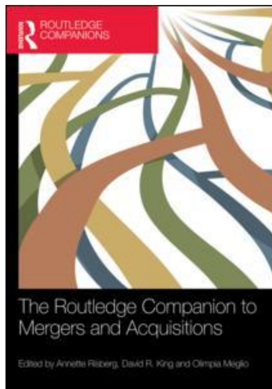
This article was downloaded by: *10.2.97.136*
On: 29 Mar 2023
Access details: *subscription number*
Publisher: *Routledge*
Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: 5 Howick Place, London SW1P 1WG, UK



The Routledge Companion to Mergers and Acquisitions

Annette Risberg, David R. King, Olimpia Meglio

The acquisition performance game

Publication details
https://test.routledgehandbooks.com/doi/10.4324/9780203761885.ch10
Olimpia Meglio
Published online on: 06 Jul 2015

How to cite :- Olimpia Meglio. 06 Jul 2015, *The acquisition performance game from:* The Routledge Companion to Mergers and Acquisitions Routledge
Accessed on: 29 Mar 2023
https://test.routledgehandbooks.com/doi/10.4324/9780203761885.ch10

PLEASE SCROLL DOWN FOR DOCUMENT

Full terms and conditions of use: https://test.routledgehandbooks.com/legal-notices/terms

This Document PDF may be used for research, teaching and private study purposes. Any substantial or systematic reproductions, re-distribution, re-selling, loan or sub-licensing, systematic supply or distribution in any form to anyone is expressly forbidden.

The publisher does not give any warranty express or implied or make any representation that the contents will be complete or accurate or up to date. The publisher shall not be liable for an loss, actions, claims, proceedings, demand or costs or damages whatsoever or howsoever caused arising directly or indirectly in connection with or arising out of the use of this material.

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

10

The acquisition performance game

A stakeholder approach

Olimpia Meglio

Introduction: a quest for a fresh perspective on acquisition performance

Measuring performance is a central issue for management scholars seeking to gauge the effectiveness of managerial decisions (March and Sutton 1997). Merger and acquisition (henceforth, acquisition) scholars have similarly produced a vast amount of empirical work endeavoring to assess the impact of acquisitions on the acquiring firm performance (e.g. Capron 1999; Cording *et al.* 2008; Fowler and Schmidt 1988). Decades of organizational performance research have yielded a notable lack of consensus about variables, indicators, and metrics (Carton and Hofer 2006; Daily 1994; Venkatraman and Ramanujam 1987). Interpretations of performance have ranged from relatively narrow, focusing on financial aspects as typically deployed by strategic management scholars, to relatively broad, encompassing effectiveness measures as typically employed by organizational scholars. Similarly the study of acquisition performance has resulted in many assessment instruments, including both financial (operational, accounting, and shareholder value) and non-financial (innovation, reputation, and market share) measures as documented in several reviews (e.g., Cording *et al.* 2010; Meglio and Risberg 2011; Zollo and Meier 2008).

The existence of a multitude of measures for acquisition performance explains the difficulties in summarizing results of research through meta-analyses (Datta *et al.* 1992; King *et al.* 2004) and a widespread feeling that we know very little about performance in acquisitions (Bower 2004). The variety of performance measures also signals that acquisition performance is a complex and multidimensional construct (Cording *et al.* 2010; Zollo and Meier 2008) and encourages scholars to reach a better alignment between theory and measures for performance. In this regard, Harrison and Schijven (2015) contend that a better alignment between research questions and measures for acquisition performance can be reached by choosing measures according to the stage of acquisition under investigation.

In this chapter I want to contribute to the ongoing debate about performance measurement by switching our attention from how acquisitions perform to what determines acquisition performance. I achieve this goal by applying the suggestions that Wicker (1985) offers to overcome the limitations that human beings exhibit in research activity, where recurrent thinking prevents adding new knowledge. Specifically, one of the heuristics that Wicker (1985) advises is changing

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

the scale in the analysis of a given topic. In this chapter, I enlarge the domain of acquisition performance by taking into account other stakeholders than shareholders. By doing this, I broaden our knowledge about drivers behind the multiple dimensions of acquisition performance by investigating the influences that internal and external actors exert upon acquisition performance. Studies about mergers and acquisitions have mainly dealt with internal factors (Schriber 2013), with only a few focusing on external actors (see, among the others, Öberg 2008). While current research on acquisition performance is dominated by the acquiring firm's shareholders, corporate social responsibility research shows that other stakeholders deserve recognition (Borglund 2013). Stakeholder theory describes companies as constellations of cooperative and competitive interests possessing intrinsic value (Donaldson and Preston 1995). Including stakeholders in the analysis of acquisition has been recently advanced by Nordic scholars (Anderson *et al.* 2013), who contend that acquisitions put at risk different interests of external and internal stakeholders. By employing a stakeholders' perspective, acquisition performance can be portrayed as a game involving different internal and external actors holding interests that evolve over time. The underlying idea is that it is the stakeholders' relative power that shapes acquisition performance over the acquisition process.

