

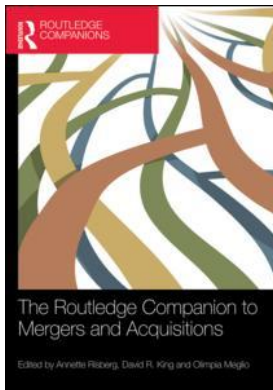
This article was downloaded by: 10.2.97.136

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

### **Opening the black box of acquisition capabilities**

Publication details

<https://test.routledgehandbooks.com/doi/10.4324/9780203761885.ch5>

Niina Nummela, Mélanie Hassett

**Published online on: 06 Jul 2015**

**How to cite :-** Niina Nummela, Mélanie Hassett. 06 Jul 2015, *Opening the black box of acquisition capabilities from: The Routledge Companion to Mergers and Acquisitions* Routledge

Accessed on: 29 Mar 2023

<https://test.routledgehandbooks.com/doi/10.4324/9780203761885.ch5>

**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.

# Opening the black box of acquisition capabilities

*Niina Nummela and Mélanie Hassett*

---

## Introduction

Firms differ in their abilities to manage mergers and acquisitions (M&As) (Jemison and Sitkin 1986a), and this notion has encouraged M&A researchers to highlight the role of experience, knowledge, and learning in acquisitions (Empson 2007; Bower 2001, Ranft and Lord 2000). Theories on organizational learning suggest that acquisition capability will improve over time with accumulated experience. However, findings from empirical studies on the linkage between acquisition experience and performance remain contradictory (Barkema and Schijven 2008). In response, a number of researchers have claimed that expertise developed through experiential learning is inherently more complex, with considerable time and effort needed for experience to develop into *acquisition capability* (e.g. Barkema and Schijven 2008; Halebian *et al.* 2006; Hébert *et al.* 2005; Zollo and Singh 2004).

Acquisition capability refers here to an organization's ability to execute acquisitions (cf. Keil *et al.* 2012), which is particularly significant for the growing number of serial acquirers (Laamanen and Keil 2008; Smit and Moraitis 2010). However, to date, studies focusing on acquisition capability remain scarce, findings inconsistent, and empirical studies almost non-existent. Therefore, this chapter aims to refine our knowledge on the concept and also provides new empirical evidence on these capabilities. The chapter takes a dynamic-capabilities perspective on the phenomenon and focuses particularly on the microfoundations of acquisition capability (cf. Teece 2007). As such, we contribute to the literature on M&As and offer an interesting, less investigated context for dynamic capability research.

The chapter also has managerial implications. The key questions from the perspective of sustainable competitive advantage through acquisitions are: 1) How can individual capabilities become organizational capabilities? and 2) How can the organization enhance the development and maintenance of these capabilities? A literature review accompanied by empirical data from Finnish multinational companies provides some answers to these questions.

## The multi-layered concept of acquisition capability

### Acquisition capability deconstructed

Acquisitions are long-term processes of organizational renewal combined with complex series of decisions. They are often accompanied by a high level of uncertainty and also have a direct link to company performance. Thus, the M&A process is a strategic organizational process where a company alters its resource base (cf. Eisenhardt and Martin 2000; Teece and Pisano 1994; Teece 2007) and, therefore, acquisition capability has been defined as a dynamic capability (Capron and Anand 2007; Zollo 2009; Zollo and Winter 2002).

Dynamic capabilities are embedded in processes (Wang and Ahmed 2007) such as sensing, seizing, and reconfiguring (Teece 2007). In the case of acquisition capability, these underlying microprocesses refer to the sensing of acquisition-related opportunities, seizing of identified opportunities, and the resulting business reconfiguration (see Figure 5.1).

The M&A process begins with recognition that acquisitions represent a suitable growth strategy from identifying suitable targets (i.e. sensing), followed by an information search, negotiations and due diligence (i.e. seizing), and the process concludes with integration of business activities (i.e. reconfiguration). Completion of this process requires a number of skills, procedures, processes, structures, routines, and rules within an organization to provide the microfoundations of an acquisition capability.

### What do we know about acquisition capability so far?

In the M&A literature, it has been emphasized that the concept of acquisition capability does not refer to a single capability but that there are diverse acquisition capabilities (e.g. Keil *et al.* 2012; Capron and Anand 2007; Haspeslagh and Jemison 1991). This thought is very much in line

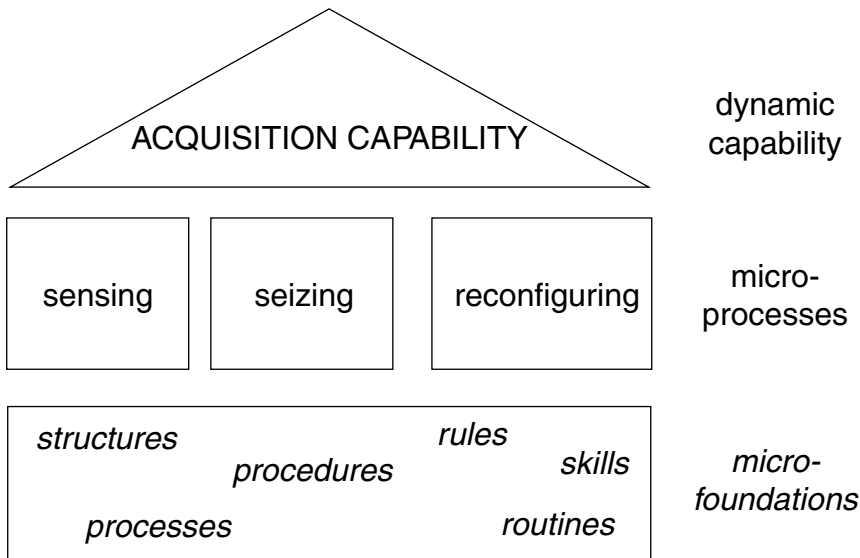


Figure 5.1 Acquisition capability as a dynamic capability (cf. Teece 2007)

with the dynamic capabilities literature where broader capabilities are termed meta-capabilities (Ambrosini and Bowman 2009), or third-order capabilities that enable a company's continuous renewal (Wang and Ahmed 2007; Collis 1994).

Thus, acquisition capability is a third-order meta-capability that comprises a number of second-order elements or capabilities including, for example, acquisition selection, identification, negotiation, integration, or reconfiguration, and acquisition program capability (Amiryany *et al.* 2012; Keil *et al.* 2012, Capron and Anand 2007; Zollo and Singh 2004; Haspeslagh and Jemison 1991). There are few existing studies on acquisition capabilities and they are quite difficult to compare because most have concentrated only on one second-order capability or a small number of them (see Table 5.1). Further, there remains some inconsistency in the use and definitions of the key terms and concepts. For example, although integration capability most often refers to a company's ability to reconfigure its overall resource base after an acquisition, Mitchell and Shaver (2003) focus only on the integration of product lines after the acquisition.

