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## **Cross-border Acquisitions: Towards an Integrative Framework for Explaining Performance**

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# **Cross-border Acquisitions: Towards an Integrative Framework for Explaining Performance**

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by

**Daojuan Wang**



**AALBORG UNIVERSITY**  
DENMARK

Dissertation submitted

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# SUMMARY

This Ph.D. thesis contributes new research findings on the continuous 'success paradox' phenomenon observed in the merger and acquisitions (M&As) field by investigating firm motives for executing cross-border acquisitions (CBAs), the determinants of CBA performance and value creation mechanism in CBAs. It fills in gaps within existing research on this topic such as a lack of multidisciplinary and process perspectives, a lack of an integrative model for addressing acquisition performance, a neglect of various acquisition motives when assessing acquisition performance and investigating its determinants and a lack of research on CBAs and M&As executed by Nordic firms.

Based on a preliminary survey study (see Appendix A) and extensive literature review, this study derives an integrative and hierarchical 'input-process-output' theoretical framework and ten associated hypotheses. This framework is derived by combining theoretical insights from resource based view (RBV), dynamic capabilities, process, and synergy theory. This framework also incorporates contextual and implementation factors and pre- and post- acquisition issues that are stressed in different disciplines and considers these factor's interdependencies as well. To test this framework, data is collected through an online survey system and analyzed by using the technique of partial least squares structural equation modeling (PLS-SEM). Step-by-step empirical tests with a sample of international acquisitions by 103 Nordic companies provide strong supporting evidence for the proposed theoretical framework and most of the hypotheses. Thus, the results support the demand for an integrative model and indicate the necessity of using such an integrative theoretical perspective to explain CBA performance.

First, this study contributes to M&A research by theoretically arguing and empirically confirming that CBA performance/success is determined by the combined effect of two firms' resource base, the acquirers' value identification and resource reconfiguration capabilities and the deal-setting factors (e.g. attitude of the target firm's management and competition). It is concluded that all of them are necessary but neither of them is sufficient to explain acquisition performance. Specifically, the positive impacts of the explanatory constructs of 'resource base', 'value identification' and 'resource reconfiguration' on CBA performance have been strongly and consistently supported across different relevant models in this study. Moreover, concerning the lower-order components of 'resource base', such as, pre-acquisition performance of the joining firms, resource similarity and complementarity, and host-country experience have been repeatedly proved to be the important underlying drivers for determining CBA success. In contrast, factors such as 'the relative size of the target compared to the acquirer' and 'acquisition experience' are irrelevant. Furthermore, the higher order construct - 'resource reconfiguration' is found to have the strongest relationship with CBA performance among all the explanatory variables. The result suggests the benefits of extensive resource reconfiguration outweigh its implementation costs. Concerning its two

lower-order components, i.e., integration level and coordination efforts, the data show that coordination efforts, such as active communication, retention of key employees and getting the managers from the acquired firm involved in integration process, are equally important in determining acquisition success when integration is significant. In regards to deal-setting factors, only competition and friendly attitude consistently prove significant for CBA performance, but surprisingly in the relationship goes against the author's expectation. Competition positively impacts CBA performance and friendly attitude negatively impacts CBA performance. Besides, the data does not support any causal link between organisational fit and acquisition performance.

Second, this study contributes to research on both M&A and resource based theory not just by empirically testing the direct linkage between the firm's resource base and CBA performance, but also by investigating the processes through which strategic resources yield performance gains that few empirical studies on RBV have done. It is proved that resource possession, resource picking, and resource utilisation are three important mechanisms for realising potential synergy and achieving superior CBA performance. Moreover, the data indicate that the joining firms' resource base positively impact the development and evolution of the capabilities of resource picking (i.e., value identification) and resource utilisation (i.e., resource reconfiguration). This, in turn, helps reap potential value embedded in the joint strategic resources and turn them into performance gains.