The recognition of the existence of multiple stakeholders exerting influences on performance reinforces the widespread idea that acquisition performance is a multidimensional construct, yet provides a fresh look at this. Developing the multidimensionality of acquisition performance from a stakeholder perspective does justice to the existence of interests and possible influences that different actors hold or exert on performance. Acknowledging that there are several actors having a stake in acquisitions helps to overcome the idea that performance reflects and therefore should be measured using the interests of the acquiring firm only. The acquiring firm is not the only actor involved in acquisitions—several different actors, within or outside the merging companies, have a stake in these deals. Moreover, both the acquiring and the target companies are not monoliths, as they host several different stakeholders whose stakes are put at risk by an acquisition. Identifying stakes and stakeholders within or outside the merging companies elicits different influences on performance. Including stakeholders implies a shift in the focus, from the acquisition or company performance to the analysis of the effects/outcomes of acquisitions on the network of stakeholders involved. Also, the inclusion of stakeholders, along with the analysis of their influences, allows going beyond the simplistic idea of acquisition as a rationally driven process, as it is portrayed in the majority of research and overcomes the prevailing idea that a single performance measure can do justice to the competing, if not conflicting, stakes in an acquisition.

Applying a stakeholder lens to acquisitions

From Freeman (1984) onward, the notion of stakeholder has become central in strategic management literature. Such a theory describes companies as constellations of cooperative and competitive interests possessing intrinsic value (Donaldson and Preston 1995). The idea of different actors or coalitions influencing the conduct of a company was not new, with the idea of dominant coalitions already advanced by Cyert and March (1963) and further developed by Hambrick and Mason (1984) with regard to top management teams. Moreover, in the same period, Mintzberg (1983) discussed the idea of internal and external coalitions and identified configurations of power.

Today, the concept of stakeholder is very popular among management scholars, yet, despite massive research, the question of who stakeholders are remains an open issue. Stakeholder literature offers a variety of definitions of stakeholders—some narrow and some broad—and

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

identifies a set of dimensions to build typologies of stakeholders (Mitchell *et al.* 1997). The notion of stake, which is central to a stakeholder approach, requires distinguishing claimants from influencers. According to Mitchell *et al.* (1997: 859) claimants are "groups that have a legal, moral or presumed claim on the firm," while influencers are "groups that have an ability to influence the firm's behavior, direction, process, or outcomes." From these definitions, it is apparent that the distinction is subtle.

According to Freeman (1984: 46), "a stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives." This is a broad definition compared with the narrow one offered by Clarkson (1995), who conceives a stakeholder as being one bearing some risk as a consequence of the investment of capital in the company. This latter view presupposes that resources—and time and attention, in particular—are scarce and that managers are required to focus their attention on bringing those resources to the company.

Besides offering broad or narrow definitions, stakeholder theory scholars have long debated stakeholders' attributes (Mitchell *et al.* 1997). Major attributes are identified in power, legitimacy, and urgency. Taken together, these attributes allow the categorization of stakeholders in terms of importance (see also King 2013). A thorough analysis of them is beyond the scope of this chapter and readers are referred to Donaldson and Preston (1995) or Mitchell *et al.* (1997).

In this chapter, I assume that some individual actors or coalitions are legitimate and powerful claimants of stakes. They are affected by the deal and in turn affect acquisition performance. Relevant stakes are internal or external to the merging companies. Acquisitions radically influence the network of relationships of acquiring and target firms (Halinen *et al.* 1999). In some cases, such influence is based on a contract that links an individual or a company to the acquiring or the merging companies. This is the case with employees, suppliers, or business-to-business customers. Yet, power and, thus, influence can be legitimated by a superior, often collective, interest to protect, as in the case of governmental bodies who may have their say on whether a deal will actually take place. For these reasons, while I recognize the importance of the issues addressed by a narrow definition of stakeholders, I build my analysis on the broad definition that Freeman (1984) offers as it allows me to identify all individuals or groups holding a stake during an acquisition process and detect their influence over acquisition performance.

Building on this definition, an acquisition can be analyzed as a multi-stakeholder deal, with the number of stakeholders magnified over the course of the acquisition process for the simple reason that two companies are involved (Anderson *et al.* 2013). In my discussion, I investigate different stakeholders without explicitly referring to either the acquiring or the target company, even though I recognize that the acquiring and the target companies are almost never in an equal position and that stakes are often divergent.

It is also important to recognize that all stakes are neither alike nor constant. For instance, during the pre-merger phase, top management and companies' owners play a critical role, while the remaining stakeholders are relatively inactive. The announcement of the deal expands the number of stakeholders. Some stakes are instantaneous—the case of investment banks that are interested in getting the transaction fee—while other stakes change over time. This means that some stakeholders may have different goals and are able to exert more or less influence over time.

These considerations drive a process approach to the analysis of the role that stakeholders play during the acquisition process and the power that they exert over acquisition performance (Meglio and Risberg 2010). The definition of process employed here takes a historical developmental perspective and focuses on the sequences of incidents, activities, and actions unfolding over time, taking into account enabling and constraining influences from inner and outer contexts of the firm (Pettigrew 1992). Applied to the analysis of a stakeholder, a process approach

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

Table 10.1 Internal and external stakeholders in acquisitions: a process perspective

Stakeholder	*Pre-acquisition*	*Closing the deal*	*Post-acquisition*
Internal	Shareholders Top management	Shareholders Top management Unions	Shareholders Top management Middle managers Employees
External	Competitors Investment banks Consulting firms	Competitors Investment banks Consulting firms Government	Suppliers Customers

allows recognition of the importance of several contextual factors shaping the influence of stakeholders on acquisition performance. By way of example, we can refer to the nature of the deal, friendly or hostile, or the degree of relatedness between the merging parties and industries, or the industries involved. In the case of friendly acquisitions, we expect a more positive employees' attitude towards the deal compared with a hostile takeover. In this latter case, we expect that employees may exhibit negative reactions to the acquisition, such as sabotage or an increase in absenteeism. As for the industry, if the deal involves knowledge-intensive firms, scientists will play a key role compared with other employees, as the innovative performance is heavily dependent upon them (Ranft and Lord 2000). These examples are merely illustrative and not exhaustive, as we will see below.