As Table 5.1 shows, our knowledge on acquisition capability and related second-order capabilities remains limited and scattered. The majority of studies have focused on the capability required for reconfiguring the resource base after an acquisition and ignored other parts of the M&A process. Further, the exceptional studies that have taken a broader perspective have been

*Table 5.1* A summary of previous research on acquisition-related capabilities

<i>Author</i>	<i>Focus</i>	<i>Type of study</i>	<i>Key findings</i>
Amiryany <i>et al.</i> (2012)	Acquisition reconfiguration capability	Conceptual	Acquisition experience, acquisition-specific and knowledge management tools and functions enhance post-acquisition knowledge sharing.
Heimeriks <i>et al.</i> (2012)	Integration capability and routine codification	Mixed-method study (interviews and survey)	Integration capability requires both zero- and higher-order routine codification. In particular, developing higher-order routine codification improves acquisition integration performance.
Keil <i>et al.</i> (2012)	Acquisition capability and acquisition program capability	Conceptual	Acquisition program capability includes the capabilities 1) to pace the program, 2) to optimize its scope, 3) to acquire optimally sized and fitting targets, and 4) to manage multiple simultaneous integration processes.
Oladottir (2010)	Integrative capacity	Qualitative case study	A strategic infrastructure and resources are needed to support the integrative capacity.
Barkema and Schijven (2008)	Restructuring capability	Quantitative study (panel)	Acquisition experience improves acquisition implementation and decreases need for restructuring. Restructuring experience provides synergistic benefits when there is need for restructuring.

Table 5.1 Continued

<i>Author</i>	<i>Focus</i>	<i>Type of study</i>	<i>Key findings</i>
Capron and Anand (2007)	Acquisition selection, identification and resource reconfiguration capabilities	Quantitative study (survey)	Acquisition capability is a relational dynamic capability that has a positive effect on acquisition performance if the target is a multinational corporation (MNC).
Capasso and Meglio (2005)	Integration capability	Qualitative case study	Integration capability is influenced not only by learning from past acquisitions, but also by the characteristics of the deals, experience spillover from interfirm collaboration, and the context.
Zollo and Singh (2004)	Integration capability and acquisition performance	Quantitative study (survey)	Knowledge codification has a positive influence on acquisition performance, whereas experience accumulation does not.
Mitchell and Shaver (2003)	Integration capability	Quantitative study (database)	Integration capability increases with product line scope.
Zollo and Winter (2002)	Development of integration capability	Conceptual	Integration capability is a dynamic capability that develops through experiential learning and is supported by organizational routines, such as knowledge codification.

conceptual studies without any empirical evidence. In our opinion, it is important to recognize that acquisition capability is a dynamic capability capturing the whole M&A process from identification of opportunities to the completion of integration. This holistic approach is also in line with the dynamic capabilities perspective, including the sensing, seizing, and reconfiguration processes.

In addition to refining the existing knowledge and adopting a more holistic perspective, we see a need to go deeper and extend the discussion from second-order capabilities to the underlying microfoundations of acquisition capability that, to date, have been neglected.

### *Building a theoretical framework for the study*

In this chapter, we examine the microfoundations of acquisition capability from two perspectives: skills and structures, and routines and processes. In terms of skills and structure, the microfoundations are analyzed at the managerial and organizational levels. In terms of routines and processes, our focus is on two separate but tightly intertwined processes: experiential learning of individuals and knowledge transfer within the newly formed organization. We adopt a narrow definition of routines (cf. Becker 2004) with a focus on organizational, acquisition-specific patterns and processes that can be codified to improve acquisition performance (cf. Heimeriks *et al.* 2012). To this end, we focus on four areas beginning with managerial skills.

## Managerial skills

Managerial skills refer to the skills of an individual (e.g. an M&A director or an integration manager) that have been gained through imprinting, learning, and/or experience. Previous M&A research has pointed out that some persons are particularly relevant for the success of the M&A process (cf. Ranft and Lord 2002; Very 2004; Kiessling and Harvey 2006). It is important to note that, while the M&A literature often refers to key persons in the acquired organization, that is, persons who are important to retain in the organization due to their knowledge, know-how, and experience (e.g. cf. Ranft and Lord 2002; Very 2004; Kiessling and Harvey 2006), from a capability perspective, there are a number of key persons in the *acquiring company* who are involved in the M&A process. This chapter focuses on the latter.

The key persons involved during the M&A process can be roughly divided into the deal-makers (i.e. those who negotiate the deal) and deal-executors (i.e. those who integrate) (cf. Jemison and Sitkin 1986b; Heimeriks *et al.* 2012). During the pre-M&A phase (i.e. the preparatory phase), the process usually involves a team of people including top management, supported by experts from the business development group, managers from the business units concerned, and, in some cases, by external consultants (Meckl 2004). However, the Board often gives the ultimate approval to the acquisition (Jemison and Sitkin 1986a). Further, the core team of the M&A project is preferably headed by employees from the M&A department while, later, the integration process is usually the responsibility of the integration manager and the integration team made up of different functional teams (Meckl 2004). Consequently, the necessary managerial skills can be possessed by different people over the M&A process.

Previous research has paid particular attention to one group among the key persons, with a budding stream of the literature focusing on integration managers, their characteristics, and behavior. The term “integration manager” refers to the project manager appointed to coordinate activities relating to the integration of the acquired firm into the acquiring firm (Teerikangas *et al.* 2011). Integration managers act on behalf of top management and, in many cases, take full responsibility—and accountability—for making the integration work (Marks and Mirvis 2000). This person is expected to have management skills and functional knowledge that enable him/her to lead the integration process and act as a change agent within the organization (Seo and Hill 2005). An integration manager’s role is significant over the whole integration process; however, it is particularly highlighted in its early stages (Ashkenas and Francis 2000). Integration managers are clearly expected to be capable of multi-tasking as they are supposed to possess the characteristics of integration planner, change agent, relationship builder, staff mobiliser, know-how promoter, cultural carrier, knowledge transferor and staff mobiliser, know-how respecter and promoter. At best, integration managers are engaged in capturing value from a) the pre-acquisition phase, b) the acquiring firm, and c) the acquired firm (Teerikangas *et al.* 2011).

