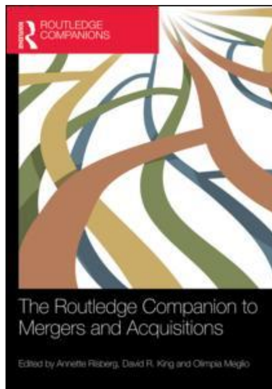
This article was downloaded by: *10.2.97.136*
On: 29 Mar 2023
Access details: *subscription number*
Publisher: *Routledge*
Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: 5 Howick Place, London SW1P 1WG, UK



The Routledge Companion to Mergers and Acquisitions

Annette Risberg, David R. King, Olimpia Meglio

Toward a competitive dynamics perspective on value potential in M&A

Publication details
https://test.routledgehandbooks.com/doi/10.4324/9780203761885.ch19
Svante Schriber
Published online on: 06 Jul 2015

How to cite :- Svante Schriber. 06 Jul 2015, *Toward a competitive dynamics perspective on value potential in M&A from:* The Routledge Companion to Mergers and Acquisitions Routledge
Accessed on: 29 Mar 2023
https://test.routledgehandbooks.com/doi/10.4324/9780203761885.ch19

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: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

19

Toward a competitive dynamics perspective on value potential in M&A

Svante Schriber

Introduction

Mergers and acquisitions (M&As) are often described as vehicles to achieve strategic growth and increase firm profitability. Combining the resources and markets of previously separate firms can increase the competitiveness of participating firms. M&As are typically used for accessing new customers (Lee and Lieberman 2010), technologies (Makri *et al*. 2010), or lower production costs (Hitt *et al*. 1998). To the extent that such additions are valuable in combination with previously controlled assets, this can allow firms participating in M&As to strengthen their competitiveness in relation to their environments.

A central challenge when considering M&As is assessing the future value potential. Although future gains are difficult to predict in virtually any strategic decision, the importance of this prediction is accentuated in M&As. In comparison to other growth modes, such as organic growth, joint ventures, or strategic alliances, which typically involve only limited parts of a focal organization and where financial resources can be added incrementally (Hagedorn and Duysters 2002), M&As offer ownership of an already existing organization with "lumpy" resources all at once. Since M&As involve upfront payment with financial benefits typically realized years later, future gains depend on avoiding overpayment. Indeed, overpayment is a common explanation for why M&As fail (Sirower 1997; Singh and Montgomery 1987; Datta *et al*. 1992), making the assessment of value potential central to M&A research.

Strategic management research on M&As is mainly concerned with identifying potential value and target selection. The dominant approach is to use stock market reactions as a measure of the potential value that strategic decision makers are pursuing over the long term. Since the value potential is specific to a particular combination of firms, this research typically aims at identifying and developing generally applicable theoretical constructs of an M&A's value, reflecting assessment criteria available to strategic decision makers at the time of the transaction. These constructs thereby are central to identifying M&As that are likely to lead to higher performance, and they guide the design of studies, what data is gathered, and the analysis.

Since the theoretical concepts of value potential take such a prominent role in strategic management research on M&As, their ability to reflect real values has received considerable research attention. For instance, Porter (1985: 318) criticizes how value potential has been discussed in

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

research, seeing much of the discussion focused on what creates value in M&As as incomplete conceptualizations or "fuzzy notions of fit." In a similar vein, others have criticized particular measures such as the common use of industry codes to assess fit (St. John and Harrison 1999; Miller *et al.* 2010; Neffke and Henning 2013). While these views have highlighted issues relating to the internal precision of how value potential is conceptualized, there are other issues that need attention.

This chapter complements the above developments by bringing to the fore a tendency in research to emphasize the initial relation between the firms involved in M&As, while the relation to the competitive environment is largely disregarded. In particular, this chapter proposes that current research on value potentials largely overlooks M&As as competitive moves that are likely to be parts in ongoing jostling. In contrast, this chapter views M&As as responses as well as causes to competitive retaliation evolving over time, which makes initial plans of the acquirer unlikely to fully materialize. The internal relation is of central importance for the synergistic benefits that can be achieved, but it is in relation to the environment that achieved improvements (e.g. operating efficiency) should be measured. For example, are results below industry average? Do they present a competitive advantage? Or are they perhaps even irrelevant? Since the value that is available to the involved firms from such improvements is often realized years after the transaction, relevant measures of value potential should reflect the situation at the time of realization rather than that at the time of the transaction. This puts the searchlight on external dynamism in the period after M&A, which can severely alter the value that can be extracted from M&As, and, in cases where such external dynamism is not sufficiently reflected theoretically, studies risk giving incomplete or obsolete pictures of value potential in M&As.

This chapter has the goal of guiding future M&A research by suggesting a competitive dynamics perspective on value potential in M&As. Specifically, this chapter examines the theoretical constructs most commonly used to depict value potential. If these theoretical constructs for value potentials are not adjusted to better include dynamism, many of the conclusions drawn about M&A performance risk relying on overly optimistic, or even erroneous, foundations. Embracing a more dynamic and competitive perspective in M&A research can inform both research and practice, and contribute to improving explanations of the high failure rate in M&As that is so often observed in research (Datta *et al.* 1992; King *et al.* 2004; Moeller *et al.* 2005).

