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Sydney Finkelstein
Cary L. Cooper
Editors

Emerald

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ADVANCES IN MERGERS AND ACQUISITIONS

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INTRODUCTION

The first paper in Volume 13, by Drees, is a meta-analysis of 204 articles that have examined how mode of growth – alliances, joint ventures, and mergers and acquisitions – differentially impacts firm performance. This is an ambitious project, as Drees reviews over 200 articles. In the end, his findings are intriguing: M&As were related to accounting-based financial returns, and symbolic performance, but not market-based returns. In contrast, alliances had a positive effect on all three types of performance.

Of course, a study such as this one cannot answer the question of what specifically accounts for M&A success and failure. Instead, it is a perfect table-setting for a volume that digs deep to try to identify what really counts. The answers that emerge from the other papers in the volume span such key drivers as resource complementarity, technological similarity, post-acquisition integration, and leadership, to name a few. Let's take a look.

Complementary resources are at the heart of modern strategic analysis. Companies grow by combining resources within and across firm boundaries in an attempt to create scarce and inimitable resource bundles that drive competitive advantage. King describes how this might arise, in the process deriving important implications not just for the resource-based view of the firm, but for the theory of competitive advantage as well. Both alliances and acquisitions are means to achieve such resource combinations, with King proposing a variety of outcomes all based on the inherent value of complementarity to firm growth.

Chondrakis and Farchi also tackle a fundamental issue in corporate strategy, this time the question of technological similarity in acquisitions and innovative performance (invention quantity and quality). In a study of acquisition and patenting activity in two industries over a sixteen-year period, while they confirm that the relationship between M&A technological similarity and invention quantity is inverted U-shaped, they also find that invention quantity increases more in complex technology industries (e.g., semiconductors) than in discrete technology industries (e.g., pharmaceuticals). Their theory suggests this is due to innovation cumulativeness and the interdependencies developed between patent rights in complex technology settings.

What is so attractive about these two articles is that both are good examples of how deep dives into the core of strategic analysis opens new doors of understanding about mergers and acquisitions. By studying resource complementarity and technological similarity, these authors are front and center on key issues that have shaped how the strategy literature looks at M&A activity.

Could past divestitures actually play a role in how firms behave when making subsequent acquisitions? They could, argued Bertrand, Betschinger, and Petrina, when those divestitures actually help firms build relevant capabilities, such as strategic flexibility. Specifically, these authors investigate the relationship between divestiture activity and both target risk and the initial acquisition premium offered by the acquirer, in a massive study of over 7,000 acquisitions in 52 countries. They find that target risk goes up with past divestments (presumably because this past experience boosts acquirer confidence that they can make it work) and acquisition premiums go down with past divestments (because of their stronger negotiation position). While it would have been nice to get finer grained measures of divestiture capabilities, this article is still interesting for how it links divestments and M&As as part of a broader corporate strategy.

The cross-border theme takes center stage in the next two papers. First, Liu and Deng survey the growing number of Chinese overseas acquisitions to suggest an important research agenda to better understand the dynamics and process behind this activity. Their framework highlights institutional, organizational, and individual-level considerations, as well as three core areas for future study: negotiation, learning and knowledge management, and leadership and human resource management. This structure for future work is broad, yet connects well to other research on M&A from United States and other Western settings. It will be interesting to examine how Chinese cross-border deals differ from Western deals, to be sure, but there will also be an opportunity to develop new theory – as opposed to simply testing extant theory – and that will have tremendous upside moving forward.

The second paper on cross-border mergers and acquisitions takes on an issue that is critical, yet seldom studied: temporal dynamics in M&A integration. Applying an inductive research methodology to a Finnish company's acquisition of three R&D units in three different countries, Teerikangas and Laamanen unravel how structural and cultural integration are inter-connected and find some integration patterns are better than others. For example, because cultural integration does not get going until some degree of structural integration has occurred, firms have no choice but to start with the latter. But, because cultural differences can derail the entire integration process, structural changes must be undertaken with full appreciation of the cultural dynamics at work. There is much more to like in this paper, including a variety of nuanced insights and examples that can emerge only via such careful grounded theory research.