In sum, a number of managerial skills are needed during the M&A process. In the pre-acquisition phase it is crucial to have a good, capable negotiator(s) and also reliable support groups assisting during the due diligence phase (cf. Jemison and Sitkin 1986a, 1986b; Meckl 2004). During the post-acquisition phase, the integration manager’s change management skills cannot be overemphasized (cf. Teerikangas *et al.* 2011), although, at least in larger acquisitions, the integration manager should also receive support from an integration team (e.g. Meckl 2004). Consequently, the completion of a successful M&A process requires multiple managerial skills delivered by a number of individuals.

## Organizational structure

Organizational structure refers to the characteristics and processes that improve an organization's ability to execute acquisitions that can vary across M&As and phases of the process. Although no generally accepted stage model of M&As exists, researchers agree that the great majority are conducted over a similar process. It begins with *sensing* opportunities: choosing M&A as a growth strategy, determining objectives for the deal, searching for potential candidates, selecting the target company, negotiating, conducting due diligence, and planning (e.g. Buono and Bowditch 1989; Haspeslagh and Jemison 1991; Hubbard 1999; Seo and Hill 2005). This *pre-acquisition phase* ends with closing the deal. Typically, this phase is relatively complex due to considerable time pressure, especially over the negotiation process. No person can single-handedly execute the process; executing an acquisition is always group work. Consequently, in this phase, the organization needs to be able to combine the different skills required to complete the phase: (international) negotiation skills, the ability to read financial and legal documents, the ability to assess and evaluate the target company and, finally, the capability to close the deal or, if necessary, walk away (cf. Cullinan *et al.* 2004).

However, the time following the announcement of the deal is also critical; it is the time for *seizing* opportunities. Seo and Hill (2005) have termed the stage following the announcement of an M&A until it is legally completed the *initial planning and formal combination phase*. This stage comprises the creation of a new vision and goals, joint committees and teams to make decisions regarding management changes, staffing plans and a new organizational structure (Seo and Hill 2005: 433). Again, a combination of multiple skills is required for assessing the fit of the target and evaluating required changes, while, simultaneously, under considerable time pressure, the organization needs to create a structure to support the process and form a strategic vision and objectives for the newly combined entity. Furthermore, organizational skills are needed to manage uncertainty and personnel in the midst of rumors (cf. Kusstatscher and Cooper 2005), especially if the details of the deal have not been disclosed due to pending approval from the competition authorities.

*Reconfiguring* the business (i.e. the *post-acquisition phase*) begins when the deal is closed; it involves the takeover of the acquired company and the actual integration of organizational functions and operations. During the operational combination stage, the budget, space, work assignments, and reporting responsibilities are reorganized (cf. Seo and Hill 2005). Integration is the most critical second-order capability during the post-acquisition phase (cf. Capasso and Meglio 2005). However, developing and maintaining such a capability is very challenging because motives for acquisitions differ, as do the needs of integration. For example, if the motive is merely to increase the size of the company, a simple accounting integration might be sufficient; however, deeper integration is probably necessary if the motive is to acquire resources, knowledge, and/or capabilities. Consequently, while the procedural and physical integration of the parties can require understanding on accounting systems, production line, or production technologies (cf. Shrivastava 1986), the managerial and socio-cultural integration of entities requires capabilities with which to address employees' emotions, stress, anxiety, change resistances, and cultural clashes (cf. Cartwright and Cooper 1993; Kusstatscher and Cooper 2005; Seo and Hill 2005).

In sum, from the organizational perspective, orchestrating an M&A process requires more generic and analytical skills, typically possessed by top management, and also the ability to create a support structure rapidly and delegate operational responsibilities to the correct people in the organization over the M&A process.

## Experiential learning

Organizational learning in the context of M&As has generated a great amount of interest, although the research results have been mixed and inconclusive (Barkema and Schijven 2008). One reason for the contradictory findings is probably the huge variety of M&A deals. Traditionally, in management research, researchers have emphasized the importance of experiential learning; that is, the process over which “knowledge is created through the transformation of experience” (Kolb 1984: 38). However, if no two deals are the same (Barkema and Schijven 2008; Bower 2001), what is the value of the collected experience?

Another challenge with the previous research is that it has usually adopted the traditional learning curve perspective, which assumes that experience always has a positive impact, thus failing to acknowledge that experience can be detrimental when transferred to a setting in which previous lessons do not apply (Barkema and Schijven 2008). It also fails to take into account the possibility of superstitious learning (Zollo 2009) and the possibility of learning from others (cf. Barkema and Schijven 2008; Keil *et al.* 2012).

Earlier research has demonstrated the complexity of learning over the M&A process (Vermeulen and Barkema 2001; Very and Schweiger 2001) and the importance of having organizational mechanisms in place to facilitate learning (e.g. Zollo and Winter 2002; Barkema and Schijven 2008). Deliberate learning mechanisms refer to, for example, utilization of expatriates, conduits of information, experience codification, training programs, and dedicated departments. Nevertheless, in reality, developing these mechanisms takes time, if the firm is able to develop them at all. Moreover, the risk increases for negative experience transfer (Barkema and Schijven 2008; Zollo and Singh 2004).

In sum, while research results on experiential learning remain inconclusive (cf. Zollo and Singh 2004; Barkema and Schijven 2008), there is a need to obtain deeper understanding on how organizations learn to acquire successfully. From a capability perspective, the main challenges lie in the complexity of acquisitions that require just-in-time coordination of a number of diverse capabilities, both in-house and in the company’s external network. Research on international acquisitions suggests that not all provide the same opportunity to learn (see Collins *et al.* 2009), which makes it very challenging to build acquisition capability based on experiential learning. Moreover, it has been argued that effective knowledge management and, in particular, routine codification are essential elements of experiential learning (cf. Zollo and Winter 2002; Keil 2004; Barkema and Schijven 2008; Heimeriks *et al.* 2012).

## Knowledge transfer

An acquisition can be described as a process of knowledge transfer, involving a combination of know-what and know-how, between the parties (Bresman *et al.* 1999). Over this process, the parties learn about each other, the business, and markets, and also management of the acquisition process, which results in an accumulated practical skill or expertise relating to management of the acquisition (cf. Kogut and Zander 1992). Thus, knowledge transfer in acquisitions can be either intra-organization knowledge transfer (i.e. within the acquiring company) or inter-organizational knowledge transfer (i.e. between the acquirer and the acquired firm). M&A research has focused a great deal on inter-organization knowledge and capability transfer (e.g. Ranft and Lord 2000, 2002; Zollo and Singh 2004; Björkman *et al.* 2007; Sarala and Vaara 2010). However, there is less research on intra-organization knowledge transfer and capability building.