Next, I turn to presenting the most common theoretical constructs used in M&A performance studies in the strategic management field, showing that this research is biased towards studying conditions that reflect some, but not all, of the factors relevant for the value that is created. Thereafter I turn to present an alternative perspective that can better reflect value potential. I then point to how some existing research on M&As can be reinterpreted and complemented. The last section of this chapter summarizes the theoretical conclusions along with advice to practitioners.

Conditions for value creation in M&As

M&As are often seen as a means of achieving increased competiveness, and thereby increasing performance of the involved firms. Academic research has given much attention to performance of M&As from various perspectives. Much of financial economics research has aimed at answering whether M&As generally create value or not (Moeller *et al.* 2005) and how these values are distributed between buyers and sellers (Bulow and Klemperer 2009). In parallel, thriving research is concerned specifically with identifying the reasons for performance differences between M&As. A great deal of effort has been invested in strategic management literature to identify deal characteristics with an influence on M&A performance (Datta *et al.* 1992;

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

King *et al*. 2004; Hitt *et al*. 1998; Pehrsson 2006; Gantumur and Stephan 2012). Central to these studies is the view that performance depends on the degree to which the initial conditions of M&As offer increased performance and on the extent to which these are taken advantage of. This leads to two analytically distinct but related challenges to strategic decision makers wishing to increase the likelihood of success in M&As.

A first challenge relates to assessing value potential—the known and unknown but not yet realized combinatory effects derived from the M&A. This requires making long-term projections of future cash flows. Since acquiring managers often have only limited information about the target firm, correct assessments of the size, type, and organizational location of these synergies is typically characterized by substantial uncertainty (Coff 1999; Puranam *et al.* 2006). Second, an insight from organizational studies now broadly embraced in M&A research is that much, if not most, value creation in M&As is contingent on organizational integration (Haspeslagh and Jemison 1991; Lubatkin *et al.* 1998). This process requires skillful management to achieve intended effects, while avoiding a wide range of interrelated organizational challenges involving organizational culture (Vaara *et al.* 2012), power and resistance (Meyer and Altenborg 2007), and perceptions of justice among employees (Ellis *et al.*, 2009) that potentially impact the outcome of M&As (Teerikangas 2010). Organizational dynamism between the involved firms is difficult to predict and it makes initial value potential assessments less accurate.

While these two challenges are partly interrelated, strategic management research mainly has attributed such organizational dynamism to M&As comprising certain properties. Generally speaking, M&As combining firms with similar resources can benefit from firmer and closer integration, compared to firms where part of the goal is to draw on concepts unique to the target firm (Haspeslagh and Jemison 1991). Further, M&As with large overlaps have been found to lead to greater anxiety over job loss, in turn associated with employee resistance (Larsson and Finkelstein 1999). While the dynamism in the post-M&A phase that plays out between the involved firms (Datta 1991) and the effects of M&As on rivals (Clougherty and Duso 2009; Keil *et al.* 2013) is receiving increasing attention, less interest has been devoted to how dynamism in relation to the external business environment affects M&A performance. This is most visible in how value potentials are conceptualized. Therefore, I now turn to a critical discussion of the most dominating approaches to studying value potential in M&As.

Common constructs for value potential

Strategic management research on M&As promising above-average value creation primarily has focused on types of transactions. M&As combine firms, resources, and processes developed over time and in specific circumstances, making each transaction unique (Bower 2001; Lubatkin 1987). In adopting the decision-making perspective of top managers typical to the wider strategic management research stream (Spender 2001) and attempting to draw general conclusions about performance, this research typically approaches transactions as falling within types or categories. In so doing, research typically draws on and develops constructs condensing characteristics regarded as central to the value potential which are then compared with performance measures.

One common approach to classifying M&As is to draw on theoretical frameworks. A framework that has been influential is provided by the Federal Trade Commission (FTC) (cf. Lubatkin 1983). It classifies transactions involving firms in the same product market as "horizontal"; cases with production or distribution overlaps as "product extension"; cases where similar products are sold on different geographical markets as "market extension"; those when the merger involved a prior customer relation as "vertical"; and cases when none of the conditions apply as

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

"conglomerate." Similar yet more directly involved in assessing value potentials is the framework suggested by Shelton (1988). It classifies transactions as "similar," when firms serve the same customers with the same products; "related-supplementary," when new customers are reached; "related-complementary," when new products are added; and "unrelated," when none of the conditions apply.[1]

Although Shelton (1988) does not define customer overlap geographically (instead, she uses the extent to which both firms serve consumer, industrial, professional, and government customers), both frameworks are comparable and representative for much of the frameworks drawn upon in M&A research.

A more frequent approach to depicting value potential in M&As involves drawing on two distinct yet interrelated theoretical constructs—strategic fit and relatedness. These concepts are used both together and/or separately. Sometimes relatedness is regarded as the operationalization of strategic fit. For instance, Nupponen (1995) operationalizes strategic fit using three subcategories: relatedness being one, overlap of business processes and market power the others. However, relatedness is often used alone (Salter and Weinhold 1979) or interchangeably with fit (Kim and Finkelstein 2009). Taken together, these concepts not only permeate the thinking of theoretical frameworks such as Shelton's (1988), but have also come to dominate much of the theoretical debate regarding value potential in M&As by being used in several influential studies (e.g., Anand and Singh 1997; Brush 1996; Finkelstein and Haleblian 2002; Fowler and Schmidt 1989; Harrison *et al.* 1991; Homburg and Bucerius 2006; Lien and Klein 2006; Miller *et al.* 2010; Seth 1990; Gary 2005; Singh and Montgomery 1987; St. John and Harrison 1999).