Angwin and Urs also recognize the difficulty of understanding the underlying dynamics of acquisition integration. Their approach is to focus on organizational routines as the core unit of analysis, something very few studies have done to date when it comes to this topic. Acquisition integration, according to this perspective, is about the amalgamation of bundles of routines. We are very excited by this approach, given both its potential for theory development and its mapping onto the practical elements of what goes on during integration. These authors compare two modes of amalgamation – combination and superimposition – as seen in two different case studies, to help explain key organizational level outcomes. It would not be surprising to see more scholars pick up on this work to investigate resource bundles as a key element in M&A integration.

The final paper in this volume, by Junni and Sarala, surveys past research to categorize how the role of leadership in mergers and acquisitions research has been modeled. While it would have been nice to see an integrative framework emerge from this effort, the article will provide a good summary for scholars setting out to study leadership in this context. It turns out that there are numerous approaches to how leadership is viewed in M&As, suggesting that there is room for more conceptual clarity and integration in subsequent work. For scholars, this paper is a good place to begin that thinking, but for this volume of articles, it turns out to be our concluding piece.

Once again, as is always the case when we put together a new collection of articles on mergers and acquisitions, the variety of context, question, methodology, and result is remarkable. We are happy to bring this collection to our readers and excited for the potential that much of this work holds to suggest new ways of thinking about what works, and what doesn't, when it comes to this central method of growth for companies around the world.

Sydney Finkelstein
Cary L. Cooper
Editors

CONTENTS

(DIS)AGGREGATING ALLIANCE, JOINT VENTURE, AND MERGER AND ACQUISITION PERFORMANCE: A META-ANALYSIS

Johannes M. Drees

ABSTRACT

Extant research posits that mergers and acquisition (M&As) do not create value. Still many firms adopt expansion strategies such as alliances, joint ventures (JVs), and M&As to grow and enhance their performance. Through performing a meta-analysis on 204 papers that assess the relationship between the three most prevalent expansion strategies formed by firms, alliances, JVs, and M&As and their different substantive and symbolic performance effects, this study contributes in two ways. First, it becomes clear that alliances and M&As enhance a firm's substantive performance, while no positive performance effect is observed for JVs. In turn, all three expansion strategies boost a firm's symbolic performance in terms of its legitimacy and status. Second, a distinction between their effects on a firm's substantive performance in terms of their market-based and accounting-based performance shows that alliances and

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M&As both positively contribute to a firm's accounting-based performance, while only the former spurs a firm's market-based returns. This indicates that M&As have more long-term accounting-based performance effects compared to alliances and JVs, which suggests that in the long-term firms do best by expanding through M&As.

Keywords: Alliances; joint ventures; mergers and acquisitions; meta-analysis; symbolic performance; substantive performance

INTRODUCTION

To grow, firms often use cooperative expansion strategies, such as alliances, joint ventures (JVs), and mergers and acquisitions (M&As). However, the contribution of these arrangements to performance differs because they meet different demands for the involved firms (e.g., Datta, Pinces, & Narayanan, 1992; King, Dalton, Daily, & Covin, 2004; Porrini, 2004; Villalonga & McGahan, 2005; Wang & Zajac, 2007). For example, an alliance primarily benefits firms by providing access to knowledge from a counterpart while enabling the two firms to maintain their individuality (Grant & Baden-Fuller, 2004; Gulati, 1998). In turn, a joint venture generally involves an equity investment and is often established as a distinct organizational entity to jointly develop a product or share a technology (Ahuja, 2000). A third way in which firms expand is by absorbing all of the resources of a target firm through a merger or an acquisition (Brealey, Myers, & Allen, 2005).