While knowledge transfer in acquisitions entails the transfer of various knowledge (e.g. Ranft and Lord 2002; Amiryany *et al.* 2012), the transfer of acquisition-specific knowledge can result



in the improvement of a firm's acquisition capability (Heimeriks *et al.* 2012; Nummela 2011). Previous research on acquisition capabilities suggests that experiential learning and development of integration capability is supported by knowledge codification (Zollo and Winter 2002). However, codification of tacit knowledge and acquisition-related routines has both benefits and disadvantages: reduced ambiguity can be accompanied by increased organizational inertia and rigidity. To maximize the advantages and minimize the drawbacks, knowledge codification needs to include both zero- and higher-order routines (Heimeriks *et al.* 2012).

The development of acquisition capabilities also requires that the codified knowledge is transferred within the organization. Knowledge transfer can occur through a number of concrete tools, such as manuals or checklists; however, transfer practices should also include social interaction among key persons through training, meetings, and other personal contacts (Heimeriks *et al.* 2012; Björkman *et al.* 2007). Although top management can introduce a number of such practices, individuals (e.g. M&A team members and integration managers) decide on whether the tools are employed and practices are followed. Thus, their role is pivotal in building the capability (Amiranyan *et al.* 2012).

### *Summary of acquisition capability microfoundations*

It is noteworthy that each M&A process is unique and, as such, there are always a number of contingency factors that also impact the required acquisition capability. The context in which the company operates, the size and value of the deal, and the degree of integration needed are all issues of importance. Nevertheless, we propose that it is also possible to identify some generic microfoundations for acquisition capability that are significant in all cases.

We argue that microfoundations can be found both at individual and organizational levels and individual-level microfoundations become those at the organizational level through experiential learning and knowledge transfer. By maintaining and nurturing the microfoundations, it is possible for an organization to develop an acquisition capability that will provide sustainable competitive advantage.

## **Methodology**

Due to the exploratory nature of the study, a qualitative approach was chosen. As the focus of the study is on the identification of multiple types of acquisition capabilities as “naturally occurring, ordinary events in natural settings” (cf. Miles and Huberman 2004), it was necessary to adopt a qualitative research strategy. However, due to the sensitive and strategic nature of acquisitions, access to the companies required that informants would be able to discuss M&A strategies, acquisition capabilities, and capability building at a general level, not referring to any specific deal or case. As this study mainly aims at conceptual development, this was not considered a problem.

The data were collected by face-to-face interviews with M&A experts from Finnish multinational companies (Table 5.2). To obtain as broad a perspective on acquisition capabilities as possible, we searched for companies that are both experienced acquirers and also represent a number of different industries, as the spread of industries would enable us to determine whether identified acquisition capabilities were context-dependent. The researchers contacted numerous companies in spring 2010 and 14 companies participated in the study; all but one were listed companies.

The collected data set comprises 17 interviews, mainly with M&A directors. Only one interviewee was an integration manager. At the time of the interviews, all informants had considerable

Table 5.2 The companies interviewed for the research

Company	Industry	Personnel 2009	Turnover 2009 (billion EUR)	Ownership	M&A experience (deals 2000–10) <sup>1</sup>
Cargotec	Cargo handling	9,500	2.6	listed	18
Elisa	Telecommunications	3,200	1.4	listed	14
Itella	Information services	30,000	1.8	state-owned	10
Karl Fazer	Food and catering services	17,000	1.4	family-owned	5
Kemira	Chemicals	85,000	2.5	listed	31
Kone	Machinery	34,000	4.7	listed	50
Metso	Pulp and paper	27,000	5.0	listed	21
NSN <sup>2</sup>	Telecommunications	63,900	12.6 <sup>3</sup>	Nokia-Siemens	3
Orion	Pharmaceutical	3,200	0.8	listed	1
Outokumpu	Metal	7,600	2.6	listed	10
Rautaruukki	Metal	11,500	2.0	listed	12
Tieto	Information technology	17,000	1.7	listed	76
Yara International	Chemicals	8,000	7.7	listed	N/A

## Notes:

<sup>1</sup> Based on information from Talouselämä database<sup>2</sup> Formed through a joint venture in 2007<sup>3</sup> Consolidated with Nokia

experience on cross-border acquisitions and were able to reflect on acquisition capabilities and capability development from a broad perspective. The interviews were semi-structured and covered the entire M&A process from strategic decision-making to the closing and evaluation of the integration process. In line with the recommendations of Welch *et al.* (2002), the majority of the interviews were conducted in the mother tongue of both the interviewer and the interviewees. The interviews were tape-recorded with the consent of each interviewee. To ensure a comfortable environment for the interviews (cf. Hart 1991), most of the interviews were conducted at the organizations where the respective interviewees work, either in a conference room or the interviewee's office. The duration of the interviews varied from 45 to 90 minutes. To protect the identity of the interviewees, it was agreed that they remain anonymous in the study (cf. Kvale 1996).

### Data analysis and the trustworthiness of the study

The qualitative data analysis was conducted in several steps. First, the interviews were transcribed verbatim and then analyzed qualitatively. To facilitate the analysis, the researchers employed Nvivo10 software to code and arrange the data (Bazeley 2007). The coding proceeded in two phases. First, all transcriptions were coded utilizing the four key concepts developed in our theoretical framework: managerial skills, organizational structure, experiential learning, and knowledge transfer. Second, issues and themes from these four categories were then coded inductively to identify microfoundations of an acquisition capability. The analysis began when the data had been arranged, coded, and reduced (cf. Kvale 1996).

The trustworthiness of the research has been evaluated utilizing four criteria: credibility, transferability, dependability, and confirmability (cf. Lincoln and Guba 1985). To improve the credibility of the study's findings, they were carefully compared by the researchers across informants and also with previous research on acquisition capabilities. The fact that the findings received support from a considerable number of informants representing diverse industries and with varying experiences of acquisitions gave confidence of the validity of the findings. According to Lincoln and Guba (1985), transferability of the findings requires a thick description of the study to the readers. To make the interpretation of the findings as transparent as possible, the authors include a number of quotations from the interviews and also provide a detailed description of the research process. Confirmability refers to a qualitative definition of objectivity and relates to the characteristics of the data. To increase confirmability, the researchers have been as detailed as possible in data description and in providing data sources. In addition, it has been argued that the use of computer-assisted qualitative analysis software, such as Nvivo, enhances the trustworthiness of the research (Sinkovics and Alfoldi 2012).