To make sense of the actors holding a stake during an acquisition process, I position each stakeholder along the acquisition process (see Table 10.1). For the sake of clarity, I depict the acquisition process as a linear flow of phases, even though it does not include recursive or alternate paths that actually make up the whole process. Moreover, I distinguish stakeholders as internal or external to the merging companies.

From the table, it emerges that some stakeholders have an influence over the entire process, such as top management teams, while others limit their influence to the post-acquisition phase, such as customers, suppliers, and employees. In the table, I have positioned governmental bodies and unions as influencing the "closing the deal" phase. I recognize that this is a simplistic view, yet it serves to help visualize that these stakeholders exert a narrower influence compared to others. Specifically, unions are generally alerted by the announcement of deals, especially if they are horizontal acquisitions and involve mature industries (i.e. automotive). In these circumstances, they know in advance that the acquisitions will likely include lay-offs.

Having identified the main stakeholders of merging companies, I now move onto the analysis of their stakes and their actual influences upon acquisition performance. Consistent with the distinction between internal and external stakeholder, I will analyze their influences and how they evolve over time separately. The adoption of a process perspective should enable the identification of recursive and alternate paths that influence acquisition performance, and help to overcome the idea of acquisition performance as linear or unitary. With these considerations at hand, I now turn to the analysis of internal and external stakeholders.

Internal stakeholders and acquisition performance measurement

As depicted in Table 10.1, internal stakeholders are mainly shareholders, managers, and employees. Shareholders are legitimated by equity investment. Managers and employees are both legitimated by a contract. Yet, they cannot be treated as homogeneous, as their stakes differ

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

Table 10.2 Influences of internal stakeholders upon acquisition performance

Internal stakeholder	*Stakes*	*Positive influence on acquisition performance*	*Negative influence on acquisition performance*
Shareholders	Shareholder value	Focus on performance metrics other than market performance	Excessive focus on market performance
Top management	Prestige, pay and career prospects	Achieve synergies	Self-interest choices (financial health and survival)
Middle managers	Career prospects	Constructive role during the integration process	Destructive role during the integration process
Employees	Career prospects	Commitment to the achievement of synergies	Sabotage, lower productivity (also for scientists)
Unions	Employees' interest	Support top management in getting commitment from employees	Strikes

significantly depending on the role they perform and the hierarchical level that they occupy within the companies. I therefore distinguish top managers from middle managers, and line workers are simply referred to as employees. Stakes and influences, positive and negative, are displayed in Table 10.2.

To date, the conventional discourse about acquisitions has emphasized the stake of shareholders over other stakeholders. One can make sense of it by considering that mergers and acquisitions, when announced to external audiences, are generally justified as synergistic or creating value for an acquirer's shareholders (Borglund 2013). The concept of shareholder value gives support and legitimacy to the primacy of shareholders over all other stakeholders (Aglietta 2000). Meanwhile, other stakeholders, although influenced by any deal, are generally neglected by press releases and official speeches. Consistent with this view, companies pursue the best return to their shareholders, and this is indirectly confirmed by empirical research primarily employing market-based measures of acquisition performance (see also Meglio and Risberg 2011). Market-based returns are thus conceived to be the unitary measure for acquisition performance.

The primacy of shareholders is reproduced and reinforced through published research, and it requires reflection on the role that scholars have in shaping acquisition performance measurement. Scholars can be conceived to be influencers or stakeholders in mergers and acquisitions. This latter position is justified by Risberg (2013) in recognizing that researchers have both an interest in and an influence over acquisitions. By their research agenda they contribute to how acquisitions are perceived. Their stake also presents a certain degree of risk: what they risk is not being published, and this in turn influences both career path and pay (Risberg 2013). As findings from the narrative analysis of acquisition performance studies reveal (Meglio and Risberg 2011), there is a prevalence of studies employing market-based measures for acquisition performance. This is in line with the emphasis on the acquiring firm's shareholders as discussed above. The most frequently cited justification for the choice is the search for objectivity. Its use seems to indicate that there is an underlying belief that one type of measure (market-based) is closer to a true performance than other types of measures. The search for objectivity, as an inspiring

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

principle in scholarly research about acquisition performance, has been reaffirmed by referring to past studies. In this regard, scholars, especially those who are US-based, actively contribute to the conventional discourse about acquisition performance that identifies in market-based or accounting measures of performance the prevailing measure of acquisition performance.

Top management teams are considered a dominant coalition within companies (Cyert and March 1963). According to the upper echelon view (Hambrick and Mason 1984), the top management team, with its characteristics, influences the strategic choice of a company and its performance. In the context of acquisitions, the top management team plays a key role during the entire process. Specifically, during the pre-acquisition stage, the top management team pushes the closing of a certain deal on the ground of expected benefits arising from the combination with the target firm. At this stage, the top management team prospectively foresees the attainment of specific synergies, as well as the increase in shareholder value. To avoid self-interest, such as financial health and survival (Donaldson and Lorsch 1983) and a misalignment with shareholders' goals, it is possible to rely on several tools to monitor the top management team's decisions and actions. Stock option pay and executive stock ownership are supposed to have congruent effects in aligning top management interests with those of shareholders, even though some claim that the latter is more effective (Sanders 2001). Other means are internal (senior executives) and external monitors (security analysts, independent outside board members, and activist institutional investors), Wright *et al.* (2002) suggest.