The concept of strategic fit, borrowed from the general strategic management literature, denotes the benefits of combining firms through M&As. More formally, Jemison and Sitkin (1986: 146) define the term as "the degree to which the target firm augments or complements the parent's strategy and thus makes identifiable contributions to the financial and non-financial goals of the parent." The second concept, relatedness, typically is thought of as the degree of sameness or difference between firms involved in M&As and defined as "the strategic similarity and the strategic complementarity of operations of the joining firms" (Larsson and Finkelstein 1999: 6).

There are several reasons why these two concepts have taken center stage in research on value potentials in M&As. One trait making them useful in a strategic management context is that they address the scope of the firm, arguably the central issue to strategic decision making. Historically, strategies for increasing firm competitiveness through M&As have swung from favoring conglomerate M&As, bringing essentially different firms together during the 1960s (Shleifer and Vishny 1991), to a focus on core competencies and similarities beginning in the 1980s (Prahalad and Hamel 1990), and then to a renewed interest in appropriating essentially different and typically hard to develop capabilities through M&As (Makri *et al.* 2010). Another explanation for the popularity of these concepts is that they are familiar to and generally accepted in much of the research on M&As, offering a foundation for continued academic discussions. It is hardly surprising then that they have come to influence much of the thinking in M&A research.

While having contributed to the progress in M&A research, the dominance of these constructs has left important aspects of value potentials in M&As unattended. The term 'strategy' in both definitions is used in the broad strategic management research to represent how a firm is able to compete based on its resource endowments (Barney 1991), capabilities (Amit and Schoemaker 1993), and position in the industry (Porter 1980) sharing an emphasis on the relation between the firm and its environment (Ansoff 1965). Accordingly, both definitions thereby could be expected to enlighten research regarding how and how much M&As contribute to the competitiveness of the involved firms in relation to their environment. However, while currently

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

dominating theoretical constructs focus on one central dimension in the understanding of value potential in M&As, they also risk limiting theory by downplaying another dimension.

The focus and limits in current theoretical constructs

A characteristic common to the frameworks commonly used as well as to the constructs of strategic fit and relatedness is their emphasis on the relation *between* the involved firms while leaving little room for exogenous, external change. Even if there is steady progress in how value potentials are conceptualized, they still draw heavily on the degree of similarity between the involved firms. Most commonly, studies drawing on both constructs typically measure the overlap between the involved firms, their resources, and markets. Davis and Thomas (1993) argue that the degree of similarity typically is assessed in one of two ways. The first is judgmental, where the researcher classifies a deal as related or not (e.g. Rumelt 1986). Similarly, St. John and Harrison (1999) classify similarities in the raw materials, product and process technology, and resource conversion process and then let colleagues grade these according to SIC (Standard Industrial Classification) codes.

The second, more common approach is called mechanistic and it involves comparing similarities between the SIC code classifications of the involved firms. Whereas some, such as Bruton *et al.* (1994), use a broader two-digit level overlap, others increase the level of detail by drawing on the three- or four-digit similarities between the SIC codes of the involved firms (Finkelstein and Haleblian 2002; Miller *et al.* 2010; Oler *et al.* 2008). Davis and Thomas (1993) point to three problems common to the use of SIC codes: 1) that this measures product market similarities only, while potentially leaving capabilities unaccounted for; 2) that vertical relations are typically not included; and 3) that all similarities are assumed to provide the same value potential. Lien and Klein (2006) develop a related, yet distinct, line of thought when they criticize SIC code comparisons for not being truly continuous and for being likely to overestimate value potential, arguing for the need to improve the ways in which relatedness is measured.

Kim and Finkelstein (2009), similar to Larsson and Finkelstein (1999), argue that strategic fit not only depends on similarities but on complementarities between the involved firms, especially when capabilities allow the acquiring firm to benefit from these complementarities. Zaheer *et al.* (2011) make an important point in establishing that, beyond the potential positive effects of similarities, differences between the firms can be either complementary or lacking effect on performance, thus requiring more attention to measures of the types of complementarities involved in M&As. Similar to Finkelstein and Haleblian (2002), who point to negative synergies, this contributes to increasing the level of detail of these constructs. Others have made similar points, arguing that the measures typically used for relatedness risk being too aggregate to fully reflect value potential. Instead, it is suggested, value potential in transactions involving firms operating in more than one industry is better reflected by using multiple SIC codes (Finkelstein and Haleblian 2002). Further, Makri *et al.* (2010) combine measures of similarity and complementarity for technology (using patent overlap) and science (drawing on research communities and science disciplines), thus contributing to furthering the internal precision of the constructs of value potential.

Despite progress, the current use of the strategic fit and relatedness terms means that much of what can be expected to change beyond the control of managers in the involved firms is assessed using a measure essentially comparing the degree of similarity *between* firms. Also markets that, intuitively, could be seen as largely influenced by other forces and hence exogenously dynamic are typically measured as the degree of overlap. The reader might recall that Shelton (1988) probed value potential by comparing whether both firms served similar customer types. Homburg and Bucerius (2006) operationalize the concept of "external relatedness" as the level

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

to which customers and markets of the involved firms are the same. Kim and Finkelstein's (2009) study of complementarity in acquisitions in the US banking industry measured the extent to which the involved firms had branches in the same geographical area before the transaction, as did Ramaswamy (1997) in the same industry. Common for these studies is that it is not the market conditions as such, but rather whether they are served by both firms or not, that is captured.

