Profitable		3.24	0.96	
Acquire complementary resources	Profitable	9	3.10	1.24	0.25
	Not-Profitable	7	3.00	1.55	
Gain strategic assets	Profitable	5	3.26	1.36	-0.01
	Not-Profitable	4=	3.27	1.33	
Gain new capabilities	Profitable	4	3.40	1.22	-0.18
	Not-Profitable	3	3.47	1.24	
Factor 6: Product Diversification	Profitable				
	Not-Profitable				
Enable product diversification	Profitable	10	2.76	1.50	-1.00
	Not-Profitable	6	3.20	1.42	

Notes: The mean for the factors is the mean of the factor scores; the mean for the individual motive is the average on a scale of 1 (= 'no importance') to 5 (= 'very important'). *p < 0.1; **p < 0.05, p*** < 0.01

Despite some variation in ranking, Table 5.5 indicates weak support for hypothesis 3, in that only one of the six factors has mean scores that are significantly different, i.e., target improvement ($p < 0.1$), not surprisingly the mean being higher for acquisition of not profitable firms. One of the three individual motives constituting the target improvement factor, i.e., turn around failing acquired firm, ($p<0.01$) shows means significantly higher for cross border acquisitions of not-profitable firms compared with those of profitable firms. This is to be expected as an acquirer may be motivated to acquire a poorly performing foreign firm with a view to turning it around, for example, by replacing inefficient management. This result is consistent with the improved management hypothesis which holds that poorly managed firms have a greater likelihood of becoming takeover targets (Manne, 1965). Gaughan (1991) argued that some takeovers are motivated by a belief that the acquiring firm's management can better manage the target's resources. Thus, an UK acquirer may feel that its management skills are such that the value of the target would rise under its control.

Brealey and Myers (2003) suggested that cash is not the only asset that can be wasted by poor management. Firms with unexploited opportunities to cut costs and increase sales and earnings are natural candidates for acquisition by other firms with better management. The authors also suggested that sometimes an acquisition is the only simple and practical way to improve management. Because the incumbent managers are naturally reluctant to fire or demote themselves, and stockholders of large public firms do not usually have much direct influence on how the firm is run or who runs it.

Overall, there is weak support for hypothesis 3, suggesting that most of the motives for the cross border acquisitions vary little according to pre-acquisition performance of the target firm. However, there are significant differences with respect to the motive of target improvement – which is to be expected.

5.5 SUMMARY AND CONCLUSIONS

This study identifies the main strategic motives driving CBM&As by UK firms. Cross border acquisitions are seen primarily as a means to enable presence in new markets, to enable faster entry to market, to facilitate international expansion, to gain new capabilities, and to gain strategic assets. In terms of underlying theoretical explanations, the main strategic motives are underpinned by the theories of strategic positioning and the resource based view of the firm. The first three ranked motives are concerned with improving the firm's competitive position through the use of acquisition that may be characterized as most importantly allowing the UK firms to enter new foreign markets at speed and/or consolidating existing market positions. The leading set of motives also lends support to the RBV of acquisition, particularly when it is recognized that the acquisition is formed because the acquirer lacks the necessary capabilities or assets required to remain competitive in the foreign market. Where one firm wishes to acquire a capability that it does not have but is possessed by a target firm then an acquisition may facilitate obtaining these capabilities.

The study also finds that 'enable overcoming of regulatory restrictions' and 'tax reasons (savings)' appear to be relatively unimportant for cross border acquisition by UK firms. This is not surprising as most of the regulatory restrictions were removed before 2000 (the acquisitions were completed in the 2000 to 2004 period). Thus, regulatory restrictions are now less important factors when making an acquisition overseas.

Due to potential conceptual and statistical overlap among the strategic motives, factor analysis was conducted to produce a parsimonious set of distinct, non-overlapping strategic motives. The analysis yielded six non-overlapping factors which explained a total of 71.50 percent of the observed variance in the sample data. These factors are: synergies, market development, target improvement, market power, acquiring strategic resources, and product diversification. To investigate the underlying nature and pattern of the strategic motives for this sample of CBM&As, strategic motives were considered across a range of sample characteristics: regional origin of the target firm, sector of acquisition and pre-acquisition performance of the target firm.

The study found lack of support for hypothesis 1, indicating that the relative importance of the strategic motives do not vary significantly between the regional origin of the target firm. The findings indicate that the relative importance of the strategic motives vary to a moderate extent with the sector of acquisition activity, providing some support for hypothesis 2. There is limited support for hypothesis 3, in that there is little variation in the relative importance of the strategic motives with pre-acquisition performance of the target firm. However, in the key motive of target improvement there is a significant difference in means with a significantly higher mean for not profitable acquisitions.

In general there is little variation in the relative importance of the motivating factors across the characteristics of the sample. Where there is variation, while this is sometimes readily explicable, it is not always obvious.

CHAPTER SIX

THE PRE-ACQUISITION MANAGEMENT PROCESS

6.1 INTRODUCTION

During the 1990s, a strong increase in the number of high-value cross-border deals was observed with a significant participation of European firms (Sleuwaegen and Valentini, 2006). Recent estimates of announced global M&A activity range from US$3.5 trillion to a little over US$4 trillion (*Economic Outlook*, 2007).

The managerial importance of the international acquisition phenomena is made apparent by the size of these figures alone. As these numbers grow - so grows the importance of the correct valuations of a target firm. During the pre-acquisition stage, managers will no doubt be forced to assess both the traditionally tangible assets and the often more important intangible market based assets to arrive at an appropriate valuation of a cross border acquisition. Increasingly the question becomes how to assess potential international acquisitions.

To identify an appropriate M&A target requires a thorough due diligence process. This process has features similar to the due diligence for domestic M&As, however, it is complicated by several elements (such as different institutional environments and different cultures) that appear even more crucial in cross border M&As (Kissin and Herrera, 1990). Despite the importance of this process, relatively few studies have focused on the due diligence involved in cross border M&As (Shimizu, et al., 2004). Moreover, little prior research has investigated the impact of the pre-acquisition management process on acquisition success.

After selecting the target firm, the acquirer prepares for the negotiation. Successful negotiation has a tremendous impact on the success of the acquisition. Many companies negotiate cross border transactions routinely, however, when financial negotiations cross borders, this general advice needs elaboration to fit the context (Sebenius, 1998). Another country's politics, culture, and corporate governance policies may erect almost insurmountable obstacles. However, few studies have attempted to examine the negotiation process in the context of cross border acquisitions.

In reality both the purpose and nature of the M&As selection and negotiation process is extremely complex (Shimizu, et al., 2004). Managers face difficulties in analyzing strategic and organizational fit as they are prevented from understanding these factors by a series of problems inherent in the process of analyzing and negotiating with the target firm. Negotiating a cross border M&A is difficult because of lack of information and the difference in cultures (Buckley and Ghauri, 2002). Therefore, more research is needed to unpack the complexities of the due diligence and negotiation process in the context of cross border M&As.

The purpose of this chapter is to investigate the pre-acquisition management issues in cross border acquisitions (the terms cross border acquisitions and cross border M&As will be used interchangeably). Specifically, the objectives of this study are:

a. To identify the importance of the factors leading to a successful acquisition deal.
b. To identify the factors evaluated by the acquiring firm during the pre-acquisition phase.
c. To identify the pre-acquisition problems experienced by the acquiring firm.
d. To investigate the link between acquisition performance and the evaluation of the target firm.
e. To investigate whether prior acquisition experience leads to fewer pre-acquisition problems.

The rest of the chapter is set out in the following way. The next section reviews the literature relating to pre-acquisition management issues. The third section develops the hypothesis of the study. The findings and discussion are in the fourth section. Conclusions are provided in the final section.

6.2 PRE-ACQUISITION MANAGEMENT ISSUES

The merger and acquisition decision making process is often described as a step by step analytical process that starts with objectives and passes through systematic search and screening, strategic evaluation, financial evaluation, and negotiation i.e. the due diligence process (Haspeslagh and Jemison, 1991). The underlying principle is that if the acquirer can identify and prepare for a wide variety of factors in the pre-acquisition process, it can achieve not only smooth post-acquisition integration, but also can maximize acquisition performance.

a. Target selection process

The acquisition process begins with the identification of potential targets that suits the acquirer's expansion strategy. Buono and Bowditch (1989) emphasize that top management should vigilantly analyze goals of the acquisition, the strategic and organizational fit, and how to establish commitment of employees to the acquisition. Additionally, several researchers have identified the critical role of assembling information about human resource practices, organizational culture and structure, and making a detailed outline for anticipated organizational change, including the selection of a leader and management team to be in charge of the integration stage (Haspeslagh and Jemison, 1991; Schweiger, Csiszar and Napier, 1993). Collectively, these authors suggest that careful pre-acquisition planning will facilitate the implementation stage.

To identify appropriate targets and to negotiate and effectively complete the acquisition requires a thorough due diligence process. This process has features similar to the due diligence for domestic M&As, however, it is complicated by several elements that appear even more crucial in cross border M&As (Kissin and Herrera, 1990). At the firm level, differences in accounting standards and fluctuating exchange rates between different countries may cause further difficulties in the evaluation of the target firms' financial assets. At national and industry levels, the due diligence process must provide an understanding of the institutional environment in which the target firm is situated, such as government regulations, to effectively respond to potential local constraints, particularly in specific industries such as those with high technology standards, in which regulations can be extremely sensitive.

Considering the complexity and variety of the issues regarding the analysis of a foreign target, firms often seek help from financial and legal advisors in the country where the target firm is headquartered. Recent work by Angwin (2001) examines how managers in Europe use advisors to value the due diligence process. He conducted a survey of European firms' top executives regarding national perspectives on due diligence. His results showed that interpretations of the due diligence process vary across managers of different countries. Specifically, managers from separate European countries stated diverse primary objectives for the due diligence process (i.e., help in the negotiation, insight into the existing management, evaluation of the assets, assess cultural fit, help to plan integration, commercial insight into the market). Moreover, he found that all aspects of the due diligence process were conducted by the acquiring firm, although acquirers of different nationalities tended to rely on external advisors for specific issues (e.g., financial), and the extent to which advisors were used varied considerably. Angwin (2001) also argued that the use of advisors injects external knowledge into the process. Using this approach should help avoid path dependence in learning during the due diligence process.

Despite the importance of this process, relatively few prior studies have specifically focused on the due diligence involved in cross-border M&As. In contrast, research on alliances and joint ventures examines in depth the issue of partner selection (Gulati, 1995; Glaister and Buckley, 1997; Hitt, Dacin, Levitas, Arregle and Borza, 2000).

The selection of the right target firm for acquisition can provide the acquirer with a strong local network of relationships in the host country. This important topic requires further examination. Related to this topic is the analysis of the target firm's social capital, particularly in situations of foreign market uncertainty and information asymmetries. While there is some anecdotal research dedicated to practitioners (e.g., Kissin and Herrera, 1990; Sebenius, 1998; Emerson, 2001), virtually no scholarly research exists in this area (Shimizu, et al., 2004). Therefore, more systematic research is needed to unpack the complexities of the due diligence process in the context of cross border M&As.

b. The negotiation process

Mergers and acquisitions enable rapid global expansion, access and entry to countries worldwide to meet the continuously changing requirements that competing in a global market demands. Bringing different companies together, as with people of opposing points of view, can be fraught with difficulty. Effective business negotiations are thus critical in M&As, due to the high potential for conflict, particularly in cross-border activity, mismanagement and subsequent risk of failure.

Much of the literature on business negotiations is prescriptive, providing recommendations on negotiation methods, approaches and styles (Weiss, 1994; Fisher and Ury, 1990; Hendon et al., 1999; Ghauri and Usunier, 2003) and although there is an increasing volume of literature on business negotiations, at present there is a scarcity of studies that deal with specific business negotiation issues in the context of M&As.

Ghauri and Usunier (2003) provide an outline of three main stages to a negotiation: pre-negotiation and planning, face-to-face negotiation and post-negotiation. The pre-negotiation stage is crucial as such a deal will have many implications for various stakeholders which must be thoroughly analysed, the potential partner assessed in-depth, any potential barriers such as economic, political or legal restrictions to a deal identified. The face-to-face negotiation stage consists of information exchange and actual negotiation (Ghauri and Usunier, 2003). Issues of concern include who should negotiate and how many people the negotiating team should consist of. In the post-negotiation stage, parties have agreed on most issues. This final stage is also critical in M&A negotiations owing to the legal implications on the ongoing relationship. Achieving a good agreement leads to a more successful implementation or successful achievement of expectations.

The acquiring firm often has to pay a premium price for the acquisition to conclude the deal after the target firm has been selected and the initial due diligence process has been completed. Much of the prior literature focused on the premium paid. Researchers found that foreign buyers usually pay high premiums in acquiring U.S. firms relative to U.S. buyers (Harris and Ravenscraft, 1991; Inkpen et al., 2000). For instance, Inkpen et al. (2000) examined technology-based M&As of U.S. firms and found that European buyers paid a premium about three times higher than U.S. buyers did. Harris and Ravenscraft (1991) examined acquisitions of U.S. firms and found that the target firms of foreign buyers enjoyed higher wealth gains than did the target firms of U.S. buyers. In contradiction to these results, Dewenter (1995) found that there is no significant difference in the level of premiums paid by foreign and domestic bidders. Using an integrated theoretical approach based on transaction costs and macroeconomics, he found that there is no significant difference in the within-industry mean takeover premium levels.

c. Problems in the pre-acquisition phase

In reality both the purpose and nature of the M&As selection and negotiation process are extremely complex. Managers face difficulties in analyzing strategic and organizational fit as they are prevented from understanding these factors by a series of problems inherent in the process of analyzing, negotiating with, and acquiring the other firm.

Due diligence is a complex process in all M&As (Hitt et al., 2001a). However, in cross border M&As, the evaluation process of the potential target is even more complicated at all levels (Angwin, 2001). It is difficult with cross border M&As to obtain good quality information because of the possibility of different accounting conventions or regulatory requirements in a foreign country (Buckley and Ghauri, 2002:103).

Negotiating a cross border M&A is also an extremely complex process (Hopkins, 1999) where stakes are very high, thus necessitating in-depth preparation, planning and execution of the negotiating process. There are invariably a number of controversial issues that can cause conflict, deadlock and even failure if they are not fully addressed at the negotiating table. These commonly include the allocation of top jobs, the location of the new headquarters and the percentage of the newly formed company allocated to each partner's shares (Devine, 2002).

Haspeslagh and Jemison (1991) spotted four problems inherent in the pre-acquisition stage. The first problem is the fragmented perspective of the many specialists during analysis and decision making. The next problem is the increasing momentum among all participants in the process to consummate the transaction. The third problem is the ambiguous expectations about key aspects of the acquisition between both sides of the negotiation. The final problem is the multiple motives among acquiring managers. The problems of target selection and negotiation process mentioned so far can be managed and dealt with effectively (Haspeslagh and Jemison, 1991). However, despite the importance of understanding these issues in a cross border context, there is a paucity of comprehensive research on these processes.

6. 3. HYPOTHESES DEVELOPMENT

(a) Evaluation of the target firm and acquisition performance

Accurate evaluations of target companies are the first and leading task for acquirers. Many researchers have explored the determinants of acquisition performance and have found that the success of acquisitions hinges on synergy realization (Haspeslagh and Jemison, 1991; Hitt, et al., 2001a), which in turn depends on prudent target selection (Barney, 1988; Harrison, et al., 1991; Ramaswamy, 1997; Singh and Montgomery, 1987) and on effective post acquisition integration (Datta, 1991; Haspeslagh and Jemison, 1991).

Ernst and Young (1994) argued that there are three components comprising the analytical framework for M&A evaluation criteria; industry competitive factors, operating strategy, and the target's competitive position. The selection of the right target firm for acquisition can provide the acquirer with a strong local network of relationships which can improve acquisition success (Shimizu, et al., 2004). Hitt, et al. (1998) posits that one of the dominant attributes of successful acquisition is associated with thorough evaluation of the target firm. A successful acquirer normally engages in a careful and deliberate process of analyzing and selecting the target firm. Hitt, et al. (1998) also argued that by conducting a thorough evaluation acquiring firms can acquire a target firm with the strongest complementarities which are favourable for acquisition success. In contrast, one of the common attributes of unsuccessful acquirers was associated with inadequate target evaluation and planning for the acquisition. Hitt, et al. (1998) found that inadequate evaluation and planning occurred for a variety of reasons, including overconfidence in the ability to manage purchased assets effectively and ignoring obvious problems in the target firm.

Moreover, Marks and Mirvis (2001) advocated that successful acquirers know what they are looking for and conduct a thorough due diligence to ensure that the acquirers get what they want. The screening of the target firm covers the strategic, financial, human and cultural elements that can undermine an otherwise sound deal. The preceding discussion suggests that thorough evaluation of the target firm positively influences the prospect of acquisition success. This leads to the following hypothesis:

Hypothesis 4: The more thorough the evaluation of the target firm the better the acquisition performance i.e. there will be a positive association between target evaluation and acquisition performance.

(b) Acquisition experience and pre-acquisition problems experienced

Some studies have found that acquisition experience positively impacts performance (Fowler and Schmidt, 1989; Bruton, Oviatt, and White, 1994), others have found no such relationship (Lubatkin, 1987). In contrast, Haleblian and Finkelstein (1999) reported evidence for a non-linear, U-shaped, relationship, which highlights possible negative learning effects (Gick and Holyoak, 1987) for the first few acquisition experiences, during which acquirers might inappropriately apply lessons learned in past experiences to contexts that seem superficially similar but are inherently different, thereby reducing the probability of success. In a similar vein, Hayward (2002) finds no linear impacts of prior acquisition experience on short-term stock price reactions, but a number of non-linearities in the quality of such experience (such as the average success of prior acquisitions). Although prior researches investigated the relationship between acquisition experience and performance, little research exists on the relationship between acquisition experience and pre-acquisition problems experienced.