## Discussion

Results of the interviews from the first phase of coding are discussed here. We then use this information to draw conclusions about acquisition capability microfoundations.

### *Managerial skills*

Managerial skills refer to the skills of persons such as the M&A director or integration manager. Our interviews confirmed that multiple skills are needed to manage the M&A process. Foremost, the interviewees emphasized the fact that the key persons should be knowledgeable on the acquisition process, how it evolves, and the potential pitfalls. This knowledge enables them to manage the process better. This expertise on acquisitions was mostly based on the informants' previous experience of acquisitions, which could have been collected either within their current companies or in previous positions, as illustrated by the following quotation:

Working for several years with acquisitions as an external advisor, I obviously formed an opinion on how the process should be managed, where the risks lie, especially legal risks and identifying corporate governance issues. Then, I received an offer from this company, where my current job is tailored around my background and experience; a reason why I wanted to come to work for this company.

*(Director, M&A Group Administration)*

The interviews also indicated that acquisition capability can be improved if the key persons are knowledgeable about their own organizations. Organizational tenure would enable them both to sense and seize opportunities better and, in particular, it would facilitate the integration of the new unit to the existing one.

Besides having acquisition-specific and organizational expertise, the managerial skills needed were related to cross-cultural competence, project management, and the capability to understand legal and business documents. Here, cross-cultural competence refers to the managers' ability to understand and manage cultural clashes caused by differences in national and organizational culture in cross-border deals. In addition, many informants perceived acquisitions as projects and, therefore, emphasized the importance of good project management skills. From the

perspective of continuity in the M&A process, it was considered significant that all key persons involved over the process should understand legal and business documents. This expertise can be obtained through formal education—most of the informants had an M.Sc. degree, either in law or business—or though utilizing in-house expertise.

The spread of managerial skills within the organizations was highlighted in the interviews. The informants, who were M&A experts, particularly emphasized the importance of in-house experts in the sensing phase before the acquisition takes place and in seizing, particularly when conducting due diligence. These experts were often referred to as a key function or department during the interviews: for example, “the HR [human resources] department” or “Finance.” While these functions hide individuals with various experience and capabilities, interestingly, the position or function was regarded as more critical than the individual doing the actual work. The next quotation illustrates this well:

I can just give “HR” the assignment . . . I don’t have to guide them. I know that they will handle all the relevant questions. Of course, we have told them about the case, they know the case environment, what we are looking for, but we won’t give them [HR] any advice because they know what they are doing so damn well.

*(Corporate M&A Director)*

In sum, our findings confirm that managerial skills needed for building an acquisition capability are close to the characteristics expected of an integration manager (cf. Teerikangas *et al.* 2011). Nevertheless, the interviews highlight the fact that these skills are not possessed by a single person but by a “virtual team” comprising multiple members within the organization and its network. However, it seems that the team gets smaller as the responsibility for managing the process is given to the integration manager and the receiving business unit towards the end of the M&A process.

### *Organizational structure*

Organizational structure refers to the processes that improve an organization’s ability to execute acquisitions. Based on our results and in line with previous research (cf. Zollo and Winter 2002; Zollo and Singh 2004), codified routines that have been institutionalized in the organization can be considered organizational skills embedded in acquisition capability. In the interviews, they were often referenced as the M&A strategy, M&A process design, and M&A resources.

*M&A strategy* is a company’s acquisition strategy as part of the company’s overall strategy. Following the financial crisis in 2007 and 2008, many interviewees stated that their M&A strategy became more focused and that, increasingly, acquisitions needed top management approval. Many companies have structured procedures and policies regarding acquisition propositions and approval at the Board of Directors or Executive Group levels. Accordingly, a more structured M&A process design, together with M&A tools and manuals to support it, has become increasingly important. Most of the interviewed companies have a very structured and well-defined pre-acquisition process. However, the end of the M&A process, such as the integration process and its closure, together with feedback loops and evaluation sessions, is often less structured and proceeds more on a case-by-case basis. In many companies, the M&A directors/teams were further developing their processes and working on manuals to share the knowledge. The following quotation illustrates the importance of aligning M&A strategy with corporate strategy:

The M&A strategy has to link with the corporate strategy. It has to be a means with which to implement the corporate strategy. Actually, we have an M&A strategy template, things that need to be considered. It is very simple, it is one A4 sheet . . . you have to consider the strategic drivers for next year . . . you have to give arguments on why you think you can achieve them with acquisitions.

*(Director M&A Group Administration)*

*M&A resources* are a very critical element in organizational skills and structure as the term describes the M&A resource base within the organization. M&A resources are understood here more broadly than the concept “acquisition-specific functions” that can be found in the literature (e.g. Amiryany *et al.* 2012). Based on our results, they comprise a large number of key persons from across the organization. M&As were an integral part of the business activity in all interviewed companies, which had dedicated M&A directors or M&A teams, typically comprising one to three members. Some companies also have dedicated integration managers, although, most often, the integration manager is chosen based on who is available to manage the integration project. M&A resources also entail a number of internal and external experts. Internal experts refer usually to corporate-level support functions such as the legal, financial, HR and information technology (IT) departments. Usually, the interviewed companies rely greatly on internal experts with their accumulated knowledge and process experience. The following quotation describes well the team formation process:

For each case we gather the team . . . we evaluate first whether it belongs to the XXX division or the YYY division. Then we decide who is going to manage, who is the business owner. We always need to find a business owner; in practice I am in charge here, but the business owner has to be found [in the division] and he/she has to take responsibility for the project and its progress. . . . And then we include other people from the business [division]. . . . Of course, we include lawyers from the support functions, controllers, but it is very important to include people from the business; that is their thing not the support function's thing.

*(Vice President Corporate Planning, Mergers and Acquisitions)*

External experts were typically utilized for legal and financial due diligence. Many companies have trusted partners with which they have long-term collaboration, but some chose their external partners case by case.

### *Experiential learning*

In terms of experience, all except three of the interviewed companies had considerable acquisition experience (Table 5.2). Interviewees referred to good and bad experiences and, according to many interviewees, there were attempts to employ deliberate learning mechanisms (cf. Barkema and Schijven 2008) and codify previous M&A experience (cf. Heimeriks *et al.* 2012). The aim of experiential learning comes out well in the following quotation:

We try to learn lessons from each case, where we look back and see how the integration project went. Did we achieve the targets we needed to achieve? We compare them with what we expected.