During the post-acquisition stage, it is the duty of top managers to accommodate several other stakeholders in achieving acquisition goals. This "game" is further complicated by changing relations of power among stakeholders. While, during the pre-acquisition stage top management teams from the acquiring firm and the target may have convergent interests (i.e. closing the deal), during the post-acquisition phase they generally have divergent interests. Often an acquisition replaces the top management team of the target company (Walsh 1988 and 1989). The replacement of ineffective management is a frequently advocated rationale for mergers and acquisitions with a disciplinary aim (Walsh and Elwood 1991; Walsh and Kosnik 1993). The replacement of target company managers can be already set during the negotiation phase, in the case of friendly transactions, when golden parachutes are provided to smooth the exit of managers (Hirsch 1987). These costs should be carefully estimated as they influence the overall performance. When the deal is hostile, the exit is imposed top down, and the turmoil is inevitable. In such a case, the magnitude of negative effects on performance is more difficult to predict. Typically, such situations produce both low morale and a decrease in productivity that can lower, or even offset, the envisioned cost synergies.

Middle managers are generally overlooked by existing literature, which is traditionally focused on upper echelons, even though they are responsible for implementing decisions taken by the top management team. Specifically, they are responsible for 22.3 percent of the performance differences among companies, Mollick (2012) contends. Middle managers are generally identified as those two levels below the CEO and one level above line workers and professionals. In acquisitions, there are distinctive middle-management groups that cut across the merging parties. Meyer (2006) outlines how they play an active role during the implementation process as they are responsible for operationalizing the strategic intent. As a result of their position, they heavily shape the dynamic of integration process and therefore acquisition performance. In literature they are often regarded as the primary locus of resistance to change. In such a case, they are seen as adding costs and obstructing information, and their influence is perceived as destructive. They may also play a constructive role, favoring the implementation of required changes, reducing resistance during the implementation process, which in turns depends on their career opportunities as a consequence of the deal. Their stake, that is, their career path, can be put at

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

risk by some contextual factors, such as the nature of the deal (friendly versus hostile) and the degree of relatedness between the merging companies. If the deal is hostile and the acquisition is horizontal, it is very likely that cutting costs to achieve cost synergies will result in many middle managers being let go. In such circumstances, again the internal climate will deteriorate and performance will likely decrease. That many people leave after a deal could be desirable from the acquiring firm's point of view; yet it may also imply losing talented people and their contribution to the performance of the merging companies.

The same line of reasoning applies to *employees*. While they could be considered, at first sight, to be more fungible resources, their fear of being fired implies the disruption of social connections within teams, and a likely reduction in productivity, as a consequence of a lower morale. Scientists, inventors, or knowledge workers provide an exception to this rule as they may affect the performance of high-technology deals. These deals are generally pursued to appropriate and leverage knowledge from the target firm. These goals emphasize the importance of retaining talented people and creating the best conditions to make them productive. Many studies, however, signal how difficult it is to achieve these aims. Ernst and Vitt (2000) show that key inventor productivity slows down after an acquisition. This is explained by the loss of relative standing of key inventors in the acquired company (Paruchuri *et al.* 2006). Moreover, Kapoor and Lim (2007) find that the productivity of all inventors, regardless of their status, is lower than that of inventors at non-acquired firms.

The description of possible events following an acquisition provided above rests on the assumption that an acquisition is a traumatic event, which disrupt employees' careers. If this scenario materializes, then consequences of all the possible circumstances described so far will likely result in a lower performance. An alternative scenario materializes if the acquisition is welcomed as an opportunity from employees at different hierarchical levels. This may happen in the case of a white knight or when the target is a family business with no second generation within the company willing to replace the founder. In such circumstances, when the survival of the company is at risk, the acquirer is seen positively, and employees are more willing to cooperate. Another possible instance is an acquisition inspired by acquirer diversification. In this case, the need for change within the target company is expected to be low. The assurance about future career prospects should preserve morale and allow cooperative efforts from employees. This reinforces the idea that an acquisition does not in itself assure the achievement of the intended goals. It is essential to carefully understand the stakes of different actors and find the proper strategies to cope with them.

External stakeholders and acquisition performance measurement

In this section, I investigate the role of external stakeholders. Some of them exert a powerful influence over the completion of the deal, such as consulting firms, investment banks, and governmental bodies. Other stakeholders are powerful after the deal is signed, such as suppliers and customers. However, I begin with a largely overlooked group, competitors. As for internal stakeholders, stakes and influences are displayed in Table 10.3.

Competitors are often not regarded as stakeholders in acquisition research, though I find value in including them. Considering competitors as stakeholders enables identifying their stake in a deal and how they may impact acquisition performance. Even though there is no contractual relationship with competitors, a deal can put their competitive position at risk and negatively influence their growth and profitability prospects. These stakes cannot be overlooked as they determine the influence of competitors. Additionally, competitors can take advantage of uncertainty in a deal to poach employees and customers (King 2013). Competitors can also approach

Table 10.3 Influences of external stakeholders upon acquisition performance

External stakeholder	*Stakes*	*Positive influence on acquisition performance*	*Negative influence on acquisition performance*
Consulting firms	Transaction fee	Reduce the time to get the deal approved by governmental bodies	They represent a cost that should be added to the final price
Investment banks	Transaction fee	Fair and reasonable premium price	Too high premium price
Suppliers	Business relationship	Continue business relationship, allowing for cost synergies	Terminate contract
Customers	Business relationship	Continue business relationship, allowing for revenue synergies	Terminate contract
Competitors	Profitability, survival, competitive position	Inactive position, as the industry is a fast-growing one	Make the final price rise up beyond what the target is worth for the acquiring company
Government	Public interest	Financial support for strategic industries (such as defense)	Limit actions that could harm competition and consumers

the government with anti-competitive concerns, with the aim of disrupting a deal, as in the successful attempt by Sprint to disrupt AT&T's merger with T-Mobile USA (Woyke 2011).