An acquisition leads to substantial managerial and organizational challenges. Acquisitions, therefore, give the acquiring firm an opportunity to learn how to overcome the problems following the transaction, and to learn how to deal successfully with the new organizational situation (Villinger, 1996). Firms might be able to learn how to manage acquisition processes by simply doing more of the same, and thereby tacitly forming and refining organizational routines (Zollo and Sing, 2004) that might assist in better management of pre-acquisition issues in future acquisition activity. An experienced acquirer is expected to be better informed about the pre-acquisition problems, hence, expected to be better prepared to manage those problems in the pre-acquisition phase. Therefore, the acquirer with more acquisition experience is expected to face fewer pre-acquisition problems than an inexperienced acquirer. This leads to the following hypothesis:

H5: An experienced acquirer will encounter fewer acquisition problems than an inexperienced acquirer.

The conceptual framework is illustrated in Figure 6.1. The study conjectures that (a) acquisition performance is determined by evaluation of the target firm, and (b) experienced acquirer encounters fewer pre-acquisition problems.

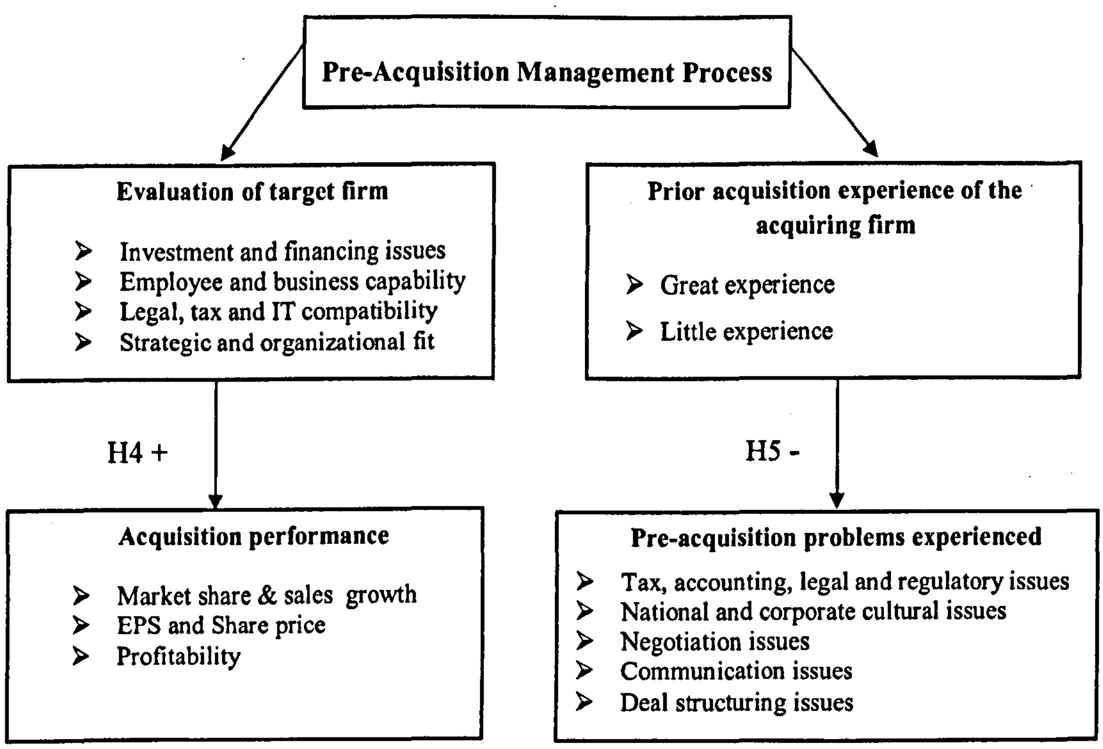


Figure 6.1: The conceptual framework – The impact of the pre-acquisition evaluation of target firm on acquisitions acquisition performance and, the relationship between prior acquisition experience and pre-acquisition problems experienced.

6.4 FINDINGS AND DISCUSSION

6.4.1 FACTORS LEADING TO A SUCCESSFUL ACQUISITION DEAL

The relative importance of the factors leading to a successful acquisition deal, based on the mean measure of importance, is presented in Table 6.1. The median measure is exceeded by all the factors, of which "determining the appropriate price to be paid for the acquired firm" (4.75), "conducting effective due diligence" (4.58), "negotiating effectively with the acquired firm" (4.41), "accurately forecasting the acquired firm's cash flows" (4.22), "identifying anticipated synergies between your firm and the acquired firm" (4.09), constitute the first five with the highest degree of importance. The leading set of factors is related with the negotiation process (rank 1 and 3) and due diligence (Rank 2, 4 and 5). The highest ranked factors indicate that the success of the acquisition deal is significantly influenced by effective due diligence and the negotiation process.

Table 6.1: The relative importance of the factors leading to a successful acquisition deal

Rank	Important factors	Mean	Standard Deviation
1	Determining the appropriate price to be paid for the acquired firm	4.75	0.75
2	Conducting effective due diligence	4.58	0.79
3	Negotiating effectively with the acquired firm	4.41	0.83
4	Accurately forecasting the acquired firm's cash flows	4.22	0.96
5	Identifying anticipated synergies between your firm and the acquired firm	4.09	1.06
6	Anticipating reaction of the major shareholders of the acquired firm	3.56	1.40
7	Broad involvement throughout of the acquired firm's key personnel in the negotiation of the acquisition	3.48	1.09
8	Avoiding hostile takeover	3.44	2.95
9	Obtaining advice from external advisors (e.g., investment bank)	3.16	1.25
10	Deciding appropriate method of payment (e.g., cash or stock)	3.06	1.16

Note: N = 65; The mean is the average on a scale of 1 (= 'no importance') to 5 (= 'very important')

One of the most important factors leading to the success of the acquisition deal is effective due diligence. The high ranking tends to suggest that UK firms perceived the success of the acquisition deal to be strongly influenced by effective due diligence. Perry and Herd (2004) note that as the complexity of mergers and acquisitions has increased, the scope and effectiveness of due diligence are now key issues. Carey

(2000) recommends that this examination should include full financial information, candour about the company's operating performance and problems, its corporate culture plus an honest assessment of management talent. As due diligence provides an invaluable opportunity to collect comprehensive information about the target firm, UK firms appear to emphasise effective due diligence so as make a successful deal.

Another important factor contributing to the success of the acquisition deal is the effective negotiation process. In general, price negotiation is the primary consideration in the negotiation stage. As the acquiring firm often pays a premium price, obtaining accurate information necessary to determine the acquisition price is pivotal. According to Ernst and Young (1994) a second consideration in negotiating acquisition agreements is the preservation of the attractive non financial characteristics of the company being acquired. These may include patents, trademarks, processes, or other proprietary assets. Effective business negotiations are thus critical in M&As. This study also finds the importance of an effective negotiation process a critical factor contributing to the success of acquisition deal.

The above findings appear to suggest the significance of the effective due diligence and negotiation for the success of the acquisition deal. The following section explores the due diligence i.e. target evaluation process adopted by the acquiring firm and its impact on acquisition success.

6.4.2 EVALUATING THE TARGET FIRM

The rank order of the seventeen factors evaluated during the pre-acquisition stage, based on the mean measure, is shown in Table 6.2. The median measure is exceeded by eleven factors, of which "the strategic relatedness between your company and the acquired firm" (4.28), "the acquired firm's market position" (4.26), "the acquired firm's technological competence" (4.08), "the degree of the acquired firm's cash flow generating capability" (3.80), "the acquired firm's business competence" (3.71), constitute the first five factors evaluated more thoroughly in selecting a cross border target.

The UK firms emphasise evaluating the target firm's strategic and cultural relatedness, market position, technological and business competence, management capability and cash flow generating capability. The ranking of the factors suggests that UK firms do not see target evaluation as simply a financial assessment but a detailed investigation that tests the viability of the proposed acquisition.

The issue evaluated most thoroughly by UK firms was the strategic relatedness between the acquiring firm and the acquired firm. The strategic fit between the acquirer and the target is concerned with "how the distinctive competencies of the target could be combined with those of the suitor to create additional value" (Jemison and Sitkin, 1986b). Thus, UK firms have emphasised identifying the strategic relatedness in order to increase the possibility of creating value. This finding is consistent with Barney (1988) who suggested that the acquirer's acumen in identifying the realizable value from strategic relatedness between a firm and a target will lead to a high likelihood of abnormal returns.

Table 6.2: The extent of evaluation of the issues relating to the acquired firm

Rank	Issues evaluated	Mean	Standard Deviation
1	The strategic relatedness between your company and the acquired firm	4.28	0.91
2	The acquired firm's market position	4.26	0.77
3	The acquired firm's technological competence	4.08	0.87
4	The degree of the acquired firm's cash flow generating capability	3.80	1.16
5	The acquired firm's business competence	3.71	0.96
6=	The acquired firm's management capability	3.68	1.06
6=	The degree of cultural relatedness between your company and the acquired firm	3.68	1.01
8	The future financing needs of the acquired firm	3.53	1.18
9	The future investment needs of the acquired firm	3.51	1.16
10	The capability of the acquired firm's workforce	3.28	1.03
11	The extent of the debt of the acquired firm	3.11	1.57
12	The acquired firm's fixed asset value	2.78	1.25
13	The differences in the tax system between the UK and the acquired firm's home nation	2.75	1.35
14	The differences in the legal system between the UK and the acquired firm's home nation	2.57	1.41
15=	The effectiveness of the acquired firm's HRM policies	2.51	1.10
15=	The degree of compatibility of the IT systems of both firms	2.51	1.27
15=	The future interest payments of the acquired firm	2.51	1.54

Notes: N = 65; The mean is the average on a scale of 1 (= 'very little evaluation') to 5 (= 'very thorough evaluation'); "=" shows the issues having same rank in terms of mean values.

Evaluation of the target firms' market position was highly ranked. This indicates that UK firms thoroughly assess the target firms' market position before making cross border acquisitions. As previously noted by Ernst and Young (1994), there are three components that comprise the analytical framework for M&A evaluation criteria;

industry competitive factors, operating strategy, and the target's competitive position. They suggested that these three components will determine the future acquirer's profitability. Accordingly, UK firms tend to assess the target firm's market position thoroughly in order to increase the likelihood of future profitability.

The third ranked factor is the appraisal of the acquired firm's technological competence. Acquiring a target firm with technological competence can serve as an effective channel strengthening technological core competencies of the acquired firm. An acquisition can enable firms to gain or regain contact to the research frontier in their field of competence (Kamien, 1992). Furthermore, overlapping research fields can necessitate the ownership of patents to continue research activities (O'Donoghue et al., 1998) and M&As can be made to acquire the patent portfolio of a rival firm (Giuri et al., 2006). Thus, UK firms pursuing international acquisitions assess the target firms' technological competence so as to check the opportunity of strengthening their technological competencies.

6.4.3 PROBLEMS FACED DURING THE PRE-ACQUISITION PHASE

This section presents the problems experienced by the acquiring firm during the pre-acquisition stage. The section also investigates the impact of understanding of pre-acquisition problems on acquisition performance.

Table 6.3 presents the extent of problems experienced by UK firms in managing the pre-acquisition phase. Interestingly, the median measure is not exceeded by any of the factors suggesting that the severity of the problems faced during the pre-acquisition stage ranges from moderate to low.

"Ensuring the reliability of the information collected" and "Collecting information about the acquired firm" were ranked highest among the moderate level of problems experienced by UK firms. This finding is not surprising given the fact that acquirers need much information about a target and its external environment to project its future cash flows and understand its assets and liabilities. Problems can be exacerbated for acquirers when they enter a particular country where they have no experience and thus little or no local information or knowledge (Very et al., 2001). Thus, UK firms, with little experience of entering a new country, can be expected to face difficulty in collecting information about target firms and in ensuring the reliability of the information collected.

Table 6.3: The extent of the problems faced during the pre-acquisition phase

Rank	Pre-acquisition problems	Mean	Standard Deviation
1	Ensuring reliability of the information collected	2.64	0.91
2	Collecting information about the acquired firm	2.44	1.09
3	Understanding different management styles	2.39	0.88
4	Understanding different cultures	2.34	0.84
5	Understanding acquired firm's tax systems	2.31	1.09
6	Effectively structuring a deal	2.25	0.97
7	Negotiating employment contracts of acquired firm's employees	2.23	1.02
8	Negotiating with the acquired firm	2.22	0.91
9	Understanding local environmental regulations	2.17	1.13
10	Dealing with a different accounting systems	2.16	0.97
11=	Maintaining the confidentiality of the negotiation	2.09	1.10
11=	Understanding acquired firm's legal systems	2.09	1.01
13	Increased personal pressure to conclude the deal	2.06	1.00
14	Identifying acceptable firm	2.00	1.15
15	Communicating with the acquired firm	1.89	0.96
16	Assembling teams to conduct the acquisition process	1.80	0.71
17	Overcoming language barriers	1.78	1.10
18	Multiple motives for acquisition leading to difficulty in negotiation	1.73	0.89
19	Understanding currency control regulations	1.56	0.83

Note: N=65
The mean is the average on a scale of 1 (= 'no problem') to 5 (= 'major problem'); "=" shows the factors having same rank in terms of mean values.

UK firms also faced moderate problems in "understanding different management styles" and "understanding different cultures". According to Norburn and Schoenberg (1994) cross border acquisitions are susceptible to two separate forms of cultural problem. Firstly, there is the risk that the corporate cultures of the two partners will embody different ways of doing things, for example, differing power structures, control systems or attitudes to investment and risk. Secondly, cross border acquisitions may bring together two sets of employees whose national culture gives them fundamentally different views on what constitutes a desirable management style or appropriate organizational hierarchy. Thus, it is not surprising that UK firms faced some difficulty in understanding different cultures and management styles in pursuing cross border acquisitions. This finding suggests that entry into a new country is fraught with more problems than just dealing with national culture differences.

6.4.4 TARGET EVALUATION AND ACQUISITION PERFORMANCE

The aim of this section is to investigate the relationship between acquisition performance and the evaluation of the target. The three factors related to measures of performance (the dependent variable) are used in subsequent analysis. Table 6.4 presents the multiple regressions on factors of acquisition performance and factors of target firm evaluation.

Table 6.4: Multiple regressions on acquisition performance and evaluation of target firm

	Market share & Sales growth		EPS & Share price		Profitability	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Control variables						
Regional origin of target firm	-0.130	-0.147	-0.159	-0.185	0.066	0.051
Attitude of target firm	0.042	0.062	-0.099	-0.142	0.076	-0.002
Acquisition experience	-0.050	-0.031	-0.135	-0.156	-0.006	-0.024
Prior profitability of target firm	0.391**	0.184	0.223*	0.166	0.497***	0.458***
Explanatory variables						
Investment and financing issues		-0.219*		0.021		-0.078
Employee and business capability		0.473***		-0.010		0.236*
Legal, tax and IT compatibility		-0.249*		-0.121		-0.024
Strategic and organizational fit		0.254**		0.324**		0.308**
The model						
R^2	0.174	0.460	0.094	0.188	0.233	0.303
Adjusted R^2	0.117	0.380	0.031	0.067	0.180	0.200
F value	3.046**	5.753***	1.500	1.559	4.400***	2.933***

Notes: N = 65; Standardized beta coefficients: significant at ***$p < 0.01$, **$p < 0.05$, *$p < 0.10$; the t-test on each regression coefficient is two-tailed. Model 1 represents regression with control variables and model 2 represents regression with explanatory and control variables.

In the first step, regional origin of the target firm, attitude of the target firm, prior acquisition experience of the acquiring firm and prior profitability of the target firm were entered as control variables (Model 1). In the second step, the variables regarding the hypothesized extensions to this model were entered. The factors relating to the evaluation of the target firm are included as independent variables in model 2. All the independent variables (i.e. factors of acquisition performance) are used to produce three sets of regression equations.

Table 6.4 shows that two out of the three regression equations relating to acquisition performance have significant F values ($p < 0.01$). In terms of explanatory power, the first regression equation (Market share & Sales growth as dependent variable) prevails with the largest adjusted R^2 of the three regression equations. In the first regression equation, 38% of the variation in the acquisition performance (i.e. market share & sales growth) is explained by the independent variables. In the second and third regression equations, 6.7% and 20% variation is explained by the independent variables respectively.

Market share and Sales growth as dependent variable

In model 2, the regression on the acquisition performance factor of market share and sales growth shows a significant and positive coefficient on employee and business capability ($p < 0.01$) and, strategic and organizational fit ($p < 0.05$). The regression on market share and sales growth also shows significant and negative coefficients on investment and financing issues ($p < 0.10$), and, legal, Tax and IT compatibility ($p < 0.10$).

The regression on market share and sales growth shows a significant and positive coefficient on the evaluation of employee and business capability. In other words, the more thoroughly an acquiring firm evaluates the target firm's employee and business capability, the higher will be the performance of the acquisition. The target firm's management capability has significant implications for building the business and to develop any synergies that may be available between the two companies (Kissin and Herrera, 1990). Park and Hitt (1997) emphasise the assessment of the target firm's level of management expertise as a criterion for selecting the appropriate firm. Due diligence is a time to estimate the breadth and depth of managerial talent in the target firm (Marks and Mirvis, 2001). A study of large combinations found that 65 percent of successful acquirers reported managerial talent to be the single most important instrument for creating value in a deal (Anslinger and Copeland, 1996).

Epstein (2005) suggested that firms involved in talent-based M&As must be confident that the acquired skills, competencies and knowledge will be applicable in both lines of business or that the combined talents of the firms will create synergies. By conducting a thorough evaluation the acquiring firm can ascertain whether the management and workforce can contribute to the success of the acquisition. If the acquisition intent is to increase the sales and market share, the acquiring firm is more likely to achieve that objective if they can assess the target firm's employee capability of promoting, advertising and selling existing or new products and services. Therefore, thorough evaluation of the target firm's employees is expected to increase the sales and market share.