Whereas certain studies demonstrate that alliances, JVs, and M&As improve a firm's performance (e.g., Capron, 1999; Pfeffer, 1972; Stuart, Hoang, & Hybels, 1999; Villalonga & McGahan, 2005; Weitz & Shenhav, 2000), other studies report insignificant or counter-hypothesized findings (e.g., Ahuja, 2000; Goerzen, 2007; Hébert, Very, & Beamish, 2005; Pfeffer, 1972; Vanhaverbeke, Duysters, & Noorderhaven, 2002). These differences are possibly the result of a variation in the type of performance measure used in studies on expansion strategies. In particular, M&A announcements are often negatively received in terms of market-based performance (e.g., shareholder returns and sales). In contrast, because they tend to be less risky and enable firms to remain more flexible, the announcement returns of alliances and JVs are generally less severe or even positive (Chan, Kensinger, Keown, & Martin, 1997; Das, Sen, & Sengupta, 1998; Madhavan & Prescott, 1995; Zollo & Meier, 2008). In turn, the effects of

M&As can be more positive in the long-term regarding their contribution to a firm's accounting-based performance (e.g., return on assets, equity) (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Merchant & Schendel, 2000; Seth, 1990; Zollo & Meier, 2008). In addition, it is more difficult to assess the specific accounting-based returns of an alliance or joint venture because firms often not only contribute equity but also share knowledge in a cooperative relationship. Perhaps for this reason, the performance of alliances and JVs is often not specifically announced in annual reports or press releases.

In addition to contributing to a firm's financial performance, expansion strategies also enhance a firm's symbolic performance, which is defined as an expansion strategy's contribution to a firm's status and legitimacy (Deephouse & Suchman, 2008; Pollock, Chen, Jackson, & Hambrick, 2010; Suchman, 1995). Associations with external actors who possess high levels of legitimacy can result in social support for the focal organization because the legitimacy of such actors might "rub off" on the organization (Baum & Oliver, 1991; Bitektine, 2011; Pfeffer & Salancik, 1978). Thus, the reason to affiliate and expand may involve obtaining a "stamp of approval," which would enhance a firm's symbolic performance. Overall, the performance of alliances, JVs, and M&As is likely to vary across the type of expansion strategy and the type of performance measure assessed.

Although several narrative reviews that combine research on alliances, JVs, and M&As have focused on the verbal or conceptual interpretation of past research findings, significant performance differences remain. This wide variation in explanations of empirical conflicting results indicates a need for additional synthesis through a meta-analysis that combines all of the available empirical evidence (Hedges & Olkin, 1985). Such a meta-analysis could be used for important sensemaking, integration, and agenda-setting by synthesizing all of the findings that are presently available (Combs, Ketchen, Crook, & Roth, 2011). Moreover, it allows for a (dis)aggregation of the specific performance effects of expansion strategies through employing meta-analytic synthesizing and comparison techniques (Hedges and Olkin-type meta-analysis or HOMA; Feingold, 1992; Hedges & Olkin, 1985) on a database that contains the findings and characteristics of 192 published and 12 unpublished studies. The findings provide evidence that alliances and M&As improve a firm's financial performance. However, whereas the latter contribute more to a firm's accounting-based performance, the former primarily spur a firm's market-based performance. Moreover, alliances, JVs, and M&As are expansion strategies that positively contribute to a firm's symbolic performance, whereby alliances exhibit the largest effects. In sum, these findings suggest that significant differences are present in how the performance of expansion strategies is interpreted, as the term is used in many empirical studies. Based on the research synthesis and extension efforts, a concise evidence-based research agenda is proposed, which derives its focus and actionability from considering the newly discovered stylized facts regarding expansion strategy formation and performance (cf. Helfat, 2007).