During the pre-acquisition phase, the goal of reducing competition is generally a driver for strategic deals, especially in horizontal transactions. Acquisitions are frequently negotiated to reduce competitive pressure in mature or declining industries, or to acquire innovative capabilities or customers of the target firm. Competitors are not passive during the negotiation phase. They are generally alerted from rumors about a possible deal and may react to such rumors. One possible reaction is to take part in the bidding process: when several potential buyers compete for the same target, the price will generally rise. In the short term, the offered price can play a key role in deciding who, among the potential buyers, will win the "bid game," but in the long run it will heavily affect the value creation process and, therefore, acquisition success in a situation called the "winner's curse" (Varaiya and Ferris 1987). If we assume that a deal creates economic value in absolute terms, it is straightforward that the price paid by the buyer to the seller determines their respective share of the value created, with the non-trivial time discrepancy that the seller gets immediately its share whereas the buyer will have to put into practice the synergies that were only prospective in the acquisition plans and are embedded in the valuation of the target (Meglio and Capasso 2012).

Competitors' shareholders may benefit from taking part in the bidding process. Financial economics scholars show how rivals of initial acquisition targets earn abnormal returns due to the increased probability that they will be targets themselves (Song and Walking 2000; Shahrur 2005). These abnormal returns tend to increase, the higher the surprise about the initial acquisition. These dynamics are particularly relevant in the case of horizontal acquisitions.

For the acquiring company, competition for a certain target tends to eliminate all possible bidders' gains that are common to many potential buyers, thus pushing a potential acquirer to abandon the deal (Pablo *et al.* 1996). According to Barney (1988), acquiring firms gain above-normal returns from acquisitions only when private or uniquely valuable synergistic

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

assets are involved. Privacy refers to information about the combination that is not available to potential outside bidders. Uniquely valuable synergy is created when no other combination of firms could produce the same value. If information is not private or if other equally synergistic combinations are possible in the market for corporate control, the target's price will be bid up to a point at which the value from potential synergy is absorbed by the acquisition price. This in turn reinforces the need to effectively manage the integration process.

Investment banks hugely influence whether and how a deal is completed. Executives of both target and bidding firms rely heavily on the advice of investment bankers. Investment banks are supposed to aid the market for corporate control in several ways: they reduce search costs by matching bids and targets, reduce information asymmetries between the parties, and provide technical expertise that could be costly and time consuming to produce internally. Yet, Kesner *et al.* (1994) outline that if investment banks act as agents for both the bidding firm and the target this can create conflicts of interests. Such conflicts of interest may cause bidding companies to bid beyond their financial capacity or pay a price where the target company is not worth buying.

As a result of its peculiar position, an investment bank experiences the so-called negotiator's dilemma, that is, choosing between collaborative tactics that create value for all the parties involved in the deal, and opportunistic tactics that yield even greater value for itself and lower value, or even no value, for the other parties. This generally produces greater premiums paid and puts at risk the achievement of acquisition goals for the acquiring firm. Of course, the position of the acquiring firm is weaker than that of the target, whose shareholders generally benefit from greater premium prices. The importance of reputation when trying to gain further business likely mitigates self-interest by investment banks.

Governmental agencies generally perform the role of regulator. In performing the role of regulator, government agencies may either prevent the deal from actually taking place or actually drive concrete implementation actions that effect stakeholders. Generally, government agencies attempt to assure efficiency and transparency in financial markets so that nobody can exert control over them and to assure fair competition in the marketplace across industries: this means that no competitor can gain, as a consequence of a deal, a dominant position over other competitors, thus protecting consumers from possible abuse of dominant position.

King (2013) outlines how regulatory requirements vary across the globe depending on the countries involved. In the US, for instance, laws require that filings describing both the transaction and the firms involved be submitted to the Federal Trade Commission and the Department of Justice. The decision, after reviewing a transaction, is generally made within 30 days. Acquiring firms often rely on third parties, such as consulting firms, to perform analysis of joint data and provide relevant summaries. Regulatory reviews by other government bodies may also be required before an acquisition can be completed. If the deal involves one company from the European Union (EU), additional reviews might be necessary to ensure that the deal does not harm the competition within the EU. In complying with these requirements, acquiring companies should assess the trade-off between the time needed to have the deal approved (and the impact that a delay produces on the deal) and the incentives paid to consulting firms to accelerate completion.

Central government can also play an active, positive role in promoting a merger or creating more favorable conditions for a merger to take place. This may actually take place if the merger involves a strategic industry, such as the defense industry, where the central government may have an interest other than an economic one to keep control of a certain business. This may also happen when the merger involves both a declining industry and a troubled company. In these circumstances thousands of employees could be at risk and financially helping a consolidation merger could be a way to preserve the employment rate in economic downturn conditions (see for example the merger between FIAT and Chrysler).