The positive and significant coefficient on the strategic and organizational fit can be interpreted as the greater the extent of the evaluation of strategic and organizational fit between the acquiring and target firm the better will be the performance of the acquisition. In order to achieve explicit goals from corporate acquisitions, acquirers need to consider the strategic and organizational fit between the acquirer and the target. The strategic fit between the acquirer and the target is concerned with "how the distinctive competencies of the target could be combined with those of the suitor to create additional value" (Jemison and Sitkin, 1986a). Haspelagh and Jemison (1991) identify maintaining consistency with the company's strategy as one of the major challenges in managing an acquisition, and a problem that has to be continually addressed. Hubbard (2001) explains that the acquired company has to be aligned with the strategic objective of the acquirer, whether that is market penetration, vertical expansion or market entry.

Culture has serious implications for the integration of a cross-border acquisition, and the company's subsequent performance. Weber, Shenkar and Raveh (1996) stated that the acquired firm's management should pay at least as much attention to cultural fit during both the pre-merger search process and during the post-merger integration process as it does to finance and strategic factors. Cartwright and Cooper (1993) suggest that the dismal success rate of M&As can be attributed to the incompatible cultures. Norburn and Schoenberg (1994) found that 65 per cent of those acquirers who had experienced serious problems with post-acquisition integration said that these difficulties had been due to cultural differences. Cultural fit is therefore a vital success factor for cross border acquisitions (Duncan and Mtar, 2006). These views support the study's findings that thorough evaluation of the strategic and organizational fit between the target firm and acquiring firms enhance acquisition success.

Interestingly, the regression on market share and sales growth reveals a negative and significant coefficient on the investment and financing issues and legal, tax and IT compatibility. This suggest that the more the acquiring firms thoroughly evaluate investment and financing issues, and legal, tax and IT issues the less this impacts on market share and sales growth performance. This finding supports the view of Marks and Mirvis (1998) who found that during the pre-acquisition phase a successful acquirer puts emphasis on the strategic aspects of the acquisition whereas a typical acquirer puts emphasis on financial aspects of the acquisition.

EPS and Share price as dependent variables

In model 2, the regression on the acquisition performance factor of EPS and share price as the dependent variable shows a significant and positive coefficient on the strategic and organizational fit ($p < 0.05$). However, the remaining three explanatory variables are not significant. This can perhaps be explained by the fact that much of the target firm evaluation remains confidential. The acquiring firm's management usually does not disclose such confidential information to the public domain. Such information asymmetry will cause the stock price to be little affected.

Profitability as dependent variable

In model 2, the regression on the acquisition performance factor of profitability shows statistically significant and positive coefficients on employee and business capability ($p < 0.05$) and, the strategic and organizational fit ($p < 0.05$). In other words, the more thoroughly an acquiring firm evaluates the employee and business capability of the target firm, the higher will be the profitability i.e. acquisition performance. Similarly, the more thoroughly an acquiring firm evaluates the strategic and organizational fit of the target firm, the higher will be the profitability.

In the case of the control variable, the regression on the factor of profitability has a significant positive coefficient on the profitability of the target firm at the time of acquisition ($p <0.01$). This suggests that prior profitability of the target firm positively influences the acquisition profitability performance. This finding is consistent with

Bleeke et al. (1993) who posit that prior profitability of the acquired firm may affect cross border acquisition performance directly.

Overall findings

Two out of three regression models (Market share & Sales growth and, Profitability) shows a significant and positive coefficient on the strategic and organizational fit, and employee and business capability. This gives reasonable support for hypothesis 4, suggesting that thorough evaluation of the target firm positively influences acquisition performance.

The most important finding from the regression analysis is that the thorough evaluation of the strategic and organizational fit is crucial to successful acquisition. Moreover, thorough evaluation of employee and business capability enhances the prospect of acquisition success. In general, evaluation of the target firm influences acquisition performance, however, the influence varies depending on the performance measure.

6.4.5 ACQUISITION EXPERIENCE AND PRE-ACQUISITION PROBLEMS

Table 6.5 indicates weak support for hypothesis 5, in that only one of the five factors has means scores that are significantly different, i.e. understanding national and corporate cultural issues. Both individual problems constituting understanding national and corporate cultural issues i.e. understanding different cultures and understanding different management styles shows means significantly higher for inexperienced acquiring firms compared with those of experienced firms. This means that inexperienced acquirer encounters more problems in understanding national and corporate cultural issues of the target firm. Conversely, experienced acquirers encounter fewer problems in understanding national and corporate cultural issues of the target firm. This finding is in line with Very and Schweiger (2001) who reported that lack of experience to be associated with understanding different mentalities, cultures and management style. The authors suggested that lack of knowledge and experience affects not only the post-acquisition management but also the pre-acquisition management process.

The mean scores for understanding negotiation issues, communication issues, deal structuring issues, and tax, accounting, legal and regulatory issues are not statistically different for experienced acquiring firm and inexperienced acquiring firms.

Table 6.5: Pre-acquisition problems experienced and acquisition experience

Factors	Groups	Mean	SD	T-value
Factor 1: Understanding tax, accounting, legal and regulatory issues	Experienced	2.35	0.984	0.72
	Not-experienced	2.04	0.819	
Understanding acquired firm's tax systems	Experienced	2.75	1.500	0.82
	Not-experienced	2.28	1.075	
Understanding local environmental regulations	Experienced	2.50	1.732	0.63
	Not-experienced	2.15	1.102	
Understanding acquired firm's legal systems	Experienced	3.00	1.414	0.75
	Not-experienced	2.03	0.974	
Dealing with a different accounting systems	Experienced	2.00	0.816	0.56
	Not-experienced	2.17	0.994	
Understanding currency control regulations	Experienced	1.50	0.577	0.59
	Not-experienced	1.57	0.851	
Factor 2: Understanding national and corporate cultural issues	Experienced	1.75	0.500	-2.44**
	Not-experienced	2.40	0.767	
Understanding different cultures	Experienced	1.75	0.500	-2.32**
	Not-experienced	2.38	0.846	
Understanding different management styles	Experienced	1.75	0.500	-2.48**
	Not-experienced	2.43	0.890	
Factor 3: Understanding negotiation issues	Experienced	1.91	0.833	-0.40
	Not-experienced	2.07	0.734	
Negotiating with the acquired firm	Experienced	2.00	1.414	0.03
	Not-experienced	2.23	0.890	
Multiple motives for acquisition leading to difficulty in negotiation	Experienced	1.50	0.577	-0.53
	Not-experienced	1.75	0.914	
Negotiating employment contracts of acquired firm's employees	Experienced	2.25	0.957	0.03
	Not-experienced	2.23	1.031	
Factor 4: Understanding communication issues	Experienced	1.91	0.630	-0.40
	Not-experienced	1.88	0.824	
Communicating with the acquired firm	Experienced	1.50	0.577	-0.83
	Not-experienced	1.92	0.979	
Identifying acceptable firm	Experienced	2.75	1.258	1.35
	Not-experienced	1.95	1.141	
Overcoming language barriers	Experienced	1.50	0.577	-0.52
	Not-experienced	1.80	1.132	
Factor 5: Understanding deal structuring issues	Experienced	2.08	0.739	-0.43
	Not-experienced	2.23	0.691	
Effectively structuring a deal	Experienced	2.00	0.816	-0.52
	Not-experienced	2.27	0.989	
Ensuring reliability of the information collected	Experienced	2.50	1.000	-0.31
	Not-experienced	2.65	0.917	
Assembling teams to conduct the acquisition process	Experienced	1.75	0.500	-0.13
	Not-experienced	1.80	0.732	

Notes: N = 65; The mean for the factors is the mean of the factor scores; the mean for the individual problem experienced is the average on a scale of 1 (= 'no problem') to 5 (= 'major problem'). *p < 0.1; **p < 0.05, p*** < 0.01

This means that experienced acquiring firm and inexperienced acquiring firms face similar level of pre-acquisition problems. This may be explained by the fact that the acquisition process consists of many interdependent sub-activities, such as due diligence negotiation, financing, and integration, each of which is complex itself (Hitt et al., 2001). Execution of each of these sub-activities typically needs to be customized to the specific deal under consideration (e.g., Galpin and Herndon, 2007; Haspeslagh and Jemison, 1991), no two deals are quite the same. As a result of these high levels of heterogeneity along multiple dimensions (Zollo and Singh, 2004), the acquiring firm is presented with a high level of causal ambiguity preventing effective learning.

Moreover, the pre-acquisition assessment i.e. due diligence process takes place inside a team and also in relation with the headquarters whom, most of the time, decides whether to make an acquisition or not. However, the due diligence process needs to be managed under time and competitive pressures that are specific to each acquisition deal (Jemison and Sitkin, 1986a). These pressures prevent the acquirer from learning everything about a specific target firm before closing the deal (Very and Schweiger, 2001). Consequently, unexpected events emerge leading to potential difficulties in the due diligence process and the integration process. Therefore, acquisition experience may not always lead to better understanding of pre-acquisition issues.

6.5 SUMMARY AND CONCLUSIONS

The purpose of this chapter was to investigate the pre-acquisition management issues in cross border acquisitions. The study contributes to the existing literature by examining the impact of evaluation of the target firm on acquisition performance which has rarely been attempted before. Moreover, the study investigated an under-research area of the pre-acquisition phase - whether greater acquisition experience leads to fewer pre-acquisition problems.

Initially, the study identified the factors leading to a successful acquisition deal. The leading set of factors is related to the due diligence and negotiation process. The highest ranked factors tend to suggest that UK managers perceived the success of the acquisition deal to be strongly influenced by effective due diligence i.e. target evaluation and the negotiation process.

The study also identifies the factors evaluated in selecting foreign firms. The factors evaluated thoroughly by UK firms are the target firm's strategic and cultural relatedness, market position, technological and business competence, management capability and cash flow generating capability. The ranking of the factors appears to suggest that UK firms do not perceive target evaluation as simply a financial assessment but a detailed investigation that tests the feasibility of the proposed acquisition.

The extent of problems experienced by UK firms in managing the pre-acquisition phase is also examined. Interestingly, the findings suggest that the severity of the problems experienced by the acquiring firm ranges from moderate to low. UK firms faced moderate levels of problems in collecting information about the acquired firm, ensuring the reliability of the information collected, understanding different management styles and understanding different cultures.

The study attempted to investigate the impact on acquisition performance of evaluation of the target firm. The findings provided reasonable support for Hypothesis 4, suggesting that thorough evaluation of the target firm enhances acquisition performance. As expected, thorough evaluation of the strategic and cultural fit is found to positively influence acquisition success. Moreover, the analysis reveals that thorough evaluation of the target firm's employee and business capability improves the acquisition performance.

The study attempted to investigate whether greater acquisition experience leads to fewer pre-acquisition problems experienced. The findings provided little support for Hypothesis 5. Experienced acquirers encounter fewer problems only in understanding national and corporate cultural issues. However, in most of the cases, experienced acquirers encountered similar level of pre-acquisition problems compared with those of inexperienced acquirers. This may be explained in two ways. Firstly, as the execution of acquisition activity typically needs to be customized to the specific deal under consideration, no two deals are quite the same. Secondly, time and competitive pressures often prevent the acquirer from learning everything about a specific target firm before closing the deal. Consequently, unexpected events emerge leading to potential difficulties in the due diligence process and the integration process. This can lead an experienced acquirer to face similar pre-acquisition problems to those of an inexperienced acquirer.

This chapter has investigated the pre-acquisition management issues. The next chapter will investigate the determinants of top management retention in cross border acquisitions.

CHAPTER SEVEN

DETERMINANTS OF EMPLOYEE RETENTION IN CBAs

7.1 BACKGROUND

Cross border mergers and acquisitions (M&As) are playing a progressively more important role in worldwide M&A activity both in terms of deal numbers and values (Bertrand and Zuniga, 2006). In parallel to this rise in activity, there has been increasing recognition of the poor performance of many cross border M&As. Problems with post-acquisition implementation are among the primary reasons given for this disappointing record (Olie, 1990; Haspeslagh and Jemison, 1991; Datta, 1991; Cartwright and Cooper, 1993; Morosini, 1998; Schweiger and Goulet, 2000, Child et al., 2001; Ranft and Lord, 2002).

Acquisition implementation problems often arise because of clashes of organizational cultures, systems, or strategies and because of the loss of key executives in the acquired firm. In the academic literature, researchers have focused on the causes and consequences of top management team turnover in an acquired firm (Hambrick and Cannella, 1993; Krug and Hegarty, 1997). The departure of an acquired firm's top managers, and the consequent loss of their knowledge and skills, is thought to be an important determinant of poor post-acquisition performance (Cannella and Hambrick, 1993).

Much of the new research has used the theory of relative standing (Frank, 1986) to examine why top management turnover in acquired firms occurs (Ranft and Lord, 2000). The theory of relative standings predicts that acquired managers are more likely to be retained after an acquisition when they are given a greater degree of autonomy and a greater sense of status and importance in the newly merged firm. Actions or symbols that indicate the importance of the acquisition to the acquiring firm, and that signal the commitment of the acquirer to the success of the acquisition, are likely to minimize departure of key managers (Hambrick & Cannella, 1993).

The theory of relative standing primarily emphasizes the importance of non-financial incentives, related to perceptions of the acquired firm's autonomy, status, and worth, for determining post-acquisition retention. However, financial incentives may substitute at least partially for many of these more intangible factors (Coff, 1997;

Hambrick and Cannella, 1993). Financial incentives provide another form of indication of an employee's worth to an organization. The use of financial incentives to help achieve strategic and operational objectives, including specifically enhancing retention of valuable managers and knowledge workers, has received some attention in the literature (Saura-Diaz and Gomez-Mejia, 1997). In the specific context of acquisitions, however, there is relatively little research on the use and efficacy of financial incentives as a mechanism to enhance retention (Ranft and Lord, 2000).

In order to explain the departure of top management teams, existing literature has used the relative standing theory (e.g. Cannella and Hambrick, 1993) or market for corporate control theories (Walsh and Ellwood, 1991). Relatively few studies have investigated the determinants of top management retention by applying both the theory of relative standing and the financial incentives mechanism of retention. The purpose of this chapter is to explore the determinants of top management retention by applying relative standing theory and the financial incentive mechanism of retention in the context of cross border acquisitions. Specifically the objectives are:

1. To identify the importance of retaining employees of the acquired firm.
2. To assess the impact on the retention of top management team of post-acquisition autonomy of the acquired firm, the acquirer's commitment to the acquired organisation, and financial incentives.

The chapter is structured as follows: the next section discusses the literature on employee retention in mergers and acquisitions. The following section develops the study's hypotheses. The findings and discussions are provided in section four. The last section includes the conclusion along with the implications of the findings.

7.2 LITERATURE REVIEW

Cross border M&As represent a major organizational change, which generates employee uncertainty (Buono and Bowditch, 1989; Napier et al., 1989; Schweiger and DeNisi, 1991; Cartwright and Cooper, 1992a) and this uncertainty results in negative attitudes and behaviour amongst employees (see e.g. Buono and Bowditch, 1989; Bastien, 1987; Cartwright and Cooper, 1990) that will go on to affect acquisition performance and employee turnover (Schweiger and Goulet, 2000).

Significant high rates of departure of acquired firms' top executives after acquisitions has generated considerable attention in the strategy literature (Cannella and

Hambrick, 1993; Hambrick and Cannella, 1993; Krug and Hegarty, 1997; Very et al., 1997; Walsh, 1988, 1989; Walsh and Ellwood, 1991). The prior research has mostly used the theory of relative standing (Frank, 1986) to help understand why turnover in acquired top management teams occurs. The theory of relative standing highlights the significance of the individual's feelings of status and worth relative to that of others in a proximate social setting. Researchers have argued that "some acquisitions result in extremely low relative standing for acquired executives - they feel inferior, the acquirers see them as inferior and themselves as superior, autonomy is removed, status is removed, and a climate of acrimony prevails" (Hambrick and Cannella, 1993: 733). The theory of relative standing predicts that executives of the acquired firm expect to be retained after an acquisition when they are given a greater degree of autonomy and a greater sense of status and importance in the newly merged firm. Appointing acquired executives to the newly merged firm's management team may help provide them with a positive sense of their status and worth in the new organization (Ranft and Lord, 2000). Likewise, other actions or symbols that indicate the significance of the acquisition to the acquiring firm, and that signal the commitment of the acquirer to the success of the acquisition, are likely to minimize the departure of key managers (Hambrick and Cannella, 1993).

In addition to the work by Hambrick and Cannella (1993), Walsh (1988, 1989) and Walsh and Ellwood (1991) also investigated top management turnover following acquisitions. These studies attempted to determine the underlying reasons for turnover but found that neither the relatedness of the acquisitions (Walsh, 1988), the degree of hostility of negotiating the acquisition deal (Walsh, 1989), nor market for corporate control theories (Walsh and Ellwood, 1991) were able to explain high turnover rates. Consequently, the theory of relative standing appears to offer the best explanation for top management turnover in acquired firms (Ranft and Lord, 2000).

The degree of autonomy given to the acquired firm increases the relative decision-making latitude of acquired managers and employees. Rather than being dominated or subjugated by the acquirer, greater autonomy provides incentives for employees to stay with the firm because they are able to maintain greater control over their environment (Hambrick and Cannella, 1993; Huselid, 1995; Very et al., 1997). Cannella and Hambrick (1993) found that removal of autonomy from individuals during the first two years after the acquisition was associated with executive departure. Moreover, those acquired executives who were given status were less likely to leave.

The negative impact of autonomy removal was also confirmed in a European study by Very et al. (1997) who found that removal of autonomy from individuals accustomed to high levels of autonomy caused performance to deteriorate.

Relatively greater post-acquisition status of the acquired firm's human assets may also increase their tendency to stay with the newly merged firm (Coff, 1997). Status may be indicated by the acquired firm's role in the management of the newly merged firm after the acquisition is completed (Hambrick and Cannella, 1993). Managers and other employees from the acquired firm may be allowed to manage not only their own operations, but they also may be promoted to assume greater responsibilities through being appointed to higher level general management or functional responsibilities within the new, overall combined organization. Many acquirers strip the acquired firm's managers and employees of their key responsibilities, effectively demoting them and reducing their status, and instead appoint their own executives to manage the acquired firm's operations (Hambrick and Cannella, 1993; Haspeslagh and Jemison, 1991).