This tendency of conceptualizing value potential as the degree of similarity is visible also in some formal definitions in this stream of research. For instance, relatedness, defined by Rumelt (1986: 11) as "common skills, resources, markets, production technologies, distribution systems, and purposes between the combined firms," is similar, indeed, to how strategic fit is conceptualized by Pablo *et al.* (1996: 728), namely as "similarity or complementarity of core organizational competencies." Thus, in contrast to the definitions provided by Jemison and Sitkin (1986) and Larsson and Finkelstein (1999) referred to earlier, the definitions suggested by Rumelt (1986) and Pablo *et al.* (1996) seem geared solely toward the internal relation between the involved firms without any relation to the strategy or strategic or competitive situation.

The consequence is that a firm's relation to the external environment, often at the center of the strategic fit concept in strategic management literature (e.g. Ansoff 1965), in M&A research is collapsed into a degree of similarity between the involved firms before the transaction. Even important steps to develop a more fine-grained view of the overlap (St. John and Harrison 1999; Makri *et al.* 2010) miss the fundamental point of validity of what is included in the measure once the transaction has taken place. This means that industry dynamism, maturity, technical complexity, or level of rivalry is excluded from the conceptualizations of value potential. For instance, Zollo and Meier (2008) find that virtually no attention is given to whether customers are retained or not following M&As.

In summary, value potential in M&As is commonly conceptualized as a degree of similarity between the involved firms at the time of M&A, rather than how a transaction alters the relation between the involved firms and their competitive environment. This makes value predictions vulnerable to dynamism in the environment. In industries that are either sufficiently stable or benevolent for business conditions to remain predictable, or where the various organizational actors do not attempt to benefit at the expense of each other, this concern remains of minor importance. However, in situations that are unpredictable and where the profit distribution in the industry is contested, this concern is more important. If not reflected in theoretical constructs, external changes risk making value potential measures based on the degree of initial internal similarity obsolete. Current constructs, I argue, can fruitfully be accompanied by more attention to what can be thought of as competitive dynamism external to M&As. In the following, I sketch some reasons why such a competitive dynamism following the announcement of M&As might be relevant for strategic management literature, before outlining some consequences from adopting a competitive dynamics perspective for the broader M&A research.

Toward a competitive dynamics perspective on M&As

Complementing current research conceptions of value potential with a competitive dynamics perspective requires viewing M&As as inherently intertwined with ongoing change within and between industries. Typically, research on competitive dynamics has focused on firm dyads (Baum and Korn 1999; Chen *et al.* 2007). Assuming dyadic competitive relations are central for firm behavior, but also regarding these as embedded in the general dynamism in the relevant business environment, has consequences for theories on M&As. M&As viewed as adjustments to past and expected change will be more likely in dynamic environments and will also spark further external change. It follows that the effects of an M&A should be considered in relation

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

to its competitive environment (Clougherty and Duso 2009) and with the environment changes effecting value potential. Taking such a competitive dynamics perspective leads to the conclusion that an understanding of value potential also requires understanding whether and how the external environment can change.

There are several reasons why value potential in M&As could change after the announcement. The societal, economic, legal, or other conditions in which M&As are initiated to create increased competitiveness rarely are completely stable. Research has convincingly shown that it can take up to seven (Birkinshaw *et al.* 2000) or even 12 years to fully realize the benefits from M&As (Barkema and Schijven 2008), leaving industry conditions ample time to change. While the level of dynamics differs between industries (e.g. Nadkarni and Narayanan 2007), an increasing number of industries are undergoing fundamental and rapid change (D'Aveni 1994; Brown and Eisenhardt 1997), which increases the likelihood that the external environment will alter during M&A processes. In addition, M&As are more likely to take place under dynamic environmental conditions compared to when environments are more stable (Heeley *et al.* 2006), increasing the likelihood that M&As are followed by dynamism.

While the risk of such general change is inherent in business, there are reasons to assume that M&As might be especially exposed to dynamism. Taking a strategic management perspective typically involves regarding M&As as a means to increase competitiveness against an often hostile environment. While some transactions can turn out to be "checkmate M&As" that provide participating management with nearly complete control of the relevant business environment, many M&s are instead likely to be followed by a deliberate response from the environment. Research on inter-firm rivalry has found competitive retaliation to be more likely against strategic moves that are visible and perceived as a threat (Chen 1996). M&As are often more visible compared to more routine investments (Oler *et al.* 2008), and M&As are often announced publicly along with their specific aims (Sirower and Lipin 2003). Further, M&As that are truly competitive will likely be perceived as threats. The time it typically takes to realize synergies (Larsson and Finkelstein 1999) offers competitors and other industry participants the opportunity to retaliate by approaching the same markets as a competitor (Turner *et al.* 2010; Steenkamp *et al.* 2005) or responding with M&As (Keil *et al.* 2013). It is not surprising, therefore, that external industry participants such as competitors have been found to actively attempt interfering with the realization of those effects, thus reducing the value that can be extracted compared to those initially anticipated (Schriber 2012).