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

Consulting firms represent another important stakeholder in a merger or acquisition and perform roles beyond preparing reviews to submit to regulatory bodies. For example, accounting firms are frequently asked to perform the due diligence, which takes place between the declaration of the initial intent to acquire and the closing of the transaction. Deal closure is contingent on a satisfactory due diligence report. This activity involves a detailed analysis of the condition of the target firm by representatives of the acquiring firm who verify financial records, analyze legal matters and investigate other potential problems. The information obtained during due diligence is generally not publicly available and makes possible a more careful assessment of the value that the transaction might provide.

Since the target has an incentive to make public any positive information, any relevant information uncovered during due diligence is usually unfavorable and should lower the value of the target for the acquirer. If a key goal of this phase is to discover and act on information that may lead to a re-evaluation of the acquisition, due diligence failures occur either when acquirers fail to discover new information that devalues the target firm or, having uncovered it, fail to react in an appropriate manner by revising the price or abandoning a deal (Puranam *et al.* 2006).

After a deal completes, the relationships with suppliers and customers are impacted. These relationships are often long-lasting and they are important stakeholders, though generally neglected. Again financial economics scholars show how horizontal deals may impact the relationships with suppliers and customers. Specifically they focus on gains arising from improved efficiency and anti-competitive collusions, which are not mutually exclusive (Fee and Thomas 2004).

Suppliers are key external stakeholders, as purchasing is strictly related to the cost and quality of the purchased components (Holström 2013). Savings in this function have a direct impact upon corporate profitability and, in an attempt to achieve cost synergies, suppliers to integrating companies will be very likely asked to renegotiate contracts. This may imply reduced/increased volumes, generally lower prices, and compressed lead times. Revising any of these aspects may put the supplier in a difficult position. Empirical evidence about horizontal mergers show that on average suppliers experience significant declines in cash flow margins subsequent to downstream mergers, as a consequence of increased buying power. Fee and Thomas (2004) further contend that purchasing gains for the merging companies depend on the type of suppliers (retained versus terminated) and the industry contexts (concentrated versus fragmented). Suppliers who are terminated after a merger experience significant negative abnormal returns at the merger announcement and significant cash flow reduction after the deal. Moreover, buying power effects are more pronounced when the merging companies operate in relatively concentrated industries.

Of course, suppliers, just like employees, are not all alike. Basically, their relative importance depends on the type of material/service supplied, the existence of alternative suppliers, and ability to switch costs. Taken together, these factors determine the type of relationship between the parties. A deal does not necessarily negatively affect the position of suppliers, yet it certainly adds uncertainty to the relationship with the merging parties and requires the renegotiation of contractual provisions.

Customers, just like suppliers, are key external stakeholders. They have received scant attention in the acquisition-related literature, and this is quite surprising as acquiring customers of the target company is a frequently advocated rationale for pursuing a deal. This is even more important in business-to-business relationships as these customers account for high volumes of sales. In other words, retaining business-to-business customers is of utmost importance during the integration process. Again, financial economics scholars have investigated the effects of horizontal deals on corporate customers. Unlike suppliers, customers seem not to experience negative

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

stock market reactions at the announcement of a deal, or changes in industry-adjusted operating performance following an upstream merger (Fee and Thomas 2004). Acquisitions encompass a broad spectrum of changes that actually cause the dissolution of business relationships with customers. Key personnel leaving a company, dissatisfaction produced by failure to meet customer requirements, bad reputation and financial difficulties of the acquiring company, less favorable business conditions, or product replacement may all be causes for terminating a business relationship (Öberg 2013). This in turn requires careful scrutiny of customers with the goal of reassuring them using customer relationship management strategies to nurture the business relationship with them.

To sum up, business relationships that link the target company to suppliers and customers are not automatically acquired if they are not preserved during the integration process. These relationships have a key impact on performance as they influence costs and revenues of the merging companies.

Discussion

In this chapter, I attempt to provide a fresh perspective to the analysis of acquisition performance and extend the focus of the existing literature beyond the interest of shareholders, specifically those of the acquiring company. This focus is reflected in the prevailing use of market-based measures for acquisition performance in certain academic journals (see Meglio and Risberg 2011). The underlying belief is that acquisitions are neutral events for stakeholders other than shareholders. The conventional portrait of these deals is as a battleground where opposing shareholder groups compete to get the best return, which depends on the price set.

The idea advanced in this chapter builds on the premise that both the merging companies are not monoliths inside and outside their boundaries. Instead, stakeholders can be seen as a network of relationships, internal and external, legitimated by a contract or other interests to protect. Seen in this light, acquisition performance can be analyzed as a game, played by several actors, whose relative power influences outcomes. The nature of the game is contingent upon the stake they hold and how it changes as a consequence of the deal, as illustrated in Tables 10.2 and 10.3. Acknowledging the existence of different stakes recognizes that no single performance measure can actually do justice to all these stakes. This is a new way to conceive the multidimensionality of acquisition performance, which is frequently evoked by scholars, but generally underplayed in theoretical and empirical research.

As anticipated in the introduction, the inclusion of stakeholders goes beyond the idea that mergers and acquisitions are driven solely by rational considerations. As highlighted by literature about integration, mergers and acquisitions are political processes (Vaara 2003). So far, scholars have mainly dealt with internal power struggles without examining their effects on acquisition performance. In this chapter, I have tried to provide a comprehensive assessment of internal and external power dynamics and their influences over performance.

The investigation conducted also has practical implications: acknowledging that acquisition performance is constructed and shaped by the influences of multiple stakeholders that change over time suggests that top management teams should carefully estimate the possible consequences of these influences over performance before the deal is signed. At this stage, it is important that all elements that create costs (during the negotiation and the integration alike) are added to the final price. This is the level against which synergies arising from the deal should be evaluated to determine whether the deal adds value or not. During the post-acquisition phase, it is the integration leader's responsibility to assure collaboration from stakeholders to limit their detrimental influence upon acquisition performance.