Evidence of the acquirer's commitment to the success of the acquisition is likely to increase feelings of relative standing among the acquired firm's managers and employees. This commitment may be expressed through positive internal and external media emphasizing the importance of the skills and capabilities of the acquired firm to the newly combined organization. Such positive publicity may increase acquired employees' feelings of worth within the new organization. Other types of evidence of the acquirer's commitment might include mechanisms such as increased resources for training and professional development for acquired managers and employees. Highly skilled employees are likely to value opportunities for continued learning, training, and other forms of personal development in order to increase their expertise and skills (Coff, 1997; Huselid, 1995; Pfeffer, 1994; Raelin, 1991). Investment in such opportunities by the acquiring firm demonstrates their commitment to the success of the acquisition. Consistent with the predictions of the theory of relative standing, these positive expressions of commitment are likely to increase the propensity of the acquired firm's employees to remain after the acquisition deal is completed.

The primary focus of theory of relative standing is on importance of non-financial incentives for determining post-acquisition employee retention. Non-financial incentives include perceptions of the acquired firm's autonomy, status, and worth. However, financial incentives may substitute at least partially for many of these more intangible factors (Coff, 1997; Hambrick and Cannella, 1993). Financial incentives offer another form of signal of an employee's worth to an organization. The utilization of financial incentives to assist in achieving strategic and operational objective has received some consideration in the literature (Saura-Diaz and Gomez-Mejia, 1997). For instance, in high-technology industries, the use of financial incentives to retain highly skilled workers is sometimes considered as a key component of employee retention strategies (Balkin and Gomez-Mejia, 1990).

In the specific context of acquisitions, however, there is relatively little research on the use and efficacy of financial incentives as a mechanism to enhance retention. One such study by Ghosh and Ruland (1998) found that ownership sharing was a legitimate incentive to retain acquired top managers. They found that managers of an acquired firm are more likely to remain in the combined firm when they receive shares in the new firm as payment for their ownership interest in the acquired firm. In fact, the findings indicate that jobs were not retained, following payment with stock, in only 10 percent of the acquisitions. However, their study also indicates that acquiring managers, who value continued control of the acquiring company, prefer to pay cash to avoid diluting their existing holding. With regards to providing incentives, Schweiger and Goulet (2000) suggested that a conscious effort to integrate acquired management into the combined firm must be made by the acquirer and that the sharing of ownership control appears to be an incentive structure that aids in this process, by reducing acquired management turnover.

Some practitioner-oriented literature supports the use of short- and long-term incentives to "help keep valuable executives on board during the transition period and signal key executives that they have important roles to play in the organization going forward" (Ferracone, 1987: 61). Financial incentives used to retain employees in acquisitions can take several forms: (1) "stay put" bonuses, generally a large bonus payable after the expiration of a certain period of time; (2) long-term contracts with bonuses payable over a given period of time; (3) stock options that can be exercised over some period of time or after a future date; and (4) increased base salary and/or benefits (Ranft and Lord, 2000).

To retain valuable human capital, firms may need to share the wealth they help generate through some form of rent sharing, such as through various types of financial incentives. Sharing the profits generated by knowledge workers' valuable expertise and skills promotes retention by raising their compensation to a higher level relative to the general labour market, as well as by increasing their perceived status in the firm (Coff, 1997; Hambrick and Cannella, 1993). Economic rewards linked to key employees' continued employment within the newly merged firm therefore are likely to enhance the prospects that these employees will remain after the acquisition is completed.

7.3 HYPOTHESES DEVELOPMENT

Employee retention - post acquisition autonomy and commitment

Prior research has identified autonomy removal as a characteristic of relative standing (Frank, 1986). This is a condition which contributes to the executives of the acquired firm feeling inferior relative to the acquiring firm executives, or the executives of the acquiring firm viewing them as superior. The implication of this research is that maintaining the relative standing of the executives of the acquired firm will enhance the retention of the acquired firm's executives (Schweiger and Goulet, 2000). Appointing executives from the acquired firm to the newly merged firm's management team may help provide them with a positive sense of worth in the new organization (Ranft and Lord, 2000). Likewise, other steps that indicate the importance of the acquisition to the acquiring firm, and that signal the commitment of the acquirer to the success of the acquisition, are likely to minimize the departure of managers (Hambrick and Cannella, 1993).

The degree of autonomy given to the acquired firm increases the relative decision-making latitude of acquired managers and employees. Rather than being subjugated by the acquirer, greater autonomy provides incentives for employees of the acquired firm to stay with the firm because they are able to maintain greater control over their surroundings (Hambrick and Cannella, 1993; Huselid, 1995; Very et al., 1997). This is especially likely to be the case in acquisitions aimed at acquiring new skills and capabilities, because highly skilled professionals tend to desire or require relatively high levels of autonomy (Jelinek and Schoonhoven, 1995; Raelin, 1991).

Evidence of the acquiring firm's commitment to the success of the acquisition is likely to increase feelings of importance among the acquired firm's managers and employees. Such commitment may be articulated through positive internal and external media emphasizing the importance of the skills and capabilities of the acquired firm to the newly combined firm (Ranft and Lord, 2000). This positive publicity may increase acquired employees' feelings of worth within the new firm. Other kinds of indication of the acquiring firm's commitment might include mechanisms such as greater resources for training and professional development for the acquired firm's managers and employees. Highly skilled employees are likely to value opportunities for continued learning, training, and other forms of personal development in order to further increase their expertise and skills (Coff, 1997; Huselid, 1995; Pfeffer, 1994). Investment in such opportunities by the acquiring firm demonstrates its commitment to the success of the acquisition. In line with the predictions of the theory of relative standing, these positive indications of commitment are likely to increase the likelihood of the acquired firms' employees remaining after the acquisition.

The preceding discussion suggests positive relationships between post acquisition autonomy and top management retention, and commitment and top management retention. This leads to the following hypotheses:

Hypothesis 6: Post-acquisition autonomy is positively associated with top management retention of the acquired firm.

Hypothesis 7: The acquiring firm's post-acquisition commitment to the acquired firm is positively associated with top management retention of the acquired firm.

Employee Retention - Financial Incentives

Financial incentives may provide another form of indication of an employee's worth to a firm. The use of financial incentives to help achieve strategic and operational objectives, including enhancing retention of valuable managers, has been noted in the literature (Saura-Diaz and Gomez-Mejia, 1997). In the specific context of acquisitions, however, there is relatively little research on the use and efficacy of financial incentives as a mechanism to enhance retention (Ranft and Lord, 2000). Some practitioner-oriented research supports the use of short-term and long-term incentives to assist in keeping valuable managers during the integration stage and to indicate to the executives that they have important roles to play in the merged firm (Ferracone, 1987).

To retain valuable human capital, firms may need to share the wealth they help generate through some form of rent sharing, such as through various types of financial incentives. Economic rewards attached to employees' continued employment within the newly merged firm are therefore likely to enhance the probability of employees remaining after the acquisition is realized. Such logic suggests the following hypothesis:

Hypothesis 8: The use of financial incentives is positively associated with top management retention of the acquired firm.

7.4 FINDINGS AND DISCUSSION

7.4.1 RELATIVE IMPORTANCE OF KEY EMPLOYEES

The relative importance of key employees of the acquired firms, based on the mean measure of importance, is presented in Table 7.1. The median measure is exceeded by four key employees of which middle management, top management, marketing, sales and distribution, research and development, constitute the first four with the highest degree of importance. It appears that UK managers perceived the success of acquisition integration to be significantly influenced not only by the retention of top management but also by the retention of middle management, marketing, sales and R&D employees.

Table 7.1: Relative importance of key employees to be retained

Rank	Key employees	Mean	S D
1	Middle management	4.05	1.174
2	Top management	3.80	1.535
3	Marketing, sales and distribution	3.55	1.234
4	Research and development	3.17	1.420
5	Manufacturing and operations	2.97	1.272
6	Finance, legal and other staff	2.38	1.091

Note: N = 65; The mean is the average on a scale of 1 (= not important) to 5 (= very important)

While most prior research has focused on retention of the top management team following an acquisition (Hambrick and Cannella, 1993; Walsh, 1989; Walsh and Ellwood, 1991), this study provides evidence suggesting the importance of retaining human capital other than top management. The findings in Table 7.1 indicate that the acquired firm's top managers are not always the most critical portion of the acquired firm's human capital. Given the focus of prior acquisitions research on top management teams, the findings also give a different perspective in that respondents cited middle managers in the acquired firm as being more important than top managers. Moreover, the importance of retaining acquired marketing, sales and distribution employees were not significantly different from the importance of retaining acquired top managers (p >0 .233).

Retention of the top management team may nonetheless be important in some cases because their retention may provide some stability and continuity for the acquired organization through a transition period, even though other employees possess the actual expertise and skills that are of interest to the acquirer. The reasons for keeping top managers therefore are likely to involve symbolism to some degree and not just to retain their executive experience and skills. Retaining top managers may be necessary or helpful for a period of time, perhaps long enough to provide a smooth transition and to gain the loyalty of middle managers, marketing and R&D employees.

7.4.2 THE DETERMINANTS OF TOP MANAGEMENT RETENTION

The survey data were screened to check for outliers, out-of-range values, missing data, and assumptions of normality and homoscedasticity by examining univariate statistics and scatterplots of the residuals (Tabachnick and Fidell, 1996). Descriptive statistics and correlations for each of the variables used in the analyses are presented in Table 7.2.

Table 7.2: Descriptive Statistics and Pearson's correlations

Variables	Mean	S.D.	1	2	3	4	5	6	7	8
Autonomy	1.89	0.71	1							
Acquirer commitment	3.87	0.91	0.16	1						
Financial Incentive (time)	2.23	1.04	0.18	0.41**	1					
Financial Incentive (performance)	3.08	1.24	0.20	0.13	0.21	1				
Acquisition relatedness	0/1 variable		-0.12	-0.26*	-0.22*	0.08	1			
Relative size	0.60	0.44	0.31**	0.10	0.12	0.12	0.07	1		
Attitude of acquired firm	1.33	0.74	-0.17	0.01	-0.03	-0.10	-0.13	-0.09	1	
Top management retention	3.55	1.37	0.41**	0.04	0.06	0.16	0.03	-0.05	-0.08	1

Note: N = 46; S.D. = Standard deviation; **p < 0.01, *p < 0.05, ***p < 0.10; Two tailed test

As mentioned in the methodology section, the dependent variable, top management retention, consists of 46 observations. As the number of observations exceeds 30, the use of multiple regressions was considered appropriate. Thus, the analysis was run using a sub-sample of 46 acquisitions in order to investigate Hypotheses 6, 7 and 8.

Condition indices and variance inflation factors were analyzed for the model to assess any potential problems with multicollinearity (Tabachnik and Fidell, 1996). Multicollinearity is not a problem as the variance inflation factor scores (VIFs: 1.23-1.71) are well within the cutoff of 10 recommended by Neter, Wasserman, and Kutner (1985). Moreover, the Durbin-Watson test statistic for autocorrelation of the residuals indicates no existence of autocorrelation (Durbin-Watson statistic = 2.033). The regression models are presented in Table 7.3.

Table 7.3: Regression results: Determinants of top management retention

Variables	Model 1	Model 2
Control variables		
Relative size	-0.027	-0.259**
Acquisition relatedness	0.111	0.103
Attitude of acquired firm	-0.093	-0.134
Explanatory variables		
Autonomy		0.586***
Acquirer commitment		0.202*
Financial incentive (time)		-0.085
Financial incentive (performance)		-0.022
Model		
R^2	0.040	0.359
Adjusted R^2	0.034	0.268
F-statistics	0.370	3.926***

Note: N = 46; Standardized beta coefficients: significant at ***$p < 0.01$, **$p < 0.05$, *$p < 0.10$; the t-test on each regression coefficient is two-tailed. Model 1 represents regression with control variables and model 2 represents regression with explanatory and control variables.

Table 7.3 shows the results for two regression models: Model 1 contains only the control variables; Model 2 contains the control variables and the explanatory variables.

For Model 2, the regression equation has a significant F value ($p < .01$). In terms of explanatory power, about 36% of the variation in top management retention is explained by the independent variables. The explanatory variables autonomy ($\beta = 0.586, p < 0.01$) and acquirer commitment ($\beta = 0.202, p < 0.10$) are positive and significant predictors of top management retention during post acquisition integration, providing support for Hypotheses 6 and 7. The coefficients of the financial incentive variables are not significant, Hypothesis 8, therefore, is not supported. In addition, the control variable for relative size is negative and significantly related to top management retention ($\beta = -0.259, p < 0.05$). The other control variables, acquisition relatedness and profitability of the acquired firm, are not significant predictors of top management retention.

The results provide support for the positive influence of continued autonomy of the acquired organization on retention of the top management team. Past research indicates that granting autonomy to an acquired firm's managers increases their feelings of relative standing in the firm and, therefore, minimizes their tendency to leave. Consistent with the theory of relative standing and Hambrick and Cannella's (1993) findings for top executives, the data suggest that the 'preservation' (Haspeslagh and Jemison, 1991: 147) mode of acquisition implementation (i.e. acquisitions requiring a high level of organizational autonomy and a low need for strategic interdependence) may be sometimes appropriate for acquisitions aiming to acquire knowledge-based resources in order to prevent the loss of key resources through personnel turnover.

Some researchers (e.g. Ashkenas, DeMonaco and Francis, 1998) have recommended relatively rapid and complete integration of acquisitions in order to increase the chances of acquisition success. For some types of acquisitions, implementation strategies based on quick integration may be appropriate. However, the positive significant finding for autonomy in this sample of cross border acquisitions suggests that a more cautious consideration of such recommendations. Critical aspects of acquisition implementation strategies, such as levels of autonomy, should be informed more by the specific motivations and resources of the particular acquisition situation rather than by some general prescription for all acquisitions.

The acquirer's corporate commitment to the acquisition was also found to have a positive influence on the retention of top management team. Indications of commitment to the success of the acquisition integration (e.g. support for training and travel, and positive public relations on the part of the acquirer) appear to enhance acquired employees' comfort within, and commitment to, the newly combined organization. The finding is consistent with Ranft and Lord (2000) who found a significant positive association between acquirer's commitment towards the acquisition and employee retention.

Surprisingly, this study finds that financial incentives do not significantly influence top management retention. Neither financial incentive based on time spent with the firm following acquisition, nor financial incentives based on post-acquisition performance criteria, are effective determinants of top management retention in this sample of cross border acquisitions. The less economically related and more socially oriented issues associated with autonomy and commitments are found to be more important determinants of top management team retention than are financial incentives. This finding appears to support the contention of Ranft and Lord (2000: 315) who argued that 'the broader social logic behind the theory of relative standing therefore appears to be a better predictor of employee retention than a theory simply based on direct, personal economic interests.'

Relative size (measured as the ratio of the sales turnover of the acquired firm to that of the acquiring firm) has a negative and significant relationship with the retention of top management team. This tends to suggest that acquiring a relatively smaller firm can lead to a higher level of top management retention, and acquiring a relatively larger firm can lead to a lower level of top management retention. A large acquiring firm is likely to have a supply of skilled managers on hand to replace the management of a smaller acquired firm. Also, the management in the smaller acquired firm may be less skilful and inexperienced in managing larger firms. As a result, the possibility of retaining the top management team of the smaller acquired firm is low. As the size difference between the acquired and acquiring firm reduces the possibility of replacing top management in the acquired firm also diminishes.

7.5 SUMMARY AND CONCLUSIONS

This study contributes to the existing literature by assessing the determinants of top management team retention in cross border acquisitions in terms of the impact of autonomy given to the acquired firm, the acquirer's commitment to the acquired firm and financial incentives provided to employees. This has been attempted by very few prior studies. A particular distinguishing feature of this study is that it investigates the determinants of top management retention in cross border acquisitions by applying both the theory of relative standing and the financial incentive mechanism of retention.

The study identified the employees that acquirers wished to retain during the acquisition integration phase. The acquirers considered that the most important employees to retain were middle management followed by top management, marketing employees and R&D employees. This finding indicates that the acquired firm's top managers are not always the most critical portion of the acquired firm's human capital. Given the focus on top management teams in prior research on acquisitions, the findings of this study provide a new perspective. Middle managers and others with key skills in the acquired firms may be as important to retain as the top managers.

Three potential determinants of top management retention were examined: the autonomy granted to the acquired firm; corporate commitment to the acquisition; and financial incentives for employees.

The regression results provide support for the positive influence of continued autonomy of the acquired firm on the retention of top management. Consistent with prior research, the finding indicates that granting autonomy to an acquired firm's managers is likely to increase their feelings of relative standing in the firm and, therefore, reduces the probability of them leaving.

The acquirer's corporate commitment to the acquisition was also found to have a positive influence on the retention of the top management. Evidence of commitment on the part of the acquirer appears to enhance the acquired employees' comfort with, and commitment to, the newly combined firms. The significant finding for commitment is consistent with the theory of relative standing.

Surprisingly, this study found no significant influence of financial incentives on top management retention. Neither financial incentives based on time nor financial incentives based on post-acquisition performance criteria, were effective determinants of top management retention. The more socially oriented factors related to autonomy and commitment were found to be more important determinants of top management retention than the more economically related financial incentives.

This chapter has investigated the determinants of top management retention. The next chapter will examine the impact of post-acquisition management issues on cross border acquisition performance.

CHAPTER EIGHT

POST-ACQUISITION MANAGEMENT AND THE PERFORMANCE OF CROSS BORDER ACQUISITIONS

8.1 INTRODUCTION

Over the past two decades, cross border mergers and acquisitions (M&As) have become an increasingly common mode of international expansion for companies seeking global reach (Teerikangas and Very, 2006). M&As provide access to competencies and a local intelligence base without carrying the burden of starting up a subsidiary from scratch. Despite their apparent popularity, over half of these ventures end up reporting failure (Cartwright and Cooper, 1993; Haspeslagh and Jemison, 1991). This failure has been traced back to an inadequate strategic rationale for the deal, a lack of pre-acquisition evaluation and poor post-acquisition implementation management (e.g. Cartwright and Cooper, 1992b).