Third, this study contributes to M&A and dynamic capabilities research by specifying and testing two acquisition-based dynamic capabilities: value identification and resource reconfiguration, in the CBA context to examine their influence on acquisition performance. This thesis represents the first step to operationally develop and empirically test these two concepts as sequential mediators in the relationship between 'resource base' and 'CBA performance'. The data suggest both factors are important mediators, and more than half of resource base's effect on CBA performance is indirect due to these mediation effects. Most importantly, the results reveal a complex and sequential mediating path from inputs (the combined resource base) to outputs (the combined firm's performance). Value identification in the pre-acquisition stage fully mediates the impact of resource base on post-acquisition resource reconfiguration, and resource reconfiguration subsequently mediates the impact of value identification on final CBA performance. Therefore, the value creation mechanism in CBAs is a chain of relations between resource possession, resource picking and resource utilisation, which means that possessing strong and related strategic resources is necessary but not a sufficient pre-condition. It just ensures the existence of synergy potential or value creation opportunities between two organisations. In order to create value from the acquisitions, the potential synergistic benefits and implementation costs need to be initially identified through value identification capability, and then an efficient and effective subsequent resource reconfiguration can be performed to put the synergy potential into realisation. Moreover, the more potential synergy and impediments identified in the pre-acquisition stage, the more extensive and efficient post-

acquisition resource reconfiguration will be. This inevitably causes better CBA performance. Such empirical results therefore extend prior research on M&A by highlighting the procedural and dynamic character of the determinants of CBA performance.

Finally, performance assessment in this study has been distinguished according to different acquisition motives. The preliminary analysis of the motive-performance relationship confirms the necessity of taking various acquisition motives into account when assessing performance and studying antecedents. The data suggest that the acquisitions executed for multiple reasons generally perform better than the acquisitions driven by a single motive. Further, the acquirers perform better in the performance measures related to their motives than the acquirers with other motives.



# RESUMÉ

Denne Ph. D. afhandling bidrager med nye forskningsresultater til ‘succes paradokset’ i forskningsfeltet fusioner og opkøb (engelsk: M&As). Afhandlingen undersøger virksomheders motiver for at gennemføre opkøb på tværs af landegrænser (engelsk: CBAs), hertil determinanterne for ydelse og værdiskabende mekanismer i CBAs. Denne afhandling bidrager med ny viden til eksisterende forskning indenfor dette felt, såsom manglen på multidisciplinære og procesperspektiver, manglen på en integrativ model for ydelsen af opkøb, samt en mangel på forskning i opkøbsmotiver og determinanter når ydelse af opkøb vurderes. Denne afhandling bidrager ligeledes med ny viden i forhold til CBAs og M&As som gennemføres af Nordiske virksomheder.

Denne afhandling afleder, baseret på en indledende survey runde (jf. Appendix A) samt et vidtgående litteraturreview, et integrativt og hierarkisk ”input-proces-output”-baseret framework med ti dertilhørende hypoteser. Dette framework er afledt gennem en kombination af teoretisk indsigt fra ”resource based view (RBV),” ”dynamic capabilities,” samt proces og synergi-teori. Dette framework inkorporerer også kontekstuelle- og implementerings-faktorer og problemer der kan opstå før- og efter opkøb. Disse er fremført i forskellige discipliner, hvor frameworket også tager højde for disse faktorerens gensidige afhængighed. Som led i en test af dette framework er data samlet gennem et online spørgeskema og analyseret gennem teknikken ”partial least squares structural equation modeling” (PLS-SEM). Gennem empiriske trin-for-trin tests, med et udvalg af 103 nordiske virksomheders internationale opkøb, vises der en stærk empirisk evidens for det teoretiske framework og de fleste hypoteser. Således viser resultaterne et kald på en integrativ model og indikerer et behov for anvendelsen af et integrativt teoretisk perspektiv for at forklare ydelsen af CBAer.

Først og fremmest bidrager denne afhandling til M&A forskning ved teoretisk argumentation og empirisk bekræftelse af, at CBA ydelse/succes er bestemt af den kombinerede effekt af to virksomheders ressourcebaser samt opkøberens værdiidentificering, evne til at rekonfigurere ressourcer samt evne til at indgå handler (f.eks. attituden fra den opkøbtes virksomheds ledelse og konkurrencen). Det konkluderes at alle effekter er nødvendige, men ingen af dem er tilstrækkelige til at forklare ydelsen af opkøb. Specifikt er de positive effekter af forklarende elementer ”resource base”, ”value identification” og ”resource reconfiguration” for CBAers ydelse stærkt og gennemgående bekræftet gennem relevante modeller i denne afhandling. Endvidere er lower-order elementerne under ”resource base”, såsom ydelsen af opkøberen og den opkøbte før købet, ressourcelighed og