*(Vice President Corporate Planning, Mergers and Acquisitions)*

Experiential learning was not only acquisition-specific, and the interviewees also connected learning with organizational tenure and project management. Experiential learning occurred at all organizational levels, ranging from top management to the integration managers, as the following quotations indicate:

Due to the XX integration process, we have obtained quite a lot of experience on integration projects for a relatively large number of people, and now we have even more know-how for projects. We try to spread the know-how we have across the organization.  
*(Head of Strategy and Business Development)*

There have been so many projects, and as the Executive Group has remained pretty much the same throughout the years, they are beginning to have quite a bit of accumulated knowledge and understanding on different projects and different situations.  
*(M&A Director)*

Thus, although all the deals have been different, the informants felt that there was some generic experience which was valuable also in later cases. Interestingly, our interviews did not include any examples of negative experience transfer or learning from imitation or vicarious learning (cf. Barkema and Schijven 2008). However, the interviewees themselves expressed their interest in learning from others who had participated in a project when the study's findings became available.

### *Knowledge transfer*

Codification of routines and knowledge transfer is needed to turn managerial skills and experience into organizational capabilities (Heimeriks *et al.* 2012). Companies have a number of methods to support internally the development of acquisition capabilities. The most common acquisition-specific tools (cf. Amiryany *et al.* 2012) were different intranet platforms and M&A manuals that contain codified knowledge on routines, as the following quotation demonstrates:

We have an intranet portal, from where you can find the templates etcetera. In it, you can find a lot of tools, project templates; basic stuff to initiate the project, run and support it. One thing that is good, which doesn't relate to the templates, is that we learn a lesson, a description, from each project.  
*(Head of Strategy and Business Development)*

Other methods included documentation during the M&A process in the form of different weekly, monthly, and final reports, personal involvement in the process, involving the same persons in the pre- and post-acquisition phase, and (informal) discussions. One interviewee mentioned that they previously had a virtual support group from which integration managers could receive peer support. The following quotation describes well how this virtual support group works:

We created this, it was called the Integration Network, a voluntary network of people who, in key roles, had managed or participated in the integration process. In the beginning, it had virtual meetings every now and then. At some point, we had many more ongoing projects

and, especially then, the network met because it was a sort of peer group environment where you could get support from others managing similar types of project. It has since faded into a more ad-hoc activity.

*(Head of Strategy and Business Development)*

In general, the informants agreed that social interaction was required for knowledge transfer and felt that the knowledge embedded in experienced individuals needed to be shared. Thus, the feelings towards routine codification and different kinds of code of conduct were positive and were not interpreted as a means of control (cf. Heimeriks *et al.* 2012). However, the aspect of control was raised as a side issue when discussing knowledge transfer and the role of integration managers. Some interviewees felt that, concerning knowledge transfer, the integration managers also had a controlling function, as the following quotation illustrates:

In the future, if we acquire a bigger company, we will always send our people. You just can't manage them from a distance and observe, you have to be there, breathe the company's air, see the atmosphere inside and know how to react to it. . . . It isn't just that we send someone to control and monitor, their role is also to talk and explain the complexity because, as we include 15 countries, it can't be easy to look at us from one country.

*(Division Director M&A and Business Development)*

To conclude, the interviews supported our literature-based assumption that developing acquisition capability requires individual skills to be turned into organizational-level skills and structures with the help of experiential learning and knowledge transfer. The identified microfoundations of acquisition capability in the form of skills, structures, routines, and processes hopefully form the basis of future research in the area.

## Conclusions

Our chapter begins to open the black box of acquisition capabilities, refine the existing knowledge on the concept and also provide some additional microfoundations. While acquisition capability has attracted increasing academic interest (e.g. Zollo and Singh 2004; Amiryany *et al.* 2012; Keil *et al.* 2012), what acquisition capabilities truly entail has remained vague and unclear. The findings of our study are interesting, particularly from the perspective of the microfoundations underlying the concept.

This research extends the work of Keil *et al.* (2012) by taking into account the multiple layers of the acquisition capability concept and adding more flesh to it. First, our study shows that acquisition capability is a truly multi-layered meta-capability that comprises a number of important second-order capabilities. Thus, we can speak of acquisition capabilities in the plural, while remembering the hierarchy (see Figure 5.2).

Second, acquisition capability is an embedded capability, based on a number of microfoundations (i.e. skills, structures, and processes in the organization). As our analysis confirms, these microfoundations can be further divided into our framework of managerial skills, organizational structure, experiential learning, and knowledge transfer. Maintaining and nurturing all of these microfoundations is fundamental to the development of acquisition capability. However, this task is not a simple one as the skills, structures, and processes involve a number of individuals throughout a long and complex M&A process.

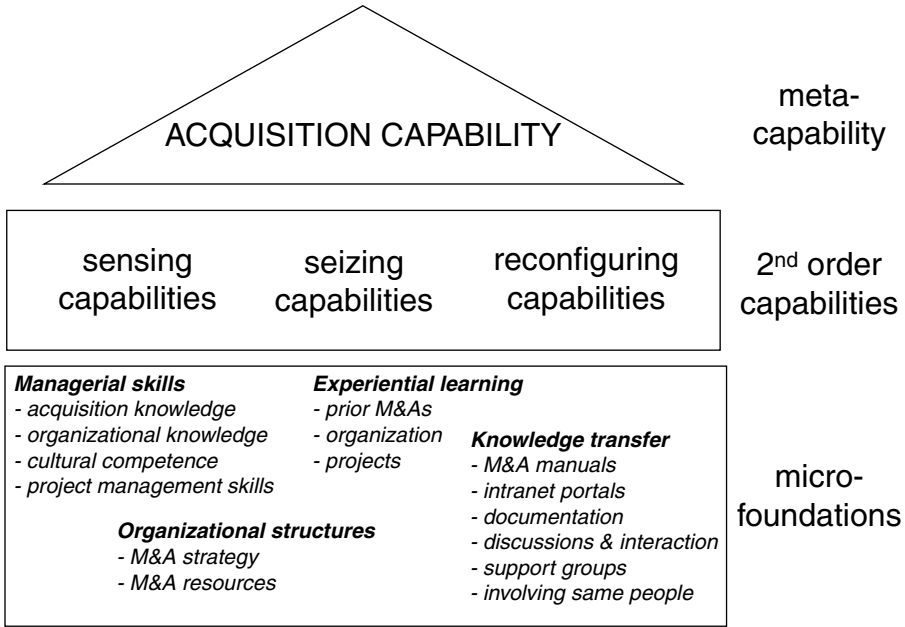


Figure 5.2 Opening the black box of acquisition capabilities

Third, our study refined our knowledge on some concepts often employed in the context of acquisition capability. At least, in the interviews it seemed natural to talk about M&A resources when referring to all the people who were involved in the M&A process. Interestingly, possibly due to the Finnish context where the data were collected, all of the companies involved seemed to prefer centralization of learning mechanisms at the corporate level (cf. Barkema and Schijven 2008), and a variety of methods to support both deliberate and vicarious learning and knowledge transfer were used. The negative side of experiential learning did not appear to be significant. This is clearly an area that deserves more investigation in the future.