This study attempts to enrich the existing literature on the post-acquisition management process and acquisition performance by applying a multiple theoretical approach - using the resource-based view, process-based view, and human capital theory. The study investigates the impact of the post-acquisition management process on cross border acquisition performance. Specifically, the objective of this study is to investigate the impact of degree of integration, organizational cultural difference, transfer of knowledge and top management retention on cross border acquisition performance.

The extent to which an acquired company should be integrated into an acquiring firm has significant implications for acquisition performance. Child et al. (2001) argued that the degree of integration achieved following a cross border acquisition is crucial because an inappropriate level of integration might be detrimental to acquisition performance. However, prior empirical work on this issue is scant and has not yielded definitive results. Datta and Grant (1990), for example, did not find statistically significant results for their sample of related acquisitions. In contrast, Shanley (1994) found some support for the positive relationship between acquisition performance and the level of integration. The ambiguous research findings relating to the impact of integration on acquisition performance call for further research.

Cultural differences have been blamed for the high failure rate in both domestic and cross border deals (Buono and Bowditch, 1989; Cartwright and Cooper, 1992a, 1993; Chatterjee et al., 1992; Datta, 1991; Morosini, 1998; Weber, et al., 1996). Prior research has generally focused on national cultural differences as determinants of acquisition performance. However, instead of proving the commonly expected and suggested negative impact of cultural differences on the performance of M&A, pior research has produced contradictory findings (Teerikangas and Very, 2006). The issue of organizational culture difference has received considerably less attention in cross border acquisition research – the existing research is limited, fragmented and conflicting (Buono and Bowditch, 1989; Sales and Mirvis, 1984; Datta, 1991), consequently, pointing to the need for more research in this area.

The resource based view suggests that knowledge transfer is particularly critical for multinational companies and cross-border inter-firm alliances (Gupta and Govindarajan, 2000; Kogut and Zander, 1993; Ranft and Lord, 2000; Subramanian and Venkatraman, 2001). This research stream assumes that value creation by multinational companies is determined by their ability to transfer tacit knowledge about best practices and foreign markets across borders (e.g., Buckley and Carter, 1999). However, only limited empirical evidence exists about the link between international knowledge transfer and performance. In most knowledge based research, attention is directed towards factors that enhance or impede knowledge transfer, without subsequently examining the link to firm performance (see, for example, Ranft and Lord, 2000). As a result, further research is required on the relationship between knowledge transfer and acquisition performance.

The rest of the chapter is set out as follows. The next section reviews the literature on post-acquisition management issues and performance and develops the hypotheses of the study. Section three presents the research methods employed in the study. In section four, the research findings and discussion are presented. Conclusions are provided in the final section.

8.2 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The literature has emphasized four aspects of the post-acquisition management process that have an impact on cross border acquisition performance: degree of integration, organizational cultural differences, transfer of knowledge and employee retention. Each of these issues is considered in the following subsections.

8.2.1 DEGREE OF INTEGRATION

The need for post-acquisition integration is primarily bounded by the strategic objectives of the acquisition (Datta, 1991). An acquisition might form part of a strategy of related diversification and therefore be expected to provide synergistic benefits. Such benefits could be in the form of economies of scale and operating efficiencies requiring high levels of integration, as might be feasible in related acquisitions (Porter, 1985; Salter and Weinhold, 1979). Conversely, an acquisition could be of an unrelated business, primarily motivated to improve the price-earning-ratio, or sales growth, and involving little or no integration or sharing of resources (Shrivastava, 1986).

The overall degree of integration achieved following an acquisition is an issue of great interest. This is because an inappropriate level of integration may be detrimental to performance (Child et al., 2001). Thus a tendency to over or under integrate, for example, as a result of cultural factors hindering integration or pressuring moves towards it, may result in sub-optimal solutions. Haspeslagh and Jemison (1991:146) have proposed a set of "metaphors" to classify acquisitions into four types depending on whether the need for organisational autonomy and the need for strategic interdependence are high or low: (i) absorption - acquisitions that have a high need for strategic interdependence, and a low need for organizational autonomy; (ii) preservation – acquisitions that present a low need for strategic interdependence, but a high need for organizational autonomy; (iii) symbiosis - acquisitions characterized by high need for interdependence and high need for organizational autonomy; (iv) holding - acquisitions where the firm has no intention of integrating and creating value though anything except financial transfers, risk sharing, or general management capability, the only integration would be a holding activity.

Marks and Mirvis (1998) also take a multi-dimensional view of integration ranging from full consolidation to near separation of the companies. They see this range as including such forms as separate holding company, strategic control, managed subsidiary, operational control, merged and consolidated. The order is presented in increasing levels of consolidation of the acquiring and acquired firms. Marks and Mirvis also view integration from the perspective of the degree of change made in either the buyer, the target or in both firms. Similar to Haspeslagh and Jemison, they identify five approaches i.e. absorption, preservation, best of both, transformation and reverse merger.

There appears to be a continuum in the potential degree of acquisition integration. Child, Faulkner and Pitkethly (2001) examined cross border acquisitions with varying degrees of integration. They suggested that the degree of integration ranges from acquisitions with little integration (1-2 on their scale, corresponding to Haspeslagh and Jemison's Preservation and Holding) to those where the integration is almost total (6-7 on their scale, corresponding to Haspeslagh and Jemison's Absorption). Symbiotic acquisitions can be arranged at intermediate points on the scale corresponding to partial integration where some but not all functions and departments of the acquired firm are integrated with the acquiring firm.

Prior empirical work on the impact of the level of integration on performance has not yielded definitive results. Datta and Grant (1990) did not find statistically significant results for either their overall sample or their sub sample of related acquisitions, although their sample of unrelated acquisitions did seem to benefit from lower levels of integration. In contrast, Shanley (1994) found some evidence that positive performance was related to the level of integration. In a recent study in the banking industry, Zollo and Shing (2004) found that the level of integration extensively influences the acquisition performance. They argued that the benefits from cost efficiencies gained through higher levels of integration might be greater than the costs inherent to the integration process (e.g., routine and competence disruptions, increased process complexity, and hidden implementation costs). Following Shanley (1994) and Zollo and Singh (2004) the following hypothesis is proposed:

H9: The greater the degree of integration of the acquired firm within the acquiring firm, the better the acquisition performance i.e. there will be a positive association between the degree of integration and cross border acquisition performance.

8.2.2 ORGANISATIONAL CULTURAL DIFFERENCES

In the early 1980s, the concept of culture was introduced into the M&A literature. Whilst some studies have highlighted the human and cultural consequences of differences in organizational cultures (Marks, 1982; Sales and Mirvis, 1984), others have focused on the importance of cultural fit (Cartwright and Cooper, 1992a, 1993; Chatterjee et al., 1992; Larsson and Finkelstein, 1999). A considerable number of studies have sought to understand how the organizational aspects of an acquisition influence the performance (e.g. Chatterjee et al., 1992; Cartwright and Cooper, 1996).

Collectively, these streams of literature emphasize the importance of cultural compatibility as a central component of organizational fit and acquisition performance.

Empirical studies of organizational cultural compatibility reveal that differences in the philosophies, values and behaviours of the top management teams can lead to uncertainty and insecurity amongst acquired firm managers (Buono and Bowditch, 1989) which may develop into feelings of anxiety, frustration and resentment (Cartwright and Cooper, 1996). These negative feelings in turn can result in miscommunication and conflict (Sales and Mirvis, 1984), reduced commitment towards cooperation (Weber et al., 1996) and lower job performance (Buono and Bowditch, 1989). This line of research is best summarised by Chatterjee et al's (1992) finding of a strong negative relationship between the extent of organisational cultural differences and acquirer shareholder gains.

In parallel to the academic research, there has been growing recognition amongst practitioners of the importance of organisational issues as a key performance determinant of acquisitions (Hopkins, 1999). The practitioners argue that acquiring across borders can bring clashes of different management styles and operating approaches. The survey data of Angwin and Savill (1997) confirms the practitioner concern with management style compatibility. Management style has been posited as a central element of a firm's overall culture, simultaneously reflecting the influence of both organisational culture (Sales and Mirvis, 1984; Sathe, 1985) and national culture (Hofstede, 1983). Against this background, Schoenberg (2004) empirically investigated the impact of management style differences on the performance of cross border acquisitions. Schoenberg found that the differences between the acquiring organisation and the acquired organisation in their attitudes towards risk are negatively correlated to the performance of the cross border acquisition.

Overall, the empirical studies suggest that differences in organizational culture between the acquiring and acquired firm can lead to inferior acquisition performance (Schoenberg, 2000). This line of reasoning leads to the second hypothesis.

H10: The greater the organizational cultural difference between the acquired and acquiring firm the lower the acquisition performance i.e. there will be a negative association between organizational cultural difference and cross border acquisition performance.

8.2.3 TRANSFER OF KNOWLEDGE

Much research on knowledge transfer within and between organizations has been conducted in an international context (Gupta and Govindarajan, 2000; Kogut and Zander, 1993; Ranft and Lord, 2000; Subramanian and Venkatraman, 2001). This research suggests that knowledge transfer is particularly critical for multinational companies and cross-border inter-firm alliances. For example, Kogut and Zander (1993) argue that, compared to markets, organizations are better able to transfer tacit knowledge across borders.

Taking a knowledge-based view of the multinational company, this research stream assumes that value creation by multinational companies is determined by their ability to transfer tacit knowledge about best practices and foreign markets across borders (e.g., Buckley and Carter, 1999). However, only limited empirical evidence exists about the role of international knowledge transfer and performance. Like most knowledge based research, attention is directed towards factors that enhance or impede knowledge transfer, without subsequently examining the link to firm performance. For example, Ranft and Lord (2000) find that differences in organizational structures influence the extent of internal transfer about new international markets among divisions.

The transfer of tacit knowledge, such as know-how and practical knowledge is strategically important because it is closely linked with the production tasks and is more difficult to transfer and replicate by competitors (Grant, 1996a; Kogut and Zander, 1992). Accordingly, the knowledge-based view of the firm predicts that transfer of tacit knowledge is positively associated with firm performance. Likewise, multinational companies develop sustainable competitive advantages through coordination and cooperation efforts that facilitate transfer and integration of tacit knowledge, such as expertise and capabilities, across borders (Barlett and Ghoshal, 1991; Buckley and Casson, 1976; Hymer, 1976; Kogut and Zander, 1993).

Hymer (1976) explains that it is the ownership of superior knowledge that represents the primary advantage that multinational companies bring to foreign markets. Moreover, a key reason for acquisition strategies is the access of new knowledge. When expanding into foreign markets, firms are more likely to choose acquisition, rather than Greenfield operations, as the mode of entry if there is little overlap between existing corporate know-how (Hennart and Park, 1993). At least a part of this newly acquired knowledge is likely to be relevant to the global network of the multinational company (Gupta and Govindarajan, 2000). This makes it essential that firms are able to transfer knowledge – for example, expertise in local market knowledge and technical or production know-how – that resides in acquired firms to other parts of the firm (e.g., Ranft and Lord, 2000). Thus, within this network, apart from knowledge transfer to the acquired firm, knowledge transfer from the newly acquired firm to the head office and other subsidiaries is critical to acquisition success. This study, therefore, proposes the following hypothesis:

H11: The greater the level of knowledge transfer between the acquired and the acquiring firms the greater the acquisition performance i.e. there is a positive relationship between knowledge transfer and cross border acquisition performance.

8.2.4 TOP MANAGEMENT RETENTION

A growing number of studies (Cannella and Hambrick, 1993; Hambrick and Cannella, 1993; Krug and Hegarty, 1997; Walsh, 1988) have shown that M&As result in increased levels of executive turnover among acquired companies, compared with matched non-acquired organizations, over common time periods. Walsh (1988) found that a quarter of senior executives left in the first year post acquisition. Furthermore, after 5 years only 40% of senior executives still remained in the acquired organizations.

UK research examining turnover among 100 large acquisitions found that only 43% of CEOs remained in post two years after the acquisition (Angwin, 1996). Buchholtz et al. (2003) tracked the rate of senior executive turnover among 161 uncontested acquisitions over a four-year period. Their findings were consistent with previous studies in that 75% of executives had left by the end of three years. However, executive turnover continued into the fourth year, when a further 25% left the acquired organization. Krug (2002) conducted a longitudinal analysis of post-acquisition turnover by comparing senior management turnover rates. The study showed that the acquired and non-acquired organizations were well matched in that executive turnover rates were not significantly different in the five years prior to acquisition. Consistent with previous research, average turnover rates among incumbent executives was significantly higher in acquired than non-acquired organizations and was highest in the first and second years post acquisition.

Several theories have been advanced to explain the post-acquisition departure of senior executives. The market discipline perspective (Walsh and Ellwood, 1991) suggests that poor performers are the most likely to leave, and acquirers make their initial retention decisions on the basis of the pre acquisition performance of the target company. If acquirers consider that they already have an abundance of managerial talent within their own organization who understand 'the logic' (Napier, 1989) of the acquisition, then target company executives are likely to be perceived as being surplus to requirements, a response that has been described as 'acquirer arrogance' (Jemison and Sitkin, 1986), which can lead to the loss of the most talented.

Bergh (2001) studied the association between target company executive retention and the probability of target firm divesture. Performance was measured as return on assets for the acquiring firm during the years the target firm was retained. He found that target firms with the highest probability of eventual divesture were the ones where the fewest senior executives were retained. Moreover, targets that retained executives with the longest organizational tenures were the least likely to be divested. These findings indicate that retaining executives with the longest organizational tenure decreases a target firm's probability of divesture.

Cannella and Hambrick (1993) suggested that executives from acquired firms are an intrinsic component of the acquired firms' resource base, and that their retention therefore is an important determinant of post-acquisition performance. In other words, if executives of acquired firms are part of the valuable resources obtained in the acquisition (Pitts, 1976; Walsh and Ellwood, 1991), then the success of the acquisition may hinge on the retention of their knowledge and skills. In general, employee retention of the target firm positively influences acquisition performance. This contention leads to the following hypothesis.

H12: The greater the extent of top management retention of the acquired firm the greater the acquisition performance i.e. there will be a positive association between top management retention and acquisition performance.

The conceptual framework is illustrated in Figure 8.1. The study conjectures that acquisition performance is determined by the degree of integration, organizational cultural differences, transfers of skills to and from the target firm, and top management retention of the target firm.

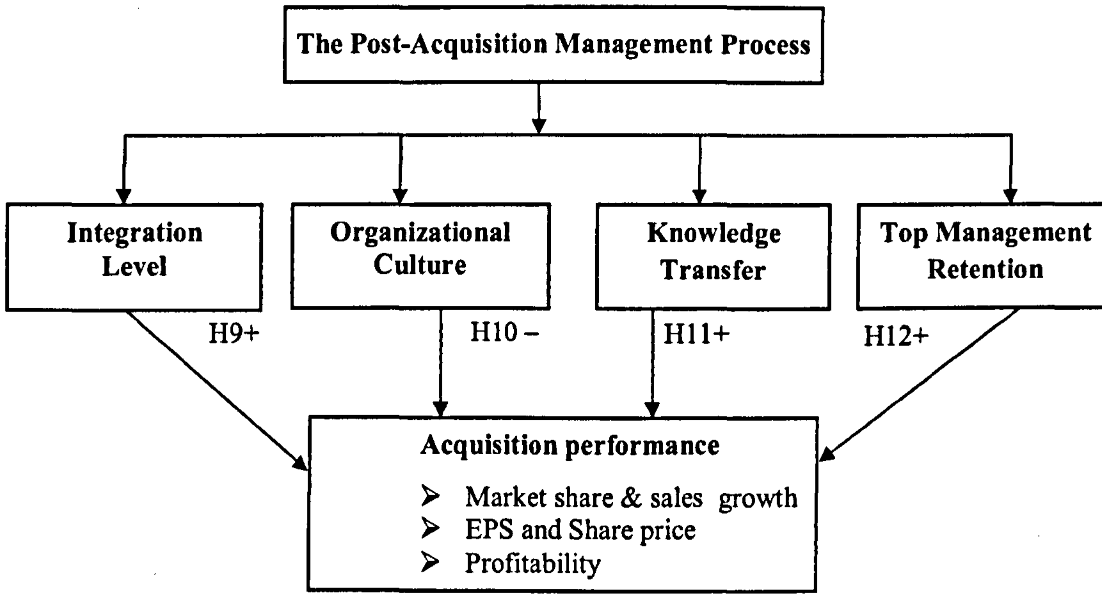


Figure 8.1: The impact of the post-acquisition management process on the performance of cross border acquisitions – A conceptual framework

8.3 FINDINGS AND DISCUSSION

8.3.1 FINDINGS

The survey data were screened to check for outliers, out-of-range values, missing data, and assumptions of normality and homoscedasticity by examining univariate statistics and scatterplots of the residuals (Tabachnick and Fidell, 1996). Table 8.1 shows the descriptive statistics and correlations for each of the variables used in the analyses.

Table 8.2 presents the multiple regressions on the three measures of acquisition performance. For each dependent variable, Model 1 includes only the control variables, while Model 2 includes the control variables and the explanatory variables. The presentation of the findings focuses on Model 2 for each of the dependent variables.

In terms of explanatory power, the regression equation with EPS & Share price as the dependent variable prevails with the largest adjusted R^2. In this regression equation, 29.8 percent of the variation in the acquisition performance (i.e., EPS & Share price) is explained by the explanatory variables. This compares with 29.1 percent of the variation of Market share & Sales growth explained by the independent variables, and about 23.4 percent of the variation in Profitability.