The above discussion suggests that general change as well as retaliatory response directed specifically against M&As can alter the environments and hence the possibilities for M&As to create value. Such dynamism falls outside of the current use of strategic fit and relatedness in M&A research. It therefore appears fruitful to adjust measures of value potential to include a larger measure of external dynamism. One means of doing so is to adopt a perspective on M&As in general, and on value potentials in particular, that can be thought of as dynamic and competitive. While sketched only briefly above, a first step toward explicating a competitive dynamics perspective on M&As suggests a need to shift the emphasis in M&A research. The potential in such a perspective is illustrated in its ability to extend understanding of M&As through reinterpreting existing research findings and opening paths to new ones in several streams of M&A research.

Consequences for M&A research

Some consequences of applying such a competitive dynamics perspective on past as well as future research can be outlined. For instance, it is possible to interpret the findings from M&A performance research in light of the above discussion. Studies of M&A performance measures have

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

pointed to the diverging results between differences in short- and long-term performance (e.g. Zollo and Meier 2008). For instance, King *et al.* (2004) found positive abnormal returns turning negative on average 22 days after M&A announcements. One reason put forward by Lubatkin *et al.* (1997) is that initial positive market expectations of M&A performance tend to fall when information gradually increases awareness of the organizational challenges of integration. The perspective proposed here adds to such internal reasons for performance change and points also to external explanations. For instance, retaliatory reactions from external industry actors in the period following M&As (Schriber 2012) would seem consistent with such performance patterns, since market awareness of such responses are likely to increase in the days following a focal transaction.

A dynamic competitive perspective also could contribute to theories on performance differences between types of M&A. For instance, Kim and Finkelstein (2009) found that M&As involving new market entry were associated with lower performance than those staying in the same market, which is also consistent with the findings of Shelton (1988) and Lubatkin *et al.* (1997). This is interpreted by Kim and Finkelstein (2009) as the integration of new markets requiring partly new managerial capabilities. A competitive dynamics perspective could add that entering new markets through M&As not only involves the challenge of integrating the resources, business model, culture, and reporting systems of another firm (Datta *et al.* 1992). It also includes entering a market with a potentially very different competitive context (e.g. Barney and Zajac 1994), requiring new organizational capabilities to make sense of and handle a new competitive environment (Porac *et al.* 2011). While this argument is consistent with the overall findings of Kim and Finkelstein (2009), pointing to the influence of a dynamic competitive environment adds to the explanations of M&A performance. Strategic management research might benefit from including the acquirer's degree of familiarity with the competitive situation of the target firm. For instance, it is likely that unrelated M&As bring different external hurdles to value creation than related ones.

For instance, constructs of value potential could benefit from reflecting change in the general business conditions in the industry, such as deregulation or the opening of new geographical markets that alter the conditions under which M&As can create value (Meyer and Lieb-Dozcy 2003). Other shifts include changes in customer preferences or economic disturbances leading to further M&A activity in the industry (Trautwein 1990). Whereas external change can increase the value of existing or create new value potentials, they also can leave firms participating in M&As worse off than competitors: reductions of slack following M&As can leave the involved firms less able to respond to sudden and unexpected increases in demand (Gary 2005).

A competitive dynamics perspective also holds potential for expanding the scope of research focusing on the integration process. As noted earlier, the integration process is rarely explicitly in focus in strategic management studies but often acknowledged as central for whether value creation occurs or not. A consequence of taking a competitive dynamics perspective is that it allows regarding employee interpretations of the organizational processes as part of a larger context. This means complementing the current emphasis on the role of management for how the integration process evolves with factors outside the involved organizations. For instance, media representations of the transaction (Riad *et al.* 2012) might form employee perceptions of their own situation. In addition, negative perceptions of the integration that can lead to increased employee turnover (Lubatkin *et al.* 1999) also can be put in context in that employee turnover can be expected to increase with the availability of alternative job offers. In sum, a dynamic competitive perspective suggests that constructs for value potential fruitfully could include factors in the environment to reflect employee interpretations of M&As, perhaps such as in M&As in high-tech acquisitions, where employee motivation is often argued to be of special importance for value creation (Ranft and Lord 2002; Schweizer 2005).

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

Conclusions

Much M&A research revolves around identifying M&As that create value. Studies typically take their starting point in the view that managers select, or should select, targets depending on the size of the available value potential and the likelihood that it can be realized. While the idea that the internal integration process between the involved firms is complex and often hampered by unexpected turbulence has gained ground in research, *external* dynamism in the environment affecting the post-M&A phase so far has been largely overlooked. Examining research using the dominating theoretical constructs for value potential, this chapter has argued that current research does not sufficiently acknowledge that M&As are likely to face unintended, general change, as well as meet intentional efforts by competitors or other external industry actors perceiving a risk of losing in relative competitiveness.

While some M&As take place in stable and predictable industries, and others might turn out to be "checkmate M&As," providing participating firms with control over the industry, this seems far from a general rule. In contrast to several approaches in general strategic management that stress the need to reflect dynamism in theories (e.g. Farjoun 2002; Helfat *et al.* 2007; Porter 1991), current research on value potential in M&A studies seems a target of Spender's (2001: 29) criticism that "the pivotal notion of fit seems an incomprehensible hang-over from microeconomic equilibrium theory." In line with what I labeled a competitive dynamic perspective on M&As, this chapter has emphasized that the gains available in M&As depend on how well the two firms complement each other in relation to the external environment, which likely is not stable.