komplementaritet, og erfaring fra værtslandet, gentagne gange blevet bevist som værende underliggende kræfter for at fastslå CBA succes. I modsætning til disse er "the relative size of the target compared to the acquirer" og "acquisition experience" irrelevante. Endvidere viser det forklarende element "resource reconfiguration" den største sammenhæng mellem CBAers ydelse og alle forklarende variable. Dette resultat viser at fordelene ved omfattende ressourcekonfiguration opvejer implementeringomkostningerne. Vedrørende dette elements lower-order faktorer, "integration level" og "coordination efforts", viser datasættet at koordinationsinitiativerne, såsom aktiv kommunikation, fastholdelse af nøglemedarbejdere og involveringen af lederne fra den opkøbte virksomheds ledelse i integrationsprocessen, er lige vigtige for at fastslå opkøbets succes når integration er signifikant. Vedrørende evnen til at indgå handler er det kun konkurrencen og en venlig attitude som viser sig signifikante for CBAers ydelse, men dette går i mod forfatterens forventninger. Konkurrence har en positiv indflydelse på CBAers ydelse og en venlig attitude har en negativ indflydelse på CBAers ydelse. Herudover støtter datasættet ikke en kausal sammenhæng mellem organisatorisk sammenlignelighed og opkøbenes ydelse.

For det andet bidrager denne afhandling til forskning inden for M&A og RBV, ikke kun ved empirisk test af de direkte forbindelser mellem virksomhedens ressourcebase og CBAers ydelse, men også ved at undersøge de processer, gennem hvilke strategiske ressourcer giver en forøget ydelse. Dette har få studier vedrørende RBV gjort. Det er bevist at ressourcebesiddelse, udvælgelse af ressourcer og anvendelsen af ressourcer er tre vigtige mekanismer til at realisere potentiel synergi og for at opnå en bedre CBA-ydelse. Endvidere indikerer datasættet at begge virksomheders strategiske ressourcer har en positiv indflydelse på udviklingen af virksomhedernes ressourceudvælgelse og ressourceudnyttelse. Dette hjælper med at omsætte potentiel værdi fra strategiske ressourcer til øget ydelse.

For det tredje bidrager denne afhandling til forskningen indenfor M&A og "dynamic capabilities" ved at specificere og teste to opkøbsbaserede "dynamic capabilities", værdiidentificering og ressourcekonfiguration, i en CBA kontekst. Dette gøres for at undersøge deres indflydelse på opkøbets ydelse. Denne afhandling bidrager med den første forskning som operationelt udvikler og empirisk tester disse to koncepter som sekventielle faktorer i forholdet mellem "resource base" og "acquisition performance". Datasættet viser at begge faktorer er vigtige mellemlid, og mere end halvdelen af ressourcebasens effekt på CBAers ydelse er indirekte, grundet disse faktorer. Vigtigst viser resultaterne en kompleks og sekventiel udvikling baseret på disse faktorer, fra input (den kombinerede ressourcebase) til output (de kombinerede virksomheders ydelse). Værdiidentificering i før-opkøbs-fasen har fuld indflydelse på virkningen af ressourcebasen på efter-opkøbets ressourcekonfiguration, og

ressourcekonfigurationen har efterfølgende indflydelse på virkningen af værdiidentificering af den endelige ydelse af CBAer. Derfor er den værdiskabende mekanisme i CBAer en kæde af relationer, som betyder at det er vigtigt, men ikke tilstrækkeligt, at have stærke og relaterede strategiske ressourcer som en forudsætning. Dette sikrer blot potentiel synergi og værdiskabende muligheder mellem to organisationer. For at kunne skabe værdi gennem opkøbene skal de potentielle synergieffekter og fordele og implementeringsomkostninger identificeres indledningsvist gennem ”value identification capability”, og efterfølgende kan en effektiv ressourcekonfiguration udføres for at realisere synergipotentialet. Ydermere afhænger omfanget og effektiviteten af efter-opkøbets ressourcekonfiguration af den potentielle synergi og de hindringer som er identificeret i før-opkøbs-fasen. Dette vil uundgåeligt give en højere ydelse af CBAer. Disse empiriske resultater uddyber tidligere forskning i M&Aer ved at fremhæve de processuelle og dynamiske karakteristika ved determinanterne for CBAers ydelse.