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

References

Aglietta, M. (2000) "Shareholder value and corporate governance: some tricky questions," *Economy and Society*, 29: 146–159.

Anderson, H., Havila, V., and Nilsson, F. (eds.) (2013) *Mergers and acquisitions. The critical role of stakeholders*, New York/Oxon: Routledge.

Barney, J.B. (1988) "Returns to bidding firms in mergers and acquisitions: reconsidering the relatedness hypothesis," *Strategic Management Journal*, 9: 71–78.

Borglund, T. (2013) "The growing importance of corporate social responsibility in mergers and acquisitions, in Anderson, H., Havila, V., and Nilsson, F. (eds.) *Mergers and acquisitions. The critical role of stakeholders*, 17–39, New York/Oxon: Routledge.

Bower, J.L. (2004) "When we study M&A, what are we learning?," in Pablo, A.L. and Javidan, M. (eds.), *Mergers and acquisitions. Creating integrative knowledge*, 235–244, Oxford: Blackwell.

Capron, L. (1999) "The long-term performance of horizontal acquisitions," *Strategic Management Journal*, 20: 987–1018.

Carton, R.B. and Hofer, C.W. (2006) *Measuring organizational performance. Metrics for entrepreneurship in strategic management research*, Cheltenham: Edward Elgar.

Clarkson, M.B.E. (1995) "A stakeholder framework for evaluating corporate social performance," *Academy of Management Review*, 20: 92–117.

Cording, M., Christman P., and Weigelt, C. (2010) "Measuring theoretically complex constructs: the case of acquisition performance," *Strategic Organization*, 8: 11–41.

Cording, M., Christman, P., and King, D. (2008) "Reducing causal ambiguity in acquisition integration: intermediate goals as mediators of integration decisions and acquisition performance," *Academy of Management Journal*, 51: 744–767.

Cyert, R.M. and March, J.G. (1963) *A behavioral theory of the firm*, Englewood Cliffs, NJ: Prentice Hall.

Daily, C. (1994) "Bankruptcy in strategic studies: past and promise," *Journal of Management*, 20: 263–295.

Datta, D.K., Pinches, G.P., and Narayan, V.K. (1992) "Factors influencing wealth creation from mergers and acquisitions: a meta-analysis," *Strategic Management Journal*, 13: 67–84.

Donaldson, G. and Lorsch, J.W. (1983) *Decision making at the top*, New York: Basic Books.

Donaldson, T. and Preston, L.E. (1995) "The stakeholder theory of the corporation: concepts, evidence and implication," *Academy of Management Review*, 20: 65–91.

Ernst, H. and Vitt, J. (2000) "The influence of corporate acquisitions on the behaviour of key inventors," *R&D Management*, 30: 105–118.

Fee, C.E. and Thomas, S. (2004) "Sources of gains in horizontal mergers: evidences from customer, supplier and rival firms," *Journal of Financial Economics*, 74: 423–460.

Fowler, K.L. and Schmidt, D.R. (1988) "Tender offers, acquisition, and subsequent performance in manufacturing firms," *Academy of Management Journal*, 31: 962–974.

Freeman, R.E. (1984), *Strategic management. A stakeholder approach*, Boston, MA: Pitman.

Halinen, A., Salmi, A., and Havila, V. (1999) "From dyadic change to changing business networks: an analytical framework," *Journal of Management Studies*, 36: 779–794.

Hambrick, D.C. and Mason, P. (1984) "Upper echelons: the organization as a reflection of its top managers," *Academy of Management Review*, 9: 193–206.

Harrison, J. and Schijven, M. (2015) "Event study methodology in the context of M&As: a reorientation," in Risberg, A., King, D.R., and Meglio, O. (eds.) *The Routledge Companion to Mergers and Acquisitions*, Oxon: Routledge.

Hirsch, P. (1987). *Pack your own parachute. How to survive mergers, takeovers and other corporate disasters*, Reading, PA: Addison-Wesley Publishing Company Inc.

Holström, J. (2013) "Supplier relationship at stake in mergers and acquisitions," in Anderson, H., Havila, V., and Nilsson, F. (eds.) *Mergers and acquisitions. The critical role of stakeholders*, 168–184, New York/Oxon: Routledge.

Kapoor, R. and Lim, K. (2007) "The impact of acquisitions on the productivity of inventors at semiconductor firms: a synthesis of knowledge-based and incentive-based perspectives," *Academy of Management Journal*, 50: 1133–1155.

Kesner, I.F., Shapiro, D.L., and Sharma, A. (1994) "Brokering mergers: an agency theory perspective on the role of representatives," *Academy of Management Journal*, 37: 703–721.

King, D.R. (2013) "A phased approach to merger and acquisition integration: tapping experiential learning," in Kannan, V.R. (ed.) *Strategic management in the 21st century*, vol. 2—Corporate Strategy, Santa Barbara: Praeger Press.

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10

King, D.R., Dalton, D.R., Daily, C.M., and Covin, J. (2004) "Meta-analysis of post-acquisition performance: indications of unidentified moderators," *Strategic Management Journal*, 25: 187–200.

March, J.G. and Sutton, R.I. (1997) "Organizational performance as a dependent variable," *Organization Science* 8 (6): 698–706.