The ambition of this chapter has been to outline future M&A research by suggesting a competitive dynamics perspective on value potential in M&As. Extending initial steps in this direction (Keil *et al.* 2013; Schriber 2012), this chapter suggests that, while *ex ante* comparisons of similarities or complementarities of the involved firms are likely to remain central for value potential assessments, lack of attention to changes in the environment risks making such predictions incomplete or even obsolete. This means that traditional approaches might be less valid in dynamic and competitive environments, and that the perspective proposed here can complement existing research on M&A performance. This relates to the point made by King *et al.* (2004: 197) who, in finding little evidence for the concepts typically used to predict value potential, claim that researchers "simply may not be looking at the 'right' set of variables as predictors of post-acquisition performance." In this sense, this chapter concludes that adding a contingency component reflecting the main characteristics of the relevant industry or industries in which the M&As take place is a potential avenue for developing existing concepts for value potential, in turn furthering the theoretical understanding of M&A performance. The competitive dynamics perspective proposed here is a first step in this direction and bears potential for opening a much needed theoretical discussion regarding the currently dominating concepts for value potential; for re-interpreting current research findings; and for directing future finance, strategic management, and integration research.

Practitioners can benefit from assessing the benefits available in M&As through the lens of a competitive dynamics perspective. Conclusions from this chapter complement, rather than contest, the importance of resource overlaps and the internal challenges facing integration managers identified in earlier research. But since initial overlaps are likely to give only a partial picture of the benefits available in the post-M&A period in dynamic and competitive industries, practitioners can benefit from placing more emphasis on a structured approach to addressing the likelihood and effects of changing circumstances on the foundations of identified benefits. Beyond assessing the effects from a strategic go–no-go or valuation perspective, managers responsible for

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

and involved in the integration process need to remain open to the chance that integration level and efforts should be reassessed in relation to an ever evolving competitive environment. Since management attention typically is drawn to the internal organizations during M&A integration (Larsson and Finkelstein 1999), managers might need to keep a certain amount of attention on the external environment during integration.

Note

1 The FTC collected and reported data for larger mergers for 1948–1979.

References

Amit, R. and Schoemaker, P.J H. (1993) "Strategic assets and organizational rent," *Strategic Management Journal*, 14: 33–46.

Anand, J. and Singh, H. (1997) "Asset redeployment, acquisitions and corporate strategy in declining industries," *Strategic Management Journal*, 18: 99–118.

Ansoff, I.H. (1965) *Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion*. New York: McGraw-Hill Book Company.

Barkema, H.G. and Schijven, M. (2008) "Toward unlocking the full potential of acquisitions: the role of organizational restructuring," *Academy of Management Journal*, 51: 696–722.

Barney, J.B. (1991) "Firm resources and sustained competitive advantage," *Journal of Management*, 17: 99–120.

Barney, J.B. and Zajac, E.J. (1994) "Competitive organizational behavior: toward an organizationally-based theory of competitive advantage," *Strategic Management Journal*, 15: 5–9.

Baum, J.A.C. and Korn, H.J. (1999) "Dynamics of dyadic competitive interaction," *Strategic Management Journal*, 20: 251–78.

Birkinshaw, J., Bresman, H., and Håkanson, L. (2000) "Managing the post-acquisition integration process: how the human integration and task integration processes interact to foster value creation," *Journal of Management Studies*, 37: 395–425.

Bower, J.L. (2001) "Not all M&As are alike – and that matters," *Harvard Business Review*, 79: 93–101.

Brown, S.L. and Eisenhardt, K.M. (1997) "The art of continuous change: linking complexity theory and time-paced evolution in relentlessly shifting organizations," *Administrative Science Quarterly*, 42: 1–34.

Brush, T.H. (1996) "Predicted change in operational synergy and post-acquisition performance of acquired businesses," *Strategic Management Journal*, 17: 1–24.

Bruton, G.D., Oviatt B.M., and White, M.A. (1994) "Performance of acquisitions of distressed firms," *Academy of Management Journal*, 37: 972–89.

Bulow, J. and P. Klemperer (2009) "Why do sellers (usually) prefer auctions?," *American Economic Review*, 99: 1544–75.

Chen, M.J. (1996) "Competitor analysis and interfirm rivalry: toward a theoretical integration," *The Academy of Management Review*, 21: 100–34.

Chen, M.J., Su, K.H., and Tsai, W.P. (2007) "Competitive tension: the awareness-motivation-capability perspective," *Academy of Management Journal*, 50: 101–18.

Clougherty, J.A. and Duso, T. (2009) "The impact of horizontal mergers on rivals: gains to being left outside a merger," *Journal of Management Studies*, 46: 1365–95.

Coff, R.W. (1999) "How buyers cope with uncertainty when acquiring firms in knowledge-intensive industries: caveat emptor," *Organization Science*, 10: 144–61.

Datta, D.K. (1991) "Organizational fit and acquisition performance: effects of post-acquisition integration," *Strategic Management Journal*, 12: 281–97.

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

D'Aveni, G.S. (1994) *Hypercompetition: Managing the Dynamics of Strategic Manoeuvring*. New York: The Free Press.

Davis, R. and Thomas, L.G. (1993) "Direct estimation of synergy: a new approach to the diversity-performance debate," *Management Science*, 39: 1334–46.

Ellis, K.M., Reus, T.H., and Lamont, B.T. (2009) "The effects of procedural and informational justice in the integration of related acquisitions," *Strategic Management Journal*, 30: 137–61.