Endeligt er ydelsesvurderingen i denne afhandling sondret i henhold til forskellige opkøbsmotiver. Den indledende analyse af forholdet mellem motiver og ydelse bekræfter nødvendigheden af at tage højde for forskellige opkøbsmotiver når ydelse og forudsætninger skal vurderes. Datasættet viser at opkøb som er gennemført baseret på flere motiver generelt har en højere ydelse end opkøb som er drevet af et enkelt motiv. Endvidere klarer opkøbere sig bedre ved ydelsesmålinger som er i relation til deres motiver end opkøbere med andre motiver.



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Daojuan Wang

Aalborg, May, 2015

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# CHAPTER 1 INTRODUCTION

## 1.1 RESEARCH BACKGROUND

Mergers and acquisitions (M&As) represent a vital business tool and an alternative growth and expansion strategy for many companies. M&As have been common corporate practice for business growth more than 120 years (Cartwright et al., 2012). More and more companies from developed and emerging economies have engaged in M&As to grow in size, diversify their activities and/or markets. According to the latest statistics (Thomson Reuters, 2014), the value of worldwide M&As totalled US\$3.5 trillion in 2014, which shows a peak in M&As deals. Emerging economies in Asia and Europe were the regions with the highest growth in M&A sales (UNCTAD, 2014). Since the beginning of the 1990s, an increasing share of M&As has taken the form of cross-border acquisitions (CBAs). In the last decade, more than 30 percent of global M&As have been cross-border transactions. According to Thomson Reuters (2014), cross-border M&As (CBM&As) reached deal value of US\$1.3 trillion in 2014.

Increasing their popularity and practical importance in economic, strategic and social terms, M&As have attracted the attention of scholars from different disciplines since the 1960s. Scholars from multiple fields (e.g., finance, economics, strategic management and organization behaviour) have shown increasing interest in the causes and consequences of M&As, and their findings have improved our understanding of M&As. In general, the vast literature on business acquisitions indicates that the performance of M&As has not significantly improved over the past decades (Brouthers et al., 1998; Bruner, 2002; King et al., 2004; Cartwright, 2005; Martynova and Renneboog, 2008; Marks and Mirvis, 2011). As stated by Marks and Mirvis (2001, p.80), 'three out of four mergers and acquisitions fail to achieve their financial and strategic objectives'. According to Carleton and Lineberry (2004, p.8&9), 'between 55 and 77 percent of all mergers fail to deliver on the financial promise announced when the merger was initiated', and 'studies show that some 40 percent of cross-border mergers among large companies end in what is termed 'total failure''. Other scholars state that 'nearly two-thirds of companies lose market share in the first quarter after a merger; by the third quarter, the figure is 90 percent' (Harding and Rouse, 2007, p.125). A failure rate of 50% and higher is frequently reported, and the sellers are said to be the primary beneficiaries of these transactions (e.g., Jensen and Ruback, 1983; Chatterjee, 1992; Bruner, 2002; Dyer et al., 2003). Some researchers even speak of failure rates between of 70 and 90 percent (Christensen et al., 2011). The growth in M&A activities, the volume of capital

involved and the pervasiveness of M&As stand in sharp contrast to such high rate of failure. This situation is usually described as the 'success paradox' (Cording et al., 2002).

The dynamics of cross-border acquisitions are largely similar to those of domestic deals. However, their cross-border nature offers a chance for international acquirers to search for new resources, capabilities, markets and growth opportunities, and realise diversification benefits across different geographic locations. Meanwhile, the international acquirers also face some unique challenges, such as 'liability of foreignness'<sup>1</sup> (Zaheer, 1995) and 'double-layered acculturation' (Barkema et al., 1996) as countries have different economic, institutional (i.e., regulatory) and cultural structures. 'The sensitivity of post-acquisition management is likely to increase when it is cross-border in scope, with the acquirer and acquired firm coming from different countries, bearing different management philosophies and practices as a result' (Child et al., 2001, p. 17). Moreover, more uncertainties and higher levels of asymmetric information in foreign markets make it more difficult for the acquirers to adjust and learn from the targets and the local market (Kogut and Singh, 1988; Zaheer, 1995).