Table 8.1: Descriptive Statistics and Pearson's Correlations

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
Profitability of the acquired firm	3.25	1.16	1										
Acquisition relatedness	0/1 variable	0.00	-0.12	1									
Acquiring firm's experience	4.03	0.95	0.33**	0.09	1								
Level of integration	2.91	0.69	0.39*	-0.13	-0.11	1							
Organizational cultural difference	2.67	0.81	-0.31*	0.02	-0.09	-0.05	1						
Knowledge transfer – Functional area	3.41	1.32	0.17	0.20	0.06	0.08	0.17	1					
Knowledge transfer – General management	3.21	1.11	0.21	0.34*	0.11	0.43*	0.13	0.18	1				
Top management retention	3.55	1.37	0.21	0.39*	0.31	0.34*	-0.17	0.11	0.19	1			
Market share & Sales growth	3.46	1.17	0.32*	0.13	0.21	0.15	-0.17	0.38*	0.29*	0.22	1		
EPS & Share Price	2.52	1.66	0.36*	0.04	0.16	0.11	-0.05	0.42*	0.37*	0.21	0.39*	1	
Profitability	3.97	1.14	0.16	0.13	0.17	0.05	-0.33*	0.18	0.02	0.12	0.32*	0.12	1

N = 46; S.D. = Standard Deviation; **p < 0.05, *p < 0.10; Two tailed test

The regression on Market share and Sales growth shows a significant and positive coefficient on the level of integration ($p < 0.05$), knowledge transfer – functional area ($p < 0.01$), knowledge transfer – general management ($p < 0.05$), and top management retention ($p < 0.10$). The regression on EPS and Share price shows a significant and positive coefficient on knowledge transfer – functional area ($p < 0.01$) and knowledge transfer – general management ($p < 0.05$). The regression on Profitability reveals a significant and negative coefficient on organizational cultural difference ($p < 0.05$) and a significant and positive coefficient on level of integration ($p < 0.05$).

In the case of the control variables, the regressions on Market share and Sales growth, and EPS & Share price, show positive and significant coefficients on acquisition relatedness ($p < 0.05$). The other variables entered as controls in the model – relative profitability of the acquired firm and acquiring firm's acquisition experience – do not significantly influence performance. This further suggests that the variables considered in the theoretical discussion are meaningful and relevant to the explanation of acquisition performance.

Table 8.2: Regression on post-acquisition management issues & acquisition performance

	Market share & Sales growth		EPS & Share price		Profitability	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Control variables						
Profitability of the acquired firm	0.372**	0.140	0.109	0.043	0.126	0.137
Acquisition relatedness	0.140	0.261**	0.648**	0.281**	-0.178	0.129
Acquisition experience	0.050	0.007	-0.134	0.161	-0.005	0.138
Explanatory variables						
Level of integration		0.263**		0.147		0.261**
Organizational cultural difference		-0.110		-0.117		-0.316**
Knowledge transfer - Functional area		0.331***		0.423***		0.071
Knowledge transfer - General management		0.266**		0.246**		0.145
Top management retention		0.243*		0.094		-0.105
The model						
R^2	0.152	0.398	0.164	0.383	0.245	0.326
Adjusted R^2	0.110	0.291	0.122	0.298	0.207	0.234
F value	3.198**	4.145***	3.018**	4.251***	3.074***	3.132***

Notes: N = 46; Standardized beta coefficients: significant at $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.10$; the t-test on each regression coefficient is two-tailed. Model 1 represents regression with control variables and model 2 represents regression with explanatory and control variables.

8.3.2 DISCUSSION

Two out of the three regression models (i.e., Market share and Sales growth, and Profitability) reveal a significant and positive coefficient on the level of integration. This gives reasonable support for hypothesis 9, suggesting that the higher the level of integration of the target firm into the acquiring firm the better will be the performance with respect to market share and sales growth, and profitability. This finding is consistent with Shanley (1994) who found some evidence of the positive relationship between the acquisition performance and the level of integration. The finding also supports the view of Zollo and Shing (2004) who argued that the benefits from cost efficiencies gained through higher levels of integration might be greater than the costs inherent to the integration process (e.g., routine and competence disruptions, increased process complexity, and hidden implementation costs). The results of prior attempts to relate the level of integration to performance are somewhat equivocal, however, the findings of this study suggest that for the performance measures of Market share and Sales growth and Profitability, the degree of integration positively influences the acquisition performance.

Only one out of three regression models (i.e., Profitability) shows a significant and negative coefficient on the organizational cultural difference. This provides limited support for Hypothesis 10, but suggests that the greater the organizational cultural difference between the acquired firm and acquiring firm the lower will be the acquisition performance. This line of reasoning is in line with the study of Chatterjee et al. (1992) and Datta (1991) who found a negative relationship between the organizational cultural difference and acquisition performance.

Weber and Schweiger (1992) identified the consequences of management cultural clash in acquisitions as: (1) stress, distrust, and annoyance on the part of the target team in working with the acquirer team; (2) negative attitudes on the part of the target team toward the acquirer; and (3) negative attitudes toward cooperating with the top executives. This crucial cultural difference between merging firms causes negative financial performance by the acquiring firms after the deals (Chatterjee et al., 1992), and may indicate the source of the high rate of acquisition failures (Cartwirght and Cooper, 1993). Thus, the differences in organizational culture may exert an enduring influence on subsequent acquisition performance, as is observed in this study.

Two out of the three regressions on the measures of performance (i.e., Market share and Sales growth, and EPS & Share price), show a significant and positive coefficient on both types of knowledge transfers (i.e., functional area and general management area). This provides relatively strong support for Hypothesis 11, suggesting that the greater the transfer of knowledge to and from the acquired firm the higher will be the acquisition performance. This finding supports the study of Capron (1999) who found that resource redeployment (e.g. knowledge transfer) has a positive impact on acquisition performance.

In the context of international acquisitions, knowledge transfer is particularly important because the newly combined firm is likely to have a distinct knowledge pool that can provide it with the opportunity to explore new knowledge. Zollo and Winter (2002) argue that a firm's dynamic capabilities develop from a co-evolution of the accumulation of tacit experience processes with explicit knowledge articulation and codification activities. The existing literature revealed little if any research explicitly directed at the relationship between knowledge transfer and cross border acquisition performance. Most relevant is the process school which is concerned with the creation of value through post acquisition integration (Shrivastava, 1986; Haspeslagh and Jemison, 1991), for example, Haspeslagh and Jemison (1991) discussed the issue of knowledge transfer focusing on how it may lead to overall value creation. This study provides additional support for the resource-based-view that transfer of knowledge has significant positive influences on cross border acquisition performance.

Only one out of three regression models (i.e., Market share and Sales growth) shows a significant and positive coefficient on top management retention. This provides limited support for Hypothesis 12, but suggests that the greater level of top management retention leads to superior acquisition performance. This finding is consistent with Cannella and Hambrick (1993) who suggested that executives from acquired firms are an intrinsic component of the acquired firms' resource base, and that their retention therefore is an important determinant of post-acquisition performance.

Overall, there is a reasonable support for hypotheses 9 and 11, and limited support for hypotheses 10 and 12. One of the strongest findings of this study is the significant positive impact of knowledge transfer on cross border acquisition performance. This finding confirms assumptions made by several acquisition researchers, and provides significant support for the knowledge-based view. Another noteworthy finding is the significant positive impact of level of integration on cross border acquisition performance. The data analysis suggests that the process-view of acquisitions (Jemison and Sitkin, 1986b; Haspeslagh and Jemison, 1991; Pablo, 1994; Pablo et al., 1996), which emphasizes the role of the integration phase, is relevant in understanding the performance of the entire cross border acquisition process.

8.4 CONCLUSION

This chapter has investigated the impact of post-acquisition management processes on the performance of cross border acquisitions. One of the key contributions of this study is the use of multiple theoretical approaches (e.g., process-based view, knowledge-based view, and human capital theory) in understanding the relationship between post-acquisition management process and acquisition performance. This study attempts to bridge and integrate different theoretical approaches to the highly visible phenomenon of corporate acquisitions. This study helps to signal the advantages of leveraging different theoretical perspectives in offering managers a more clearly defined and useful account of the conditions under which acquisition activities can create value. From the view point of academic researchers, the findings highlight the importance of taking a broad perspective in studying cross border acquisition performance.

A crucial insight, supported by the data, is that a considerable portion of cross border acquisition success can be explained by the ability to transfer knowledge between the acquired and acquiring firms. The knowledge-based view has received much conceptual and empirical attention, with important emphasis on core competencies (Prahalad and Hamel, 1990), tacit knowledge (Nonaka, 1994), and numerous types of knowhow and specific forms of expertise (e.g., Gupta and Govindarajan, 2000) to attain sustained competitive advantages, and long-term profitability. However, the current understanding of whether knowledge transfer or knowledge integration leads to success is limited (Eisenhardt and Santos, 2002). Thus, a primary contribution of this study is the examination of the impact of knowledge transfer on cross border acquisition performance. The findings of this study provide support for the knowledge-based view of cross border acquisitions.

Moreover, the data analysis suggests that the process-view of acquisitions (Jemison and Sitkin, 1986; Haspeslagh and Jemison, 1991; Pablo, 1994; Pablo et al., 1996) is relevant in understanding the performance of the cross border acquisition process. Although prior research findings regarding the impact of the level of integration on performance are equivocal, the finding suggests that the benefits from cost efficiencies gained through higher levels of integration might be greater than the costs inherent to the integration process (e.g., routine and competence disruptions, increased process complexity, and hidden implementation costs). Thus, in this setting, the negative consequences typically attributed to post-acquisition integration processes within the human resources management and organizational behaviour literature do not systematically occur (Marks and Mirvis, 1985; Mirvis, 1985; Schweiger et al., 1987; Buono and Bowditch, 1989; Astrachan, 1990).

This chapter has provided the findings related to the impact of post-acquisition management and performance. The next chapter will provide the conclusion of the study.

CHAPTER NINE

CONCLUSIONS

9.1 INTRODUCTION

This chapter presents the conclusions of the research. The chapter starts with a summary of the research findings. The following section presents the academic and practical contributions arising from the research in light of the acquisition research, knowledge based research and international business strategy literatures. The limitations of this research as well as recommendations for future research are presented in the final section.

9.2 SUMMARY OF RESEARCH FINDINGS

The aim of this study was to investigate the management of cross border acquisitions and performance. Table 9.1 shows the hypotheses tested in this study along with the corresponding level of support for each hypothesis. The data analysis revealed a number of findings which are summarized below.

9.2.1 MOTIVES FOR CROSS BORDER ACQUISITIONS

Cross border acquisitions are seen primarily as a means to enable presence in new markets, to enable faster entry to the market, to facilitate international expansion, and to gain new capabilities. In terms of underlying theoretical explanations, the main strategic motives are underpinned by the theories of strategic positioning and the resource based view (RBV) of the firm. The first three ranked motives are concerned with improving the firm's competitive position through the use of acquisition that may be characterized as most importantly allowing the UK firms to enter new foreign markets at speed and/or consolidating existing market positions.

The leading set of motives also lends support to the RBV of acquisition as the respondents recognized that the acquisition occurs because the acquirer lacks the necessary capabilities or assets required to remain competitive in the foreign market. Where one firm wishes to acquire a capability that it does not have but is possessed by a target firm then an acquisition may facilitate obtaining this capability.

Table 9.1: A summary of research hypotheses and support for each hypothesis

Research area	Hypothesis	Statistical analysis	Hypothesis support
Motives for cross border acquisitions	H1: The relative importance of strategic motives for cross border acquisitions will vary with the regional origin of the target firm	t-test	No support
	H2: The relative importance of strategic motives for cross border acquisitions will vary with the industry of the target firm.	t-test	Some support
	H3: The relative importance of the strategic motivates for cross border acquisitions will vary according to the pre-acquisition performance of the target firm.	t-test	Limited support
Pre-acquisition management on acquisition performance	H4: The more thorough the evaluation of the target firm the better the acquisition performance i.e. there will be a positive association between target evaluation and acquisition performance.	Regression	Reasonable support
	H5: An experienced acquirer will encounter fewer pre-acquisition problems than an inexperienced acquirer	t-test	Weak support
Determinants of top management retention	H6: Post-acquisition autonomy is positively associated with top management retention of the acquired firm.	Regression	Strong support
	H7: The acquiring firm's post-acquisition commitment to the acquired firm is positively associated with top management retention of the acquired firm.	Regression	Strong support
	H8: The use of financial incentives is positively associated with top management retention of the acquired firm.	Regression	No support
Post-acquisition management on acquisition performance	H9: The greater the degree of integration of the acquired firm within the acquiring firm, the better the acquisition performance i.e. there will be a positive association between the degree of integration and cross border acquisition performance.	Regression	Reasonable support
	H10: The greater the organizational cultural difference between the acquired and acquiring firm the lower the acquisition performance i.e. there will be a negative association between organizational cultural difference and cross border acquisition performance.	Regression	Limited support
	H11: The greater the level of knowledge transfer between the acquired and the acquiring firms the greater the acquisition performance i.e. there is a positive relationship between knowledge transfer and cross border acquisition performance.	Regression	Relatively strong support
	H12: The greater the extent of top management retention of the acquired firm the greater the acquisition performance i.e. there will be a positive association between top management retention and acquisition performance.	Regression	Limited support

The study did not find support for hypothesis 1, indicating that the relative importance of the strategic motives do not vary significantly between the regional origin of the target firm. The findings indicate that the relative importance of the strategic motives vary to a moderate extent with the sector of acquisition activity, providing some support for hypothesis 2. There is limited support for hypothesis 3, in that there is little variation in the relative importance of the strategic motives with pre-acquisition performance of the target firm. However, in the key motive of target improvement there is a significant difference in means with a significantly higher mean for not profitable acquisitions. In general, there is little variation in the relative importance of the motivating factors across the characteristics of the sample. Where there is variation, while this is sometimes readily explicable, it is not always obvious.

9.2.2 PRE-ACQUISITION MANAGEMENT ISSUES AND PERFORMANCE

Prior research on the pre-acquisition phase has noted that strategic, financial, and technical aspects override human and organisational aspects in the due diligence phase (Greenwood et al., 1994; Marks, 1999). Indeed, the focus in the due diligence phase generally centres around carrying out the legal, financial, and technical due diligence analysis (Hayes, 1979; Napier, 1989; Madura et al., 1991; Kissin and Herrera, 1990) in addition to the negotiation process itself (O'Connor, 1985). Extant M&A research has argued for the importance of studying organisational fit in parallel with the traditional financial evaluation (Datta, 1991, Forstmann, 1998). The findings of the present study lend support to the importance of evaluating the target firm's strategic and cultural relatedness along with its financial health.

The study identifies the factors evaluated in selecting foreign firms. The factors evaluated thoroughly by UK firms are the target firm's strategic and cultural relatedness, market position, technological and business competence, management capability and cash flow generating capability. The ranking of the factors appears to suggest that UK firms do not perceive target evaluation as simply a financial assessment but a detailed investigation that tests the feasibility of the proposed acquisition.

The extent of problems experienced by UK firms in managing the pre-acquisition phase is also identified. Interestingly, the findings suggest that the severity of the problems experienced by the acquiring firm ranges from moderate to low. UK firms faced moderate levels of problems in collecting information about the acquired firm, ensuring the reliability of the information collected, understanding different management styles and understanding different cultures.

This study investigated the impact of target firm evaluation on acquisition performance. The findings provided reasonable support for Hypothesis 4, suggesting that thorough evaluation of the target firm enhances acquisition performance. Thorough evaluation of the strategic and cultural fit is found to have a positive influence on acquisition success. Moreover, the analysis reveals that thorough evaluation of the target firm's employee and business capability improves the acquisition performance.

The findings provide weak support for hypothesis 5, suggesting that both experienced acquiring firms and inexperienced acquiring firms face similar levels of pre-acquisition problems. With the exception of understanding national and corporate cultural issues, both experienced acquiring firms and inexperienced acquiring firms face similar problems in understanding negotiation issues, communication issues, deal structuring issues, and tax, accounting, legal and regulatory issues. This may be explained in two ways. First, high levels of heterogeneity along multiple dimensions (e.g. due diligence, negotiation, financing, etc.) prevents effective learning. Secondly, time and competitive pressure prevent the acquirer from learning everything about a specific target firm before closing the deal. Therefore, acquisition experience may not always lead to better understanding of pre-acquisition issues.

9.2.3 DETERMINANTS OF TOP MANAGEMENT RETENTION

The study identified the key employees that acquirers wished to retain during the acquisition integration phase. The acquirers considered that the most important employees to retain were middle management followed by top management, marketing employees and R&D employees. This finding indicates that the acquired firm's top managers are not always the most critical portion of the acquired firm's human capital. Given the focus on top management teams in prior research on acquisitions, the findings of this study provide a new perspective. Middle managers and others with key skills in the acquired firms may be as important to retain as the top managers.

The findings provide strong support for hypothesis 6, suggesting a positive influence of continued autonomy of the acquired firm on top management retention. Consistent with prior research, the findings indicate that granting autonomy to an acquired firm's top managers increases their feelings of relative standing in the firm and, therefore, reduces the probability of them leaving.

The acquirer's corporate commitment to the acquisition was also found to have a positive influence on top management retention providing support for hypothesis 7. Evidence of commitment on the part of the acquirer appears to enhance the acquired employees' comfort with, and commitment to, the newly combined firms.

Surprisingly, this study found no support for hypothesis 8, indicating no significant influence of financial incentives on top management retention. Neither financial incentives based on time nor financial incentives based on post-acquisition performance criteria, were effective determinants of top management retention. The more socially oriented factors related to autonomy and commitment were found to be more important determinants of top management retention than the more economically related financial incentives.

9.2.4 POST ACQUISITION MANAGEMENT ISSUES AND PERFORMANCE

The study investigated the impact of the post-acquisition management processes on the performance of cross border acquisitions. The findings suggest that the process view of acquisitions is relevant in understanding the post-acquisition management process, thus, providing reasonable support for hypothesis 9. Although prior research has been inconclusive, the findings of this study suggest that the benefit gained through higher levels of integration might be greater than the costs inherent to the integration process.

Another finding is that organizational culture differences negatively influence cross border acquisition performance. The prior research suggests that a performance impact between differences in organizational cultures varies from negative to positive. The results of this study provide (although limited) support for hypothesis 10, indicating a negative relationship between organizational cultural differences and cross border acquisition performance.