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

Farjoun, M. (2002) "Towards an organic perspective on strategy," *Strategic Management Journal*, 23: 561–94.

Finkelstein, S. and Haleblian, J. (2002) "Understanding acquisition performance: the role of transfer effects," *Organization Science*, 13: 36–47.

Fowler, K.L. and Schmidt, D.R. (1989) "Determinants of tender offer post-acquisition financial performance," *Strategic Management Journal*, 10: 339–50.

Gantumur, T. and Stephan, A. (2012) "Mergers and acquisitions and innovation performance in the telecommunications equipment industry," *Industrial and Corporate Change*, 21: 277–314.

Gary, S.M. (2005) "Implementation strategy and performance outcomes in related diversification," *Strategic Management Journal*, 26: 643–64.

Hagedorn, J. and Duysters, G. (2002) "External sources of innovative capabilities: the preference for strategic alliances or mergers and acquisitions," *Journal of Management Studies*, 39: 167–88.

Harrison, J.S., Hitt, M.A., Hoskisson, R.E., and Ireland, D.R. (1991) "Synergies and post-acquisition performance: differences versus similarities in resource allocations," *Journal of Management*, 17: 173–90.

Haspeslagh, P.C. and Jemison, D.B. (1991) *Managing Acquisitions: Creating Value through Corporate Renewal*. New York: Free Press.

Heeley, M.B., King, D.R., and Covin, J.G. (2006) "Effects of firm R&D investment and environment on acquisition likelihood," *Journal of Management Studies*, 43: 1513–35.

Helfat, C.E., Finkelstein, S., Mitchell, W., Peteraf, M.A., Singh, H., Teece, D.J., and Winter, S.G. (2007) *Dynamic Capabilities: Understanding Strategic Change in Organizations*. Malden, MA: Blackwell Publishing.

Hitt, M., Harrison, J., Ireland, D.R., and Best, A. (1998) "Attributes of successful and unsuccessful acquisitions of US firms," *British Journal of Management*, 9: 91–114.

Homburg, C. and Bucerius, M. (2006) "Is speed of integration really a success factor of mergers and acquisitions? An analysis of the role of internal and external relatedness," *Strategic Management Journal*, 27: 347–67.

Jemison, D.B. and Sitkin, S.B. (1986) "Acquisitions: the process can be a problem," *Harvard Business Review*, March–April: 107–16.

Keil, T., Laamanen, T., and McGrath, R.G. (2013) "Is a counterattack the best defense? Competitive dynamics through acquisitions," *Long Range Planning*, 46: 195–215.

Kim, J.-Y.J. and Finkelstein, S. (2009) "The effects of strategic and market complementarity on acquisition performance: evidence from the U.S. commercial banking industry 1989–2001," *Strategic Management Journal*, 30: 617–46.

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

Larsson, R. and Finkelstein, S. (1999) "Integrating strategic, organizational, and human resource perspectives on mergers and acquisitions: a case study of synergy realization," *Organization Science*, 10: 1–26.

Lee, G.K. and Lieberman, M.B. (2010) "Acquisition vs. internal development as modes of market entry," *Strategic Management Journal*, 31: 140–58.

Lien, L.B. and Klein, P.G. (2006) "Relatedness and acquirer performance," in C.L. Cooper and S. Finkelstein (eds.), *Advances in Mergers and Acquisitions*, 5: 9–23. Amsterdam: JAI.

Lubatkin, M. (1983) "Mergers and the performance of the acquiring firm," *Academy of Management Review*, 8: 218–25.

Lubatkin, M. (1987) "Merger strategies and stockholder value," *Strategic Management Journal*, 8: 39–53.

Lubatkin, M., Srinivasan, N., and Merchant, H. (1997) "Merger strategies and shareholder value during times of relaxed antitrust enforcement: the case of large mergers during the 1980s," *Journal of Management*, 23: 59–81.

Lubatkin, M., Schweiger, D.M., and Weber, Y. (1999) "Top management turnover in related M&A's: an additional test of the theory of relative standing," *Journal of Management*, 25: 55–73.

Lubatkin, M., Calori, R., Very, P., and Veiga, J.F. (1998) "Managing mergers and acquisitions across borders: a two-nation exploration of a nationally bound administrative heritage," *Organization Science*, 9: 670–84.

Makri, M., Hitt, M.A., and Lane, P.J. (2010) "Complementary technologies, knowledge relatedness, and invention outcomes in high technology mergers and acquisitions," *Strategic Management Journal*, 31: 602–28.

Meyer, C.B. and Altenborg, E. (2007) "The disintegrating effects of equality: a study of a failed international merger," *British Journal of Management*, 18: 257–71.

Meyer, K.E. and Lieb-Dozcy, E. (2003) "Post-acquisition restructuring as evolutionary process," *Journal of Management*, 40: 459–82.

Miller, D., Le Breton-Miller, I., and Lester, R.H. (2010) "Family ownership and acquisition behavior in publicly-traded companies," *Strategic Management Journal*, 31: 201–23.

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

Moeller, S.B., Schlingemann, F.P., and Stulz, R.M. (2005) "Wealth destruction on a massive scale? A study of acquiring firm returns in the recent merger wave," *The Journal of Finance*, 40: 757–82.