Meglio, O. and Capasso, A. (2012) "The evolving role of mergers and acquisitions in competitive strategy research," in Dagnino, G.B. (ed.) *The handbook of competitive strategy research*, 237–263, Cheltenham: Edward Elgar Publishing.

Meglio, O. and Risberg, A. (2011) "The (mis)measurement of M&A performance: a systematic narrative literature review," *Scandinavian Journal of Management*, 27: 418–433.

Meglio, O. and Risberg, A. (2010) "Mergers and acquisitions: time for a methodological rejuvenation of the field?," *Scandinavian Journal of Management*, 26: 87–95.

Meyer, C.B. (2006) "Destructive dynamics of middle management intervention in postmerger processes," *Journal of Applied Behavioral Science*, 42: 397–419.

Mintzberg, H. (1983) *Power in and around organizations*, Englewood Cliffs, NJ: Prentice Hall.

Mitchell, R.K, Agle, B.R., and Wood, D.T. (1997) "Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts," *Academy of Management Review*, 22: 853–886.

Mollick, E. (2012) "People and process, suits and innovators: the role of innovators in firm performance," *Strategic Management Journal*, 33 (9): 1001–1015.

Öberg, C. (2013) "Why do customers dissolve their business relationships with the acquired party following an acquisition?," in Anderson, H., Havila, V., and Nilsson, F. (eds.) *Mergers and acquisitions. The critical role of stakeholders*, 185–202, New York/Oxon: Routledge.

Öberg, C. (2008) "The importance of customers in mergers and acquisitions," Doctoral Thesis 1193, Linköping Studies in Science and Technologies, Linköping University.

Pablo, A., Sitkin, S., and Jemison, D. (1996) "Acquisition decision-making processes: the central role of risk," *Journal of Management*, 22: 723–746.

Paruchuri, S, Nerkar, A., and Hambrick, D.C. (2006) "Acquisition integration and productivity losses in the technical core: disruption of inventors in acquired companies," *Organization Science*, 17: 545–562.

Pettigrew, A.M. (1992) "The character and significance of strategy process," *Strategic Management Journal*, 13: 5–16.

Puranam P., Powell, B.C., and Singh, H. (2006) "Due diligence failure as a signal detection problem," *Strategic Organization*, 4: 319–348.

Ranft, A. and Lord, M. (2000) "Acquiring new knowledge: the role of retaining human capital in acquisition of high-tech firms," *Journal of High Technology Management Research*, 11: 295–319.

Risberg, A. (2013) "The stake of high failure rate in mergers and acquisitions," in Anderson, H., Havila, V., and Nilsson, F. (eds.) *Mergers and acquisitions. The critical role of stakeholders*, 247–266, New York/Oxon: Routledge.

Sanders, G. (2001) "Behavioral responses of CEOs to stock ownership and stock option pay," *Academy of Management Journal*, 44: 477–492.

Schriber, S. (2013) "Managing the influence of external competitive change during integration," in Anderson, H., Havila, V., and Nilsson, F. (eds.) *Mergers and acquisitions. The critical role of stakeholders*, 149–167, New York/Oxon: Routledge.

Shahrur, H. (2005) "Industry structure and horizontal takeovers: analysis of wealth effects on rivals, suppliers and corporate customers," *Journal of Financial Economics*, 74: 61–98.

Song, M.H. and Walkling, R.A. (2000) "Abnormal returns to rivals of acquisition targets: a test of the acquisition probability hypothesis," *Journal of Financial Economics*, 55: 143–171.

Vaara, E. (2003) "Post-acquisition integration as sensemaking: glimpses of ambiguity, confusion, hypocrisy, and politicization," *Journal of Management Studies*, 4: 859–894.

Varaiya, N. and Ferris, K. (1987) "Overpaying in corporate takeovers: the winner's curse," *Financial Analysts Journal*, 43: 64–70.

Venkatraman, V.N. and Ramanujam, V. (1987) "Measurement of business economic performance: an examination of method convergence," *Journal of Management*, 13 (1): 109–123.

Walsh, J.P. (1989) "Doing a deal: mergers and acquisitions negotiations and their impact upon target company top management turnover," *Strategic Management Journal*, 10: 307–332.

Walsh, J.P. (1988) "Top management turnover following acquisitions," *Strategic Management Journal*, 9: 173–183.

Walsh, J.P. and Kosnik, R.D. (1993) "Corporate raiders and their disciplinary role in the market for corporate control," *Academy of Management Journal*, 36: 671–700.

Walsh, J.P. and Ellwood, J.W. (1991) "Mergers, acquisitions and the pruning of managerial deadwood," *Strategic Management Journal*, 12: 201–217.

Wicker, A.W. (1985) "Getting out of our conceptual roots: strategies for expanding conceptual framework," *American Psychologist*, 40: 1094–1103.

Woyke, E. (2011) "Sprint files FCC petition against AT&T/T-Mobile merger," *Forbes*: www.forbes.com/sites/elizabethwoyke/2011/05/31/sprint-files-fcc-petition-against-attt-mobile-merger, retrieved November 2013.

Wright, P., Kroll, M., and Elenkov, D. (2002) "Acquisition returns, increase in firm size and chief executive office compensation: the moderating role of monitoring," *Academy of Management Journal*, 45: 599–608.

Zollo, M. and Meier, D. (2008) "What is M&A performance?," *Academy of Management Perspective*, 22: 55–77.

Downloaded By: 10.2.97.136 At: 22:07 29 Mar 2023; For: 9780203761885, chapter10, 10.4324/9780203761885.ch10