The findings also indicate that the success of cross border acquisitions largely depends on the ability to transfer knowledge. For the two alternative measures of acquisition performance identified in the study (i.e. market share and sales growth, and EPS and share price), transfer of knowledge (both in functional areas and the general management area) is a strong determinant of cross border acquisition performance. This provides relatively strong support for hypothesis 11, suggesting that the greater the transfer of knowledge to and from the acquired firm the higher will be the acquisition performance.

The study also finds (although limited) support for H12, suggesting that a higher level of top management retention can lead to better acquisition performance. This is not surprising given the popularity of employee retention in many acquisition implementation plans.

9.3 ACADEMIC AND PRACTICAL CONTRIBUTIONS

In this section, the contributions arising from this study are presented in light of the acquisition research and international business strategy literature. The analysis of this study has given rise to a number of specific contributions to the cross border acquisitions and international business strategy literatures. These pertain to individual topics within the developed integrative framework.

9.3.1 ACADEMIC CONTRIBUTION

Prior research has largely focused on post-acquisition issues (e.g. Jemison and Sitkin 1986b; Haspeslagh and Jemison, 1991). The role of pre-acquisition issues in the success of the implementation phase has not been the subject of extensive research (see e.g. Schweiger and Goulet, 2000) and calls have been made for more research into its effect on the acquisition process (Greenwood et al., 1994; Schweiger and Goulet, 2000). The process perspective on acquisitions (Jemison and Sitkin, 1986b; Haspeslagh and Jemison, 1991) introduced the need to consider the importance of pre-acquisition issues in acquisition process and success. Recently, Quah and Young (2005) studied the pre-acquisition phase from the perspectives of the likely employee reactions, the planning of post-deal changes, actions to be taken, and cultural factors to watch out for.

In this context, the study's findings contribute to research on cross border acquisition management by extending the work of Jemison and Sitkin (1986b), Haspeslagh and Jemison (1991), and Quah and Young (2005), especially as regards to the pre-acquisition issues such as the evaluation of the target firm. In doing so, the study's findings refocus the debate from post-acquisition integration issues towards pre-acquisition issues. The study has examined the impact of evaluation of the target firm on acquisition performance which has rarely been attempted in previous research.

Another major contribution of this thesis is that it provides an empirical examination of the effect of knowledge transfer on the success of cross border acquisitions. Only recently have strategy researchers viewed firms as integrative mechanisms to foster knowledge transfer and integration (Grant, 1996b; Kogut and

Zander, 1992). The knowledge-based view has received much conceptual and empirical attention, with important emphasis on core competencies (Prahalad and Hamel, 1990), tacit knowledge (Nonaka, 1994), and numerous types of knowhow and specific forms of expertise (e.g., Gupta and Govindarajan, 2000) to attain sustained competitive advantages, and long-term profitability. However, the current understanding of whether knowledge transfer or knowledge integration leads to success is limited (Eisenhardt and Santos, 2002). Thus, a primary contribution of this study is the examination of the impact of knowledge transfer on cross border acquisition performance. The findings of this study provide support for the knowledge-based view of cross border acquisitions.

Another key contribution of this study is the use of multiple theoretical approaches in understanding the relationship between post-acquisition management process and acquisition performance. The performance of cross border acquisitions has been examined using the lenses of the resource-based view, process-based view, and human capital theory simultaneously. This study attempts to bridge and integrate different theoretical approaches to the highly visible phenomenon of corporate acquisitions. From the view point of academic researchers, the findings highlight the importance of taking a broad perspective in studying cross border acquisition performance.

The study contributes to our understanding of the role of the foreign context of cross border acquisitions. Researchers have proposed and found support for a negative relationship between organizational cultural differences and acquisition performance. Commonly, these researchers emphasize that cultural differences increase the chance of culture clashes during acquisition integration, complicating the acquisition implementation process and success. This study provides support (although limited) in favour of this argument, suggesting an inverse relationship between organizational cultural differences and acquisition performance.

This study contributes to the existing literature by assessing the determinants of top management team retention in cross border acquisitions in terms of the impact of autonomy given to the acquired firm, the acquirer's commitment to the acquired firm and financial incentives provided to employees. This has been attempted by very few prior studies. A particular distinguishing feature of this study is that it investigates the determinants of top management retention in cross border acquisitions by applying both the theory of relative standing and the financial incentive mechanism of retention.

The study contributes to the research on acquisition motives by providing support to the theories of strategic positioning and the resource based view (RBV) of the firm. The highest ranked motives identified in this study are concerned with improving the firm's competitive position through the use of acquisitions. The leading set of motives also lends support to the RBV of acquisition, particularly when it is recognized that the acquisition is formed because the acquirer lacks the necessary capabilities or assets required to remain competitive in the foreign market.

The study also contributes to the research by providing a description of the types of cross border acquisitions undertaken by the UK firms during the current takeover boom, the process undertaken in their management and the outcomes achieved. A number of distinctive sample characteristics were revealed along with some distinctive acquisition management processes.

9.3.2 PRACTICAL CONTRIBUTIONS

In this section attention is given to the practical contributions of the research findings. The practical relevance needs to be set in the current economic context in which cross border acquisitions remain a recurring and central phenomenon in the corporate world. In this context, this study provides important avenues for improving managers' appreciation of the challenges and management of cross border acquisitions. To this end, the main managerial implications stemming from this thesis are the following:

The research findings relating to the pre-acquisition management issues suggest a number of managerial implications. Firstly, thorough evaluation of the strategic and organizational fit between the target firm and acquiring firm enhances the prospects of acquisition success. Thorough evaluation of the target firm's employee and business capability also contributes to the desired acquisition outcome. Secondly, management should pay greater attention to the strategic and organizational compatibility in the pre-acquisition phase. Finally, acquiring a profitable firm positively influences the acquisition performance.

From the perspective of management practice, this study provides managers with an indication of where to focus their efforts and expend resources in order to retain valuable human capital during cross border acquisition integration. The relatively direct approach of using financial incentives to encourage retention does not appear to be particularly effective. In contrast, other less tangible and more social factors may prove to be more significant determinants of top management retention. Rather than solely focusing on compensation issues, managers of the acquiring firms should pay increased attention to issues related to autonomy and commitment during acquisition integration.

The findings related to the post-acquisition management issues indicate a number of managerial implications. Perhaps the most critical insight of importance to managers is the finding that knowledge transfer can facilitate the achievement of acquisition performance. This study has found the transfer of knowledge to be a strong determinant of cross border acquisition performance. Another implication is that a higher level of integration can have a positive influence on cross border acquisition performance. Therefore, choosing an appropriate level of integration is crucial for the acquisition success.

9.4 LIMITATIONS OF THE RESEARCH

As with any research, this study has limitations. To begin with, an inherent weakness and limitation to the study is the fact that the sample firms are all UK acquiring firms. It may be argued that this limits the generalisation of the study's findings. The limitation of studying only UK acquiring firms can be countered by the fact that the acquiring firms came from different industries and that the acquired firms represented a variety of different country backgrounds. Thus, selecting acquiring firms from one country was a purposeful way of dealing with the otherwise high variability in the studied firms' backgrounds. It should be further recognised that the sample selection was also guided by pragmatic reasoning based on the time and cost constraints facing the researcher.

A second limitation concerns the fact that the study employed a self-administered structured questionnaire completed by one respondent from each acquiring company. The standard caveats associated with research findings based on this method of collecting data, for instance the problem of common method bias, should be recognised.

Another limitation of this study is the potential for retrospective bias, since the questionnaire asked managers to recall events that occurred in the past. To address and minimize this concern only fairly recent acquisition were selected for examination, and efforts were made to identify the individual in the acquiring firm that was involved with the acquisition decision and implementation process. A comparison of acquisitions made in 2004 to acquisitions made in 2002 served as an indication that the influence of this bias was a very minor threat to the validity of the data.

A fourth limitation is the cross-sectional research design that was used to examine the longitudinal process of cross border acquisition implementation. A longitudinal design would increase the ability of future research to better examine post acquisition management and the implementation process. Also a longitudinal design would better address the causal relationships that were proposed in the research model. Unfortunately, a longitudinal design requires repeated measurement over a number of years, which was beyond the scope of this study.

A further limitation of the study is related with the sample size. The final sample size (n = 65) limits the possibility of more integrative analysis across the different M&A stages. For instance, multi-variate analysis between the different acquisition stages could have investigated questions, such as, what types of pre- and post-acquisition processes are important/related to the successful achievement of different motives? Does the relationship between post-acquisition integration and performance vary according to the motive and therefore value creation logic of the acquisition? Is the relationship between employee retention and performance moderated by the degree of integration adopted?

9.5 DIRECTIONS FOR FUTURE RESEARCH

Based on the findings and analysis of this study, the following areas are recommended as directions for future research.

The findings of this study may provide a useful basis for future empirical investigation into the factors that contribute to acquisition performance. Further research is needed to generalize the research findings regarding the linkage between evaluation of the target firm and acquisition performance. Further research could extend this study by investigating the negative impact of evaluation of investment and financing issues on acquisition performance. Finally, future research could investigate whether factors evaluated relating to the target firm vary according to the motives of the international acquisitions.

The findings of the present study offer a useful basis for future empirical investigation of top management retention in cross border acquisitions. The findings relating to autonomy highlight a persistent dilemma when high levels of autonomy are granted to an acquired firm. With a high level of autonomy and consequently a low level of integration of the acquired and acquiring firms, it may be difficult for the resources and capabilities of the two firms to be transferred successfully, shared, and combined. Assuming that in many acquisition cases there are synergies to be realized through integration, the need to maintain a large degree of post-acquisition autonomy for the acquired firm (in order to retain employees) creates a serious challenge. How this tension can be managed successfully is a question for future research.

The impact of financial incentives on employee retention is worthy of further consideration in future research, especially given the apparent popularity of such incentives in many acquisition implementation plans. At least for some groups of employees, broader issues related to their relative standing ultimately may prove to be more important than financial incentives in determining whether they decide to remain with the acquired firm. A detailed comparison of the effects of economic incentives and social standing on post-acquisition employee retention would be a fruitful avenue for future research.

The findings of the study provide limited support for the view that a high level of employee retention can lead to better acquisition performance. The findings also provide limited support for the view that organizational cultural differences can negatively influence cross border acquisition performance (Datta 1991; Chatterjee et al., 1992). In order to provide more conclusive findings, both of these areas of post-acquisition management should be examined in future research.

The study finds that knowledge transfer and the level of integration significantly affect the prospect of superior acquisition performance. These findings can act as a guide to future research directed toward increasing understanding of the antecedents of cross border acquisition performance. Further studies are necessary in order to test the hypotheses in different contexts and to achieve a more fine-grained appreciation of the conditions under which greater or lower levels of integration improves acquisition performance. It would be useful for future research to identify the impediments associated with different levels of integration and their impact on acquisition performance. Future research could also provide additional geographical settings in which to examine cross border acquisitions, in order to validate and to extend the knowledge based view and process based view of the firm.

APPENDIX A
COVER LETTER

Dear Sir/Madam,

We are investigating the management of international acquisitions, and would like to request your assistance with our research. We have identified your firm as one that made acquisitions abroad in the 2000 to 2004 period. The purpose of the survey is to gain a deeper understanding of the factors that relate to the management of international acquisitions. The study will explore pre-acquisition management issues, post-acquisition integration issues, and post-acquisition performance. Specifically, we are interested in your experiences as the "acquirer firm" of a foreign firm.

We would greatly appreciate your participation in this research. Please find enclosed a questionnaire that we would like you to complete. If you are unable to complete this questionnaire we would be grateful if you would ask someone in your organization who is knowledgeable about the acquisition to do so. In appreciation of your participation, we will send you a summary of the research findings when the study is completed. We hope that our findings will be valuable to you and your firm.

We assure complete confidentiality. Your name and your company's name will never be placed on the questionnaire, and your responses will only be accessible to the project director.

Completing the questionnaire will take only a small amount of your time and you will make a valuable contribution to our research study. We would be pleased to answer any questions you might have regarding this study. Please call Mohammad Faisal Ahammad on 0114 222 3444 or email at: M.F.Ahammad@shef.ac.uk

We look forward to receiving your completed questionnaire. Thank you in advance for your assistance.

Yours sincerely,

Keith W. Glaister
Dean – Management School
Professor of International Strategic management

Mohammad Faisal Ahammad
Doctoral Candidate
Management School

APPENDIX B
QUESTIONNAIRE

A. BACKGROUND INFORMATION

A1. Position of the respondent (Job Title): ....

A2. What was the nationality of the foreign acquired company? Nationality:...........................

A3. When was the acquisition completed? Month: .... **Year:** ....

A4. Please give the number of acquisitions made by your company in the five years prior to this acquisition:

a) In the same country as the acquisition in question	....
b) In the UK	....
c) In other European countries (excluding the UK)	....
d) In North America (USA and Canada)	....
e) In Asia Pacific (including Australia and New Zealand)	....
f) Others	....

A5. Please provide the following information for both your company and the acquired firm at the time of the acquisition. If your company is a division/subsidiary of a larger organisation you should provide the information for your particular division/subsidiary, not for the larger parent organisation. If giving an approximate estimate please indicate with an "E".

	Your company at the time of acquisition	Acquired firm at the time of acquisition
a) Annual sales (£ million)	....	....
b) Total assets (£ million)	....	....
c) Number of employees	....	....
d) Major industry sector	....	....
e) Number of years in operation	....	....

B. THE ACQUISITION

B1. What was the ownership structure of the two companies prior to the acquisition? *Please tick one box in each column.*

	Your company	Acquired company
Publicly quoted company	[ ]	[ ]
Division/Subsidiary of publicly quoted company	[ ]	[ ]
Private, Owner-managed company	[ ]	[ ]
Private company, not Owner-managed	[ ]	[ ]

B2. Please indicate the attitude of the <u>acquired firm's</u> board towards the acquisition, <u>at the time of the purchase negotiations</u>. *Please circle the appropriate number on the scale below.*

No Resistance To Being Acquired (Willing seller)		Some Resistance To Being Acquired		Major Resistance To Being Acquired (Unwilling Seller)
1	2	3	4	5

B3. Were any <u>other companies</u> actively <u>interested</u> in purchasing the acquired firm at the time of your bid? *Please tick.*

No [ ]

Yes [ ]

B4. Please indicate the profitability (return on capital employed) of the <u>acquired firm</u> at the time of acquisition <u>relative to its major competitors</u>. *Please circle.*

<u>Very poor</u>	<u>Poor</u>	<u>Average</u>	<u>Good</u>	<u>Very good</u>
1	2	3	4	5

<u>C. MOTIVES FOR INTERNATIONAL ACQUISITION</u>

1. How important were the following <u>strategic motives</u> for the international acquisition?

Please circle your answer.

		No Importance				Very Important
a.	To enable faster entry to market	1	2	3	4	5
b.	To facilitate international expansion	1	2	3	4	5
c.	To enable presence in new markets	1	2	3	4	5
d.	Enable the overcoming of restrictions	1	2	3	4	5
e.	Increase market share	1	2	3	4	5
f.	Increase market power	1	2	3	4	5
g.	Gain efficiency through synergies	1	2	3	4	5
h.	Gain strategic assets	1	2	3	4	5
i.	Gain new capabilities	1	2	3	4	5
j.	Obtain economies of large scale production	1	2	3	4	5
k.	Obtain non-manufacturing scale economies	1	2	3	4	5
l.	Enable product diversification	1	2	3	4	5
m.	Acquire complementary resources	1	2	3	4	5
n.	Redeploy assets to the acquisition	1	2	3	4	5
o.	Tax reasons (savings)	1	2	3	4	5
p.	Replace inefficient management	1	2	3	4	5
q.	Elimination or reduction of competition	1	2	3	4	5
r.	Turn around failing acquired firm	1	2	3	4	5
s.	Cost reduction	1	2	3	4	5
t.	To reduce risk of the business	1	2	3	4	5
u.	Other (Please specify)................................	1	2	3	4	5

D. PRE – ACQUISITION PHASE

1. **Please indicate the extent to which your company evaluated the following factors relating to the acquired firm.** *Please circle your answer.*

	Very little evaluation				Thorough evaluation
a) The strategic relatedness between your company and the acquired firm	1	2	3	4	5
b) The degree of cultural relatedness between your company and the acquired firm	1	2	3	4	5
c) The acquired firm's market position	1	2	3	4	5
d) The acquired firm's technological competence	1	2	3	4	5
e) The acquired firm's business competence	1	2	3	4	5
f) The acquired firm's management capability	1	2	3	4	5
g) The capability of the acquired firm's workforce	1	2	3	4	5
h) The effectiveness of the acquired firm's HRM policies	1	2	3	4	5
i) The degree of the acquired firm's cash flow generating capability	1	2	3	4	5
j) The acquired firm's fixed asset value	1	2	3	4	5
k) The future financing needs of the acquired firm	1	2	3	4	5
l) The future investment needs of the acquired firm	1	2	3	4	5
m) The extent of the debt of the acquired firm	1	2	3	4	5
n) The future interest payments of the acquired firm	1	2	3	4	5
o) The degree of compatibility of the IT systems of both firms	1	2	3	4	5
p) The differences in the legal system between the UK and the acquired firm's home nation	1	2	3	4	5
q) The differences in the tax system between the UK and the acquired firm's home nation	1	2	3	4	5

1. **Please indicate how different the acquired firm was to your firm, in the following areas, before the acquisition.** *Please circle your answer.*

	Very similar				Very different
a) General management styles	1	2	3	4	5
b) Values, beliefs and philosophies	1	2	3	4	5
c) Reward and evaluation systems	1	2	3	4	5
d) Types of distribution channels	1	2	3	4	5
e) Culture of home countries	1	2	3	4	5
f) Types of customers	1	2	3	4	5
g) Major products/services offered	1	2	3	4	5
h) Production and operations technologies	1	2	3	4	5
i) Approach to risk taking	1	2	3	4	5
j) Geographic markets served	1	2	3	4	5

2. In your view how important are the following factors in leading to a <u>successful acquisition deal</u>. *Please circle your answer.*