Nadkarni, S. and Narayanan, V.K. (2007) "The evolution of collective strategy frames in high- and low-velocity industries," *Organization Science*, 18: 688–710.

Neffke, F. and Henning, M. (2013) "Skill relatedness and firm diversification," *Strategic Management Journal*, 34: 297–316.

Nupponen, P. (1995) "Post-Acquisition Performance: Combination, Management, and Performance Measurement in Horizontal Integration." Doctoral thesis. Helsinki School of Economics and Business Administration.

Oler, D.K., Harrison, J.S., and Allen, M.R. (2008) "The danger of misinterpreting short-window event study findings in strategic management research: an empirical illustration using horizontal acquisitions," *Strategic Organization*, 6: 151–84.

Pablo, A.L., Sitkin, S.B., and Jemison, D.B. (1996) "Acquisition decision-making processes: the central role of risk," *Journal of Management*, 22: 723–46.

Pehrsson, A. (2006) "Business relatedness and performance: a study of managerial perceptions," *Strategic Management Journal*, 27: 265–82.

Porac, J.F., Thomas, H., and Baden-Fuller, C. (2011) "Competitive groups as cognitive communities: the case of Scottish knitwear manufacturers revisited," *Journal of Management Studies*, 48: 646–64.

Porter, M.E. (1980) *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: The Free Press.

Porter, M.E. (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press.

Porter, M.E. (1991) "Towards a dynamic theory of strategy," *Strategic Management Journal*, 12: 95–117.

Prahalad, C.K. and Hamel, G. (1990) "The core competence of the corporation," *Harvard Business Review*, 68: 79–91.

Puranam, P., Powell, B.C., and Singh, H. (2006) "Due diligence failure as a signal detection problem," *Strategic Organization*, 4: 319–48.

Ramaswamy, K. (1997) "The performance impact of strategic similarity in horizontal mergers: evidence from the US banking industry," *Academy of Management Journal*, 40: 697–715.

Ranft, A.L. and Lord, M.D. (2002) "Acquiring new technologies and capabilities: a grounded model of acquisition implementation," *Organization Science*, 13: 420–41.

Riad, S., Vaara, E., and Zhang, N. (2012) "The intertextual production of international relations in mergers and acquisitions," *Organization Studies*, 33: 121–48.

Rumelt, R.P. (1986) *Strategy, Structure, and Economic Performance* (2nd edn). Boston, MA: Harvard University Press.

Salter, M.S. and Weinhold, W.A. (1979) *Diversification through Acquisition: Strategies for Creating Economic Value*. New York: The Free Press.

Schriber, S. (2012) "Managing the influence of external competitive change during integration," in Anderson, H., Havila, V., and Nilsson, (eds.), *Mergers and Acquisitions: The Critical Role of Stakeholders*. New York and Abingdon: Routledge.

Schweizer, L. (2005) "Organizational integration of acquired biotechnology companies into pharmaceutical companies: the need for a hybrid approach," *Academy of Management Journal*, 48: 1052–74.

Seth, A. (1990) "Sources of value creation in acquisitions: an empirical investigation," *Strategic Management Journal*, 11: 431–46.

Shelton, L.M. (1988) "Strategic business fits and corporate acquisition: empirical evidence," *Strategic Management Journal*, 9: 279–287.

Shleifer, A. and Vishny, R.W. (1991) "Takeovers in the '60s and the '80s: evidence and implications," *Strategic Management Journal*, 12: 51–59.

Singh, H. and Montgomery, C.A. (1987) "Corporate acquisition strategies and economic performance," *Strategic Management Journal*, 8: 377–86.

Sirower, M.L. (1997) *The Synergy Trap: How Companies Lose the Acquisition Game*. New York: The Free Press.

Sirower, M.L. and Lipin, S. (2003) "Investor communications: new rules for M&A success," *Financial Executive*, 19: 26–30.

Spender, J.C. (2001) "Business policy and strategy as a professional field," in Volberda, H.W. and Elfring, T. (eds.), *Rethinking Strategy*. London: Sage Publications.

Steenkamp, J.-B.E.M., Nijs, V.R., Hanssens, D.M., and Dekimpe, M.G. (2005) "Competitive reactions to advertising and promotion attacks," *Marketing Science*, 24: 35–54.

Downloaded By: 10.2.97.136 At: 22:06 29 Mar 2023; For: 9780203761885, chapter19, 10.4324/9780203761885.ch19

St. John, C.H. and Harrison, J.S. (1999) "Manufacturing-based relatedness, synergy, and coordination," *Strategic Management Journal*, 20: 129–45.

Teerikangas, S. (2010) "Dynamics of acquired firm pre-acquisition employee reactions," *Journal of Management*, 38: 599–639.

Trautwein, F. (1990) "Merger motives and merger prescriptions," *Strategic Management Journal*, 11: 283–95.

Turner, S.F., Mitchell, W., and Bettis, R.A. (2010) "Responding to rivals and complements: how market concentration shapes generational product innovation strategy," *Organization Science*, 21: 854–72.

Vaara, E., Sarala, R., Sahl, G.K., and Björkman, I. (2012) "The impact of organizational and national cultural differences on social conflict and knowledge transfer in international acquisitions," *Journal of Management* Studies, 49: 1–27.

Zaheer, A., Castañer, X., and Souder, D. (2011) "Synergy sources, target autonomy, and integration in acquisitions," *Journal of Management*, 39: 604–32.

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