From a managerial perspective, this research provides a better understanding of what underlies an acquisition capability. In fact, this research clearly demonstrates that acquisition capabilities comprise a number of capabilities relating to different aspects of the M&A process (cf. Zollo and Singh 2004). More importantly, it discusses ways to acquire, maintain, and develop acquisition capabilities. In order to enhance knowledge transfer within an organization, management needs to ensure that the responsibilities of headquarters, the M&A team, and strategic business units are clear and explicit. Although the M&A function is often centralized to a few people within an organization, acquisition capabilities can be found widely within it. One of the key challenges is to somehow capture this knowledge and experience, so that it can be effectively employed in subsequent M&A projects. This would support Barkema and Schijven's (2008) suggestion that it might be best to centralize learning mechanisms at the corporate level; however, this increases the knowledge gap between the codifiers and implementers of knowledge (cf. Heimeriks *et al.* 2012). Therefore, the process of codifying experience should be done with great care.

The knowledge gap identified by Heimeriks *et al.* (2012) draws our attention also to the continuity aspect of the process. To nurture the development of acquisition capability in the acquiring company, particular attention should be given to the development of knowledge



transfer. All individuals involved in acquisitions should be able to participate in the codification of knowledge and assessment of the M&A process. Only this kind of involvement enables capability development to benefit future acquisitions. In other words, the process is like passing on the baton in a relay—the exchange is planned, exercised, and completed smoothly.

Finally, this study has a number of limitations. First, because of the sensitivity and strategic importance of acquisitions, the informants only discussed acquisition capabilities at a general level and did not connect their experiences with any concrete cases or deals. The possibility to link capability development with an M&A process would have been an informative and interesting approach, but unfortunately that was not possible in this study. Second, our data set is biased towards large and experienced acquirers who have already developed best practices within their organization. It is probable that studying the acquisition capabilities of smaller and less experienced acquirers would provide a different perspective that can be explored in future research. In sum, while we have opened the black box of acquisition capabilities, we are only able to offer an incomplete picture of associated processes. Figure 5.2 and our conclusions are not intended to be exhaustive, and we hope that this chapter will inspire other researchers to continue to study acquisition capabilities.

## References

- Ambrosini, V. and Bowman, C. (2009) “What are dynamic capabilities and are they a useful construct in strategic management?,” *International Journal of Management Reviews*, 11: 29–49.
- Amiryany, N., Huysman, M., de Man A-P., and Cloodt, M. (2012) “Acquisition reconfiguration capability,” *European Journal of Innovation Management*, 15: 177–91.
- Ashkenas, R.N. and Francis, S.C. (2000) “Integration managers: special leaders for special times,” *Harvard Business Review*, 78(6): 108–116.
- Barkema, H.G. and M. Schijven (2008) “How do firms learn to make acquisitions? A review of past research and an agenda for the future,” *Journal of Management*, 34: 594–634.
- Bazeley, P. (2007) *Qualitative data analysis with NVivo*. London: Sage Publications.
- Becker, M.C. (2004) “Organizational routines: a review of the literature,” *Industrial and Corporate Change*, 14: 643–77.
- Björkman, I., Stahl, G.K., and Vaara, E. (2007) “Cultural differences and capability transfer in cross-border acquisitions: the mediating roles of capability complementarity, absorptive capacity, and social integration,” *Journal of International Business Studies*, 38: 658–72.
- Bresman, H., Birkinshaw, J., and Nobel, R. (1999) “Knowledge transfer in international acquisitions,” *Journal of International Business Studies*, 30: 439–62.
- Bower, J.L. (2001) “Not all M&As are alike—and that matters,” *Harvard Business Review*, 79(3): 92–101.
- Buono, A.F. and Bowditch, J.L. (1989) *The human side of mergers and acquisitions: Managing collisions between people, cultures, and organizations*. San Francisco, CA: Jossey-Bass.
- Capasso, A. and Meglio, O. (2005) “Knowledge transfer in mergers and acquisitions: how frequent acquirers learn to manage the integration process,” in A. Capasso, G.B. Dagnino, and A. Lanza (eds.) *Strategic capabilities and knowledge transfer within and between organizations*. Cheltenham: Edward Elgar Publishing, pp. 199–225.
- Capron, L. and Anand, J. (2007) “Acquisition-based dynamic capabilities,” in C.E. Helfat, S. Finkelstein, W. Mitchell, M. Peteraf, H. Singh, D. Teece, and S. Winter (eds.) *Dynamic capabilities: Understanding strategic change in organizations*, Malden, MA: Blackwell Publishing, pp. 80–99.
- Cartwright, S. and Cooper, C.L. (1993) “The role of culture compatibility in successful organizational marriage,” *Academy of Management Executive*, 7(2): 57–70.
- Collins, J.D., Holcomb, T.R., Certo, S.T., Hitt, M.A., and Lester, R.H. (2009) “Learning by doing: cross-border mergers and acquisitions,” *Journal of Business Research*, 62: 1329–34.
- Collis, D.J. (1994) “Research note: How valuable are organizational capabilities?,” *Strategic Management Journal*, 15: 143–52.