THEORETICAL BACKGROUND

The Performance of Expansion Strategies

Despite the considerable research conducted on the performance of alliances, JVs, and M&As (Ariño & Barodzich, 2010; Barringer & Harrison, 2000; Datta et al., 1992; King et al., 2004), findings tend to diverge. Some empirical evidence seems to support the positive performance consequences of expansion strategies, which have been reported for arrangements as varied as alliances (Weitz & Shenhav, 2000), JVs (Villalonga & McGahan, 2005), and M&As (Pfeffer, 1972). However, others point in a different direction (see Ahuja, 2000; Hébert et al., 2005; Vanhaverbeke et al., 2002). Conceptually, four different substantive performance effects of these governance forms have been noted in the literature. First, expansion strategies may result in serendipitous opportunities, such as the identification of new cooperative possibilities and product development synergies (Graebner, 2004). Second, expansion strategies can enhance a firm's scope and strengthen its market position, resulting in opportunities to sell more products and enhance revenues and profits (Barringer & Harrison, 2000). Third, interfirm cooperation minimizes price and supply risks due to uncertainty absorption (Argyres & Liebeskind, 1999). Fourth, expansion strategies can increase a firm's bargaining power, which results in lower purchasing and marketing costs (Harrigan, 1985).

To understand differences in the performance effects of alliances, JVs, and M&As, it is necessary to explore how they contribute to different types of substantive performance. More specifically, research has commonly examined the substantive performance of expansion strategies by utilizing market-based and accounting-based measures (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Meyer & Rowan, 1977; Zollo & Meier, 2008). M&A announcements appear to have a small or negative impact on a firm's abnormal returns (Datta et al., 1992; King et al., 2004), whereas alliances and JVs seem to have positive effects (Anand & Khanna, 2000; Oxley, Sampson, & Silverman, 2009). Perhaps this is caused by the fact that shareholders of acquiring firms may prefer alliances and JVs instead of M&As as they often do not come with high-equity investments, which often involve a large premium, and increase a firm's solvability ratios and uncertainty about its long-term performance. Alliances, in particular, require less equity but sometimes more governance, as the primary risk is knowledge leakage. Similarly, because partners in JVs often share costs and investments, risks are lower compared to M&As, and the acceptance rate is generally higher. In contrast, one could expect that the accounting-based returns of M&As and JVs are higher, since these provide a longer horizon in which a firm's performance can be enhanced. Hence, the short-term market-based returns of expansion strategies may exhibit different results compared to the more long-term accounting-based performance measures (Zollo & Meier, 2008).

Moreover, the establishment of a visible link between a firm and an external resource provider also improves a firm's status, legitimacy, and thus its symbolic performance (Pollock et al., 2010; Suchman, 1995). Yet, this effect appears to be different for alliances, JVs, and M&As. Alliances and JVs with prestigious actors can primarily help firms gain access to funding from venture capitalists and overcome liabilities of market newness by conveying signals of legitimacy to investors (Certo, 2003; Pollock et al., 2010). Likewise, there are three additional arguments why M&As also have positive effects on a firm's symbolic performance. First, acquisitions often receive more media coverage compared to alliances and JVs, as they occur less often, and because they tend to involve higher investments and have more severe consequences for both firms. Second, the reason for doing acquisitions may be driven by a manager striving to increase firm size and can thus be the result of personal factors such as hubris and narcissism (Chatterjee & Hambrick, 2007; Haleblian et al., 2009; Roll, 1986). Third, M&As may be used to cope with environmental uncertainties by mimicking other organizations and acquiring resources that stimulate societal taken-for-grantedness (DiMaggio & Powell, 1983; Heugens & Lander, 2009; Scott, 2001).

While all expansion strategies seem to improve a firm's symbolic performance, large differences exist that warrant the need for further exploration. Following that the various types of expansion strategies can be imperfect substitutes (Hillman, Withers, & Collins, 2009), it is expected that alliances, JVs, and M&As are differently connected to distinct types of performance