Compared with domestic acquisitions, Lee and Caves' (1998) research suggests that returns on cross-border acquisitions are generally negative. Similarly, Goergen and Renneboog (2004) conclude that domestic M&As trigger higher wealth effects than cross-border M&As. Moeller and Schlingemann (2005) also find that US firms who conduct cross-border M&As experience significantly lower stock returns of approximately one percent and significantly lower changes in operating performance. Using the sample of UK firms' cross-border M&As, Conn et al. (2005) find cross-border deals resulted in lower short run and long run returns than domestic M&As. But returns are higher in high-tech firms, whilst non-high-tech firms experience zero returns at the time of merger announcement in cross-border M&As. Similarly, Morck and Yeung (1992) and Chari et al. (2009) emphasize that the acquirers can experience increased post-acquisition performance in cross-border M&As only if they have intangible asset advantages, such as technological know-how, marketing capability, and brand, that can be exploited abroad. Some authors compare the performance of cross-border M&As with that of other entry modes (e.g., Greenfield), and they (e.g., Li and Guisinger, 1991; Nitsch et al., 1996) find that entry by M&As leads to worse post M&A performance. However, some other researchers consider cross-border M&As as appropriate under given circumstances (Vermeulen and

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<sup>1</sup>According to Zaheer (1995), 'liability of foreignness' is broadly defined as all additional costs a firm operating in a market overseas incurs that a local firm would not incur, such as firm-specific costs based on a particular company's unfamiliarity with and lack of roots in a local environment.

Barkema, 2001), while others find no difference in the performance results following different entry modes (Shaver, 1998).

According to Brouthers et al. (1998) and Cartwright and Schoenberg (2006), there are three possible reasons that may explain why the phenomenon of M&As persists despite the poor performance of M&As: (1) executives are undertaking acquisitions driven by non-value maximizing motives (i.e., agency problems and irrational emotions); (2) academic knowledge and research findings have not reached the practitioner community; (3) the research to date is incomplete or inaccurate in some way. All three explanations may be true.

However, the available literature questions the first possible explanation, (i.e. the proposition of agency problems), especially when considering the constraints related to 'the market for corporate control' (Manne, 1965), the 'manager market' (DePamphilis, 2012, pp.11), 'ownership structure' and 'financial structure' (Huyghebaert and Luypaert, 2010; Caprio et al., 2011). The argument is that if agency-problem is the main reason, the owner-controlled acquirers with less agency problems should perform better. However, this does not seem to be the case. I did a preliminary survey of Danish international acquirers' acquisition motives, acquisition practice, and performance to help me define the focus and scope of the present study (see Appendix A). The survey evidence does not support this, as most of Danish international acquirers were owner-controlled but still suffered disappointing results. It is further argued that if the continued emergence of M&As with poor performance is mainly caused by the acquirers' bounded rationality, the acquirers can at least learn from their own mistakes and do better the next time. If this were the case, we would see some improvement of acquisition performance in general over these years, rather than continuous reports of its low success rate. Regarding the second possible explanation, Cartwright and Schoenberg (2006, p.11) comment that it 'does not seem plausible' not only because most of M&A researchers are also active in management education and executive programmes, but also because the risk of M&A activities have been highlighted by the financial press, and there is no shortage of insightful practitioner-oriented text. At least some M&A knowledge should reach the practitioners through consultants. Some scholars consider the third explanation to be more plausible, i.e. the research to date is incomplete or inaccurate in some ways.