- Cullinan, G., Le Roux, J-M., and Weddigen, R-M (2004) "When to walk away from the deal," *Harvard Business Review*, 82(4): 96–104.
- Eisenhardt, K.M. and Martin, J.A. (2000) "Dynamic capabilities: what are they?," *Strategic Management Journal*, 21: 1105–21.
- Empson, L. (2007) "M&As as knowledge," in Duncan Angwin (ed.), *Mergers and acquisitions*, Malden, MA: Blackwell Publishing, pp. 229–55.
- Haleblian, J., Kim, J.Y., and Rajagopalan, N. (2006) "The influence of acquisition experience and performance on acquisition behaviour: evidence from the U.S. commercial banking industry," *Academy of Management Journal*, 49: 357–70.
- Hart, S.J. (1991) "A first-time user's guide to the collection and analysis of interview data from senior managers," in N.C. Smith and P. Dainty (eds.) *The management research handbook*. London: Routledge, pp. 190–203.
- Haspelslagh, P.C. and Jemison, D.B. (1991) *Managing acquisitions: Creating value through corporate renewal*, New York: Free Press.
- Hébert, L., Very, P., and Beamish, P.W. (2005) "Expatriation as a bridge over troubled water: a knowledge-based perspective applied to cross-border acquisitions," *Organization Studies*, 26: 1455–76.
- Heimeriks, K.H., Schijven, M., and Gates, S. (2012) "Manifestations of higher-order routines: the underlying mechanisms of deliberate learning in the context of postacquisition integration," *Academy of Management Journal*, 55: 703–26.
- Hubbard, Nancy (1999) *Acquisition strategy and implementation*. London: Macmillan Press.
- Jemison, D.B. and Sitkin, S.B. (1986a) "Corporate acquisitions: a process perspective," *Academy of Management Review*, 11: 145–63.
- Jemison, D.B. and Sitkin, S.B. (1986b) "Acquisitions: the process can be a problem," *Harvard Business Review*, 64(2): 107–16.
- Keil, T. (2004) "Building external corporate venturing capability," *Journal of Management Studies*, 41: 799–825.
- Keil, T., Laamanen, T. and A. Mäkisalo (2012) "Acquisitions, acquisition programs, and acquisition capabilities," in D. Faulkner, S. Teerikangas, and R.J. Joseph (eds.) *The handbook of mergers and acquisitions*. Oxford, UK: Oxford University Press, pp. 148–67.
- Kiessling, T. and Harvey, M. (2006) "The human resource management issues during an acquisition, the target firm's top management team and key managers," *International Journal of Human Resource Management*, 17: 1307–20.
- Kogut, B. and Zander, U. (1992) "Knowledge of the firm, combinative capabilities, and the replication of technology," *Organization Science*, 3: 383–97.
- Kolb, D.A. (1984) *Experiential learning: Experience as the source of learning and development*. Englewood Cliffs, NJ: Prentice-Hall.
- Kvale, Steinar (1996) *InterViews: An introduction to qualitative research interviewing*. Thousand Oaks, CA: Sage Publications.
- Kusstatscher, V. and Cooper, C.L. (2005) *Managing emotions in mergers and acquisitions*. Cheltenham: Edward Elgar Publishing.
- Laamanen, T. and Keil, T. (2008) "Performance of serial acquirers: toward an acquisition program perspective," *Strategic Management Journal*, 29: 663–72.
- Lincoln, Y.S. and Guba, E.G. (1985) *Naturalistic inquiry*. Beverly Hills, CA: Sage Publications.
- Marks, M.L. and Mirvis, P.H. (2000) "Managing mergers, acquisitions and alliances, creating an effective transition structure," *Organizational Dynamics*, 28: 35–47.
- Meckl, R. (2004) "Organizing and leading M&A projects," *International Journal of Project Management*, 22: 455–62.
- Miles, M.B. and Huberman, A.M. (2004) *An expanded sourcebook: Qualitative data analysis*, 2nd edn. Thousand Oaks, CA: Sage Publications.
- Mitchell, W. and Shaver, J.M. (2003) "Who buys what? How integration capability affects acquisition incidence and target choice," *Strategic Organization*, 1: 171–201.
- Nummela, N. (2011) "Knowledge management in cross-border acquisitions," in M. Hassett, M. Rääkkönen, and T. Rantala (eds.) *M&A as a strategy: From opportunities to new business creation*, Tampere, Finland: Teknologiainfo Teknova Oy.
- Oladottir, A.D. (2010) "Integrative capacity as a moving force in newly formed Icelandic multinational enterprises," *Review of Market Integration*, 2: 135–72.
- Ranft, A.L. and Lord, M.D. (2002) "Acquiring new technologies and capabilities: a grounded model of acquisition implementation," *Organization Science*, 13: 420–41.

- Ranft, A.L. and Lord, M.D. (2000) "Acquiring new knowledge: the role of retaining human capital in acquisitions of high-tech firms," *Journal of High Technology Management Research*, 11: 295–319.
- Sarala, R.M., and Vaara, E. (2010) "Cultural differences, convergence, and cross-convergence as explanations of knowledge transfer in international acquisitions," *Journal of International Business Studies*, 41: 1365–90.
- Seo, M-G. and Hill, N.S. (2005) "Understanding the human side of merger and acquisition: an integrative framework," *Journal of Applied Behavioral Science*, 41: 422–443.
- Shrivastava, Paul (1986) "Post-merger integration," *Journal of Business Strategy*, 7: 65–76.
- Sinkovics, R. and E. Alfoldi (2012) "Progressive focusing and trustworthiness in qualitative research. The enabling role of computer-assisted qualitative data analysis software (CAQDAS)," *Management International Review*, 52: 817–45.
- Smit, H. and T. Moraitis (2010) "Playing at serial acquisitions," *California Management Review*, 53(1): 56–89.
- Teece, D. (2007) "Explicating dynamic capabilities: the nature and microfoundations of (sustainable) enterprise performance," *Strategic Management Journal*, 28: 1319–50.
- Teece, D. and Pisano, G. (1994) "Dynamic capabilities of a firm: an introduction," *Industrial and Corporate Change*, 18: 509–33.
- Teerikangas, S., Very, P., and Pisano, V. (2011) "Integration managers' value-capturing roles and acquisition performance," *Human Resource Management*, 50: 651–83.
- Vermeulen, F. and Barkema, H. (2001) "Learning through acquisitions," *Academy of Management Journal*, 44: 457–76.
- Very, P. (2004) *The management of mergers and acquisitions*. Chichester: John Wiley & Sons.
- Very, P. and Schweiger, D.M. (2001) "The acquisition process as a learning process: evidence from a study of critical problems and solutions in domestic and cross-border deals," *Journal of World Business*, 36: 11–31.
- Wang, C. and Ahmed, P. (2007) "Dynamic capabilities: a review and research agenda," *International Journal of Management Reviews*, 9: 31–51.
- Welch, C., Marschan-Piekkari, R., Penttinen, H., and Tahvanainen, M. (2002) "Corporate elites as informants in qualitative international business research," *International Business Review*, 11: 611–28.
- Zollo, M. (2009) "Superstitious learning with rare strategic decisions: theory and evidence from corporate acquisitions," *Organization Science*, 20: 894–908.
- Zollo, M. and Singh, H. (2004) "Deliberate learning in corporate acquisitions," *Strategic Management Journal*, 25: 1233–56.
- Zollo, M. and Winter, S.G. (2002) "Deliberate learning and the evolution of dynamic capabilities," *Organization Science*, 13: 339–51.

This page intentionally left blank