		No Importance			Very Important	
a)	Determining the appropriate price to be paid for the acquired firm	1	2	3	4	5
b)	Accurately forecasting the acquired firm's cash flows	1	2	3	4	5
c)	Identifying anticipated synergies between two firms	1	2	3	4	5
d)	Avoiding hostile takeover	1	2	3	4	5
e)	Deciding appropriate method of payment (e.g., cash or stock)	1	2	3	4	5
f)	Conducting effective due diligence	1	2	3	4	5
g)	Negotiating effectively with the acquired firm	1	2	3	4	5
h)	Obtaining advice from external advisors (e.g., investment bank)	1	2	3	4	5
i)	Anticipating reaction of the major shareholders of the acquired firm	1	2	3	4	5
j)	Broad involvement throughout of the acquired firm's personnel in the negotiation of the acquisition	1	2	3	4	5

4. **Please indicate the extent to which you experienced the following <u>problems</u> in the <u>pre-acquisition phase</u>?** *Please circle your answer.*

		No problem				Major Problem
a)	Identifying acceptable firm	1	2	3	4	5
b)	Collecting information about the acquired firm	1	2	3	4	5
c)	Ensuring reliability of the information collected	1	2	3	4	5
d)	Effectively structuring a deal	1	2	3	4	5
e)	Assembling teams to conduct the acquisition process	1	2	3	4	5
f)	Understanding different cultures	1	2	3	4	5
g)	Understanding different management styles	1	2	3	4	5
h)	Understanding acquired firm's legal systems	1	2	3	4	5
i)	Understanding acquired firm's tax systems	1	2	3	4	5
j)	Understanding local environmental regulations	1	2	3	4	5
k)	Understanding currency control regulations	1	2	3	4	5
l)	Dealing with a different accounting systems	1	2	3	4	5
m)	Negotiating employment contracts	1	2	3	4	5
n)	Overcoming language barriers	1	2	3	4	5
o)	Communicating with the acquired firm	1	2	3	4	5
p)	Negotiating with the acquired firm	1	2	3	4	5
q)	Multiple motives for acquisition leading to difficulty	1	2	3	4	5
r)	Increased personal pressure to conclude the deal	1	2	3	4	5
s)	Maintaining the confidentiality of the negotiation	1	2	3	4	5
t)	Others (please specify).................................	1	2	3	4	5

5. **<u>At the time of the acquisition</u>, please indicate how important it was for your firm to <u>retain employees of the acquired firm</u> in the following categories?** *Please circle your answer.*

	Not important				Extremely important
a) Top management	1	2	3	4	5
b) Middle management	1	2	3	4	5
c) Research and development	1	2	3	4	5
d) Manufacturing and operations	1	2	3	4	5
e) Marketing, sales and distribution	1	2	3	4	5
f) Finance, legal and other staff	1	2	3	4	5

<u>E. THE POST – ACQUISITION PHASE</u>

1. **What was the extent of your firm's acquisition <u>experience</u> at the time of this acquisition?**

No experience				Great experience
1	2	3	4	5

2. **To what extent had the <u>prior</u> top management team of the acquired firm (board level and one-below board level) changed one year after the acquisition?** *Please circle the appropriate number.*

Little or no Change		Moderate Turnover		Complete Turnover
1	2	3	4	5

3. **Please indicate the extent to which the following <u>incentives</u> were offered <u>to encourage</u> employees of the acquired firm to stay with the company.** *Please circle your answer.*

	No extent				Great extent
a) Short-run incentives (e.g. a large bonus payable after the expiration of a certain period of time)	1	2	3	4	5
b) Long-term contracts	1	2	3	4	5
c) Stock options	1	2	3	4	5
d) Performance bonuses	1	2	3	4	5

4. **Please indicate the extent to which you <u>agree</u> with the following statements?** *Please circle your answer.*

	Strongly Disagree				Strongly agree
a) Your firm was visibly committed to making the acquisition a success	1	2	3	4	5
b) Your firm provided support for continued training and development of the acquired firm's employees	1	2	3	4	5
c) Your firm provided support for travel and liaison between the two firm	1	2	3	4	5
d) Your firm provided positive internal and external messages emphasizing the importance of the skills and capabilities of the acquired firm	1	2	3	4	5

5. **Pleases indicate how <u>frequently</u> the acquiring company used the following <u>communication</u> methods and style in dealing with the managers of the acquired company during the integration process.** *Please circle your answer.*

	Hardly ever				Very frequently
a) Use of first name	1	2	3	4	5
b) Holding regular meeting at all levels	1	2	3	4	5
c) Written memos	1	2	3	4	5
d) Longer more detailed reports or studies	1	2	3	4	5
e) E-mail messages	1	2	3	4	5
f) Phone conversations	1	2	3	4	5
g) Socialize outside work	1	2	3	4	5
h) Establishing notice board to present mission and vision statement	1	2	3	4	5

6. **Please indicate the <u>degree</u> of centralization or decentralization of <u>strategic decision</u> making in the acquired firm following acquisition.** *Please circle your answer.*

Centralized				Decentralized
1	2	3	4	5

7. **Please indicate the <u>degree</u> of centralization or decentralization of <u>operational decision</u> making in the acquired firm following acquisition.** *Please circle your answer.*

Centralized				Decentralized
1	2	3	4	5

8. **Are any of the following <u>positions</u> (or their equivalent) held by <u>people from your company</u> in the acquired firm** (i.e. appointed by the acquiring company from among acquiring company staff <u>or</u> from new staff appointed by the acquiring company)? *Please tick.*

	Yes	No
1. CEO	[ ]	[ ]
2. Finance director	[ ]	[ ]
3. Operations director	[ ]	[ ]
4. Sales and marketing director	[ ]	[ ]
5. R&D director	[ ]	[ ]
6. HRM	[ ]	[ ]
7. Other reporting directly to the CEO (Please specify)	[ ]	[ ]

9. **Transfer of skills: For each of the activities given below please indicate the extent to which benefits based on transferring skills have been:**

   a. **Actively sought** since the time of acquisition (by circling to the appropriate number on the left hand scale)

   b. **Actually achieved** as of now (by circling the appropriate number on the right hand scale)

   (The direction of skills transfer may be either from your company to the acquired firm or vice-versa)

ACTIVELY SOUGHT						ACTUALLY ACHIEVED				
No Skills Transfer		Some Skills Transfer		Significant Skills Transfer	**Functional Areas**	No Skills Transfer		Some Skills Transfer		Significant Skills Transfer
1	2	3	4	5	Research and Development	1	2	3	4	5
1	2	3	4	5	Product and Service design	1	2	3	4	5
1	2	3	4	5	Purchasing / Supplier relation	1	2	3	4	5
1	2	3	4	5	Service / Manufacturing operations	1	2	3	4	5
1	2	3	4	5	Marketing and Sales	1	2	3	4	5
1	2	3	4	5	Distribution / Outlets	1	2	3	4	5
1	2	3	4	5	Customer Service	1	2	3	4	5
					Administrative Areas					
1	2	3	4	5	Strategic Planning	1	2	3	4	5
1	2	3	4	5	Financial Reporting	1	2	3	4	5
1	2	3	4	5	Investment Appraisal	1	2	3	4	5
1	2	3	4	5	Personnel / HRM	1	2	3	4	5

10. <u>Decision making process</u>: **Please indicate whether the following decisions relating to <u>the acquired firm</u> are <u>now</u> made by the current top management of your company, by the acquired firm or jointly (i.e. by the two firms).** Please circle your answer, if not applicable please circle N/A.
(Note: where the acquired firm is no longer recognisable as a separate entity, please indicate 'your company' as now making the decision.)

	Type of Decisions		**Decisions made by top management of**		
	Product / Market decisions in the acquired firm		**Your company**	**Acquired firm**	**Jointly**
a)	Introducing a new product line/service	N/A	1	2	3
b)	Discontinuing an existing product line/service	N/A	1	2	3
c)	Expanding into new geographic markets	N/A	1	2	3
d)	Deciding brand names	N/A	1	2	3
e)	Change in distribution channels / Outlet sites	N/A	1	2	3
f)	Investing in major assets to expand capacity for existing product/services	N/A	1	2	3
g)	Determining Research and Development content	N/A	1	2	3
h)	Determining Research and Development budget	N/A	1	2	3
	Operating Decisions in the acquired firm				
i)	Purchasing important raw materials/services	N/A	1	2	3
j)	Changing the selling price on a major product or service	N/A	1	2	3
k)	Changing selling and marketing techniques	N/A	1	2	3
l)	Changing level of expenditure for advertising and promotion	N/A	1	2	3
	Personnel / Administrative decisions in the acquired firm				
m)	Hiring, promoting, firing high level managers (Board/one-below board)	N/A	1	2	3
n)	Hiring, promoting, firing lower level mangers	N/A	1	2	3
o)	Changing salary and fringe benefit levels for salaried personnel	N/A	1	2	3
p)	Determining and changing budget plans	N/A	1	2	3
q)	Changes in high level reporting relationships / Organizational structure (Board / one-below board level)	N/A	1	2	3
r)	Changes in lower level reporting relationships / Organisational structure	N/A	1	2	3
	<u>Overall</u> On balance, taking everything into account, indicate your estimate of the <u>decision-making process</u> for				
s)	**Operating decisions**		1	2	3
t)	**Strategic decisions**		1	2	3

F. ACQUISITION PERFORMANCE

1. **Has the acquired firm been divested?** *Please tick.*

   Yes Go to question 2 **No** Go to question 3

2. **What was the reason for divestment?** *Please tick all that apply.*
   - ☐ Change of focus or corporate strategy
   - ☐ Acquired firm proved unprofitable
   - ☐ Acquired firm sold at a profit
   - ☐ Acquired firm managed poorly
   - ☐ To finance subsequent acquisition
   - ☐ To eliminate internal conflict
   - ☐ To provide a takeover defence
   - ☐ Acquired firm proved incompatible with the acquiring firm
   - ☐ Acquired firm once had synergy with acquirer firm but now no synergy
   - ☐ To separate businesses that have different capital requirements
   - ☐ To separate businesses that have different operating characteristics

3. **Who decides the acquired firm's key performance goals and competitive strategies?** *Please circle your answer.*

Your firm decides	Acquired firm decides	Jointly decided
1	2	3

4. **For each of the following categories of performance, to what extent has the acquisition performance met initial expectations.** *Please circle your answer.*

	Expectation Not met				Fully met	No initial expectation
1. Profitability	1	2	3	4	5	6
2. Sales growth	1	2	3	4	5	6
3. Growth in market share	1	2	3	4	5	6
4. Return on investment	1	2	3	4	5	6
5. Return on Sales	1	2	3	4	5	6
6. Asset Utilization	1	2	3	4	5	6
7. Cash flow	1	2	3	4	5	6
8. Earnings per share	1	2	3	4	5	6
9. Share price	1	2	3	4	5	6

5. **Overall, how successful has the acquisition been for your company?** *Please circle your answer*

Not successful				Very successful
1	2	3	4	5

G. OTHER COMMENTS

If you have any other comments you wish to make about the management of acquired firms, or wish to explore any question in more detail, please do so below.

H. SURVEY FEEDBACK

We will be pleased to send you a summary of the results from this survey. If you would like to receive a summary please provide your details below.

APPENDIX C

Factor analysis of the pre-acquisition evaluation items

	Factor loads	Eigenvalue	% Variance explained	Cumulative percent	Cronbach's alpha
Factor 1: Investment and financial issues		3.35	23.90	23.90	0.85
The future investment needs of the acquired firm	0.84				
The extent of the debt of the acquired firm	0.73				
The future interest payments of the acquired firm	0.72				
The degree of the acquired firm's cash flow generating capability	0.72				
The future financing needs of the acquired firm	0.72				
Factor 2: Employee and Business capability		3.16	22.57	46.48	0.83
The acquired firm's business competence	0.83				
The acquired firm's management capability	0.83				
The capability of the acquired firm's workforce	0.78				
The effectiveness of the acquired firm's HRM policies	0.72				
Factor 3: Legal, Tax & IT compatibility		2.07	14.77	61.26	0.72
The differences in the legal system between the UK and the acquired firm's home nation	0.85				
The differences in the tax system between the UK and the acquired firm's home nation	0.78				
The degree of compatibility of the IT systems of both firms	0.57				
Factor 4: Strategic and organizational fit		1.43	10.21	71.47	0.64
The strategic relatedness between your company and the acquired firm	0.81				
The degree of cultural relatedness between your company and the acquired firm	0.67				

Notes: Principal component factor analysis with varimax rotation. K-M-O Measure of sampling adequacy = 0.727 Bartlett's test of Sphericity = 475.990, $p < 0.000$.

Factor 1: Investment and financing issues. This factor had high positive factor loadings on the following five pre-acquisition aspects: the future investment needs of the acquired firm, the extent of the debt of the acquired firm, the future interest payments of the acquired firm, the degree of the acquired firm's cash flow generating capability and the future financing needs of the acquired firm. The first factor can be interpreted as a thorough evaluation of investment and financing issues.

Factor 2: Employee and business capability. The second factor had high positive loadings on the following four pre-acquisition aspects: the acquired firm's business competence, the acquired firm's management capability, the capability of the acquired firm's workforce and, the effectiveness of the acquired firm's HRM policies. This factor can be interpreted as a thorough evaluation of the employee and business capability.

Factor 3: Legal, Tax and IT compatibility. This factor had high positive factor loadings on three pre-acquisition aspects: the differences in the legal system between the UK and the acquired firm's home nation, the differences in the tax system between the UK and the acquired firm's home nation and, the degree of compatibility of the IT systems of both firms. This factor, therefore, is interpreted as a thorough evaluation of the legal, tax and IT compatibility.

Factor 4: Strategic and organizational fit. This factor had high positive factor loadings on two pre-acquisition aspects: The strategic relatedness between the acquiring company and the acquired firm and, the degree of cultural relatedness between the acquiring company and the acquired firm. This factor is interpreted as a thorough evaluation of the strategic and organizational fit.

Factor analysis of understanding pre-acquisition problems

Factor 1: Tax, accounting, legal and regulatory issues. The first factor had high positive loadings on the following five pre-acquisition problems: understanding acquired firm's tax systems, understanding local environmental regulations, understanding acquired firm's legal systems, dealing with different accounting systems, understanding currency control regulations. This first factor was, therefore, interpreted to be a problem related to understanding tax, accounting, legal and regulatory issues.

Factor 2: National and corporate cultural issues. This factor had high positive loadings on two pre-acquisition problems: understanding different cultures and understanding different management styles. It was interpreted that this second factor reflects problems with understanding national and corporate cultural issues.

Factor 3: Negotiation issues. The third factor had high positive loadings on three pre-acquisition problems: negotiating with the acquired firm, multiple motives for acquisition leading to difficulty in negotiation and negotiating employment contracts of acquired firm's employees. This factor can be interpreted as a problem connected with understanding negotiation issues.

Factor 4: Communication issues. This factor had high positive loadings on the following three pre-acquisition problems: communicating with the acquired firm, identifying acceptable firm, overcoming language barriers. This factor may be interpreted as a problem related with understanding communication issues.

Factor 5: Deal structuring issues. The last factor had high positive loadings on the following three pre-acquisition problems: effectively structuring a deal, ensuring reliability of the information collected, assembling teams to conduct the acquisition process. This factor may be interpreted as a problem connected with understanding deal structuring issues.

Factor analysis of understanding pre-acquisition problems

	Factor loads	Eigenvalue	% Variance explained	Cumulative percent	Cronbach's alpha
Factor 1: Tax, accounting, legal and regulatory issues		3.46	21.66	21.66	0.87
Understanding acquired firm's tax systems	0.89				
Understanding local environmental regulations	0.86				
Understanding acquired firm's legal systems	0.84				
Dealing with a different accounting systems	0.70				
Understanding currency control regulations	0.60				
Factor 2: National and corporate cultural issues		2.00	12.51	34.18	0.74
Understanding different cultures	0.86				
Understanding different management styles	0.75				
Factor 3: Negotiation issues		1.92	12.05	46.24	0.67
Negotiating with the acquired firm	0.80				
Multiple motives for acquisition leading to difficulty in negotiation	0.78				
Negotiating employment contracts of acquired firm's employees	0.57				
Factor 4: Communication issues		1.92	12.00	58.24	0.62
Communicating with the acquired firm	0.70				
Identifying acceptable firm	0.69				
Overcoming language barriers	0.69				
Factor 5: Deal structuring issues		1.84	11.52	69.77	0.69
Effectively structuring a deal	0.86				
Ensuring reliability of the information collected	0.71				
Assembling teams to conduct the acquisition process	0.55				

Notes: Principal component factor analysis with varimax rotation. K-M-O Measure of sampling adequacy = 0.710 Bartlett's test of Sphericity = 447.329, $p < 0.000$.

APPENDIX D

Factor analysis of measures of performance

Performance measures	Factor loads	Eigenvalue	% Variance explained	Cumulative percent	Cronbach's alpha
Factor 1: Market Share and Sales growth		2.36	26.29	26.29	0.81
Sales growth	0.87				
Return on Sales	0.75				
Growth in market share	0.71				
Cash flow	0.51				
Factor 2: EPS and Share Price		2.23	24.84	51.13	0.81
Share price	0.88				
Earnings per share	0.86				
Asset Utilization	0.65				
Factor 3: Profitability		2.08	23.13	74.26	0.89
Profitability	0.90				
Return on investment	0.88				

Notes: Principal component factor analysis with varimax rotation. K-M-O Measure of sampling adequacy = 0.774 Bartlett's test of Sphericity = 292.436, $p < 0.000$.

Factor 1: Market share and sales growth. The first factor had high positive factor loadings on the four measures of performance: sales growth, return on sales, growth in market share and, cash flow. This factor can be interpreted as a performance measures related to market share and sales growth.

Factor 2: Earning per share (EPS) and Share price. This factor had high positive factor loadings on the three measures of performance: share price, earning per share and, asset utilization. This factor may be interpreted as a performance measures associated with EPS and share price.

Factor 3: Profitability. The third factor had high positive factor loadings on the two measures of performance: profitability and return on investment. This factor, therefore, interpreted as a performance measures connected with profitability.

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