My initial review of the existing literature in connection with the present study have revealed the following research gaps: first, previous empirical investigations have uncovered a number of variables that tend to impact acquisition performance, but have produced inconsistent findings (see e.g., meta-analysis by King et al., 2004 and Stahl and Voight, 2004). Second, despite the call for a process perspective not being

new (Jemison and Sitkin, 1986; Haspeslagh and Jemison, 1991), there has been a separation of research on pre- and post- M&A issues and a neglect of the interdependence between these stages (Gomes et al., 2013; Bauer and Matzler, 2014). Furthermore, as stressed by Reus et al. (2012), there is a critical need to research on the interrelationships between contextual and process factors, and their interactive effect on acquisition outcomes. Third, M&A research has developed largely along disciplinary lines. Some scholars have therefore argued in favour of a more integrative view (Angwin, 2007a; Haleblian et al., 2009; Gomes et al., 2013). Fourth, event study (stock-market performance measures) approaches appear to dominate the M&A performance research (see Zollo and Meier, 2008), especially in financial field. This observation has led some scholars to suggest the use of multiple measures, not only because each approach has its limitations, but also because acquisition performance, by its nature, is extremely complex and multifaceted. Some scholars propose that M&A performance measurement should be linked to the acquisition motives (e.g., Angwin, 2007a,b; Das and Kapil, 2012), but currently there are few empirical studies that take this into account. Last, the effects of firms' unique and heterogeneous resources and capabilities have not received adequate attention in the research on determinants of CBA performance (Shimizu et al., 2004). In addition, compared to domestic cases, cross-border acquisitions remain largely underexplored (Shimizu et al., 2004; Meglio and Risberg, 2011).

The above observations provide a strong justification for additional research in order to improve academic insights into the puzzling weak performance of M&As despite their continued popularity. Moreover, in this context, M&As in the Nordic region have been rarely researched and this thesis brings these into focus.

## **1.2 RESEARCH OBJECTIVES AND PROBLEM FORMULATION**

Research interest and objectives of the present study therefore arise from the experience of aggressive (but weak performing) cross-border acquisition activities outlined above; the research gaps identified from the literature; as well as the findings from my preliminary exploratory survey study (see Appendix A). Cross-border acquisition as an important strategic tool, involves trillions of U.S. dollars, which can have significant impacts on both domestic and global economies. However, the documented evidence shows that most of the acquirers are under attack because of their poor performance. This is confirmed again by the findings from my exploratory survey that only two respondents indicate that the performance of their CBM&As fully met their initial objectives. Yet, their replies also indicate that value creation opportunities can be available in cross-border acquisitions, and these can be even higher compared with alternative strategies (e.g., Greenfield, strategic alliance). So, does CBM&A really pay? Citing Bruner (2002, p.14), the

answer may be 'it depends'. My interest is therefore to find out it depends on what. Clearly, no single factor can explain the result, and the responses to my exploratory survey suggest cultural difference, overpayment and, in particular, imprudent implementation can be among the possible reasons leading to poor performance. According to the survey findings, synergy is what most acquirers mainly target at when conducting CBM&As, nevertheless, synergy prediction and realisation still challenge most of the practitioners. After reviewing 128 empirical studies about M&A performance, Bruner (2002, p.15) comes to the conclusion that 'most transactions are associated with results that are hardly consistent with optimistic expectations. Synergies, efficiencies, and value-creating growth seem hard to obtain'.

It is argued that such poor performance or high failure rate 'suggests that neither the scholars nor practitioners have a thorough understanding of the variables involved in the M&A process and their complex interrelationships' (Gomes et al., 2013, p. 30). This probably attributes to the research gaps discussed above. It has therefore been suggested that 'better theoretical frameworks and more theory driven empirical research' are needed, and 'future research using RBV to explore synergy creation strategies and identified factors that may lead to synergy in acquisitions presents a significant opportunity for future research' (King, 2001, p.14).

The present study seeks to answer the following three questions in the context of cross-border acquisitions performed by Nordic firms:

*(1) What are the motives for conducting cross-border acquisitions (CBAs)?*

Granting that acquisition motives tend to lead the whole acquisition implementation process and then to a large extent influence the outcomes, they should be taken into account when assessing the performance and investigating the determinants of acquisition success/performance of these acquisitions. Not only is it likely that motives guide the acquirers' actions and then impact acquisition outcomes, but also the impacting factors may play different roles when cross-border acquisitions are conducted under different motives. As Bower (2001) argues that not all M&As are alike and that matters, M&As with different strategic intents may have different challenges.

*(2) What are the determinants of the performance/success of cross-border acquisitions (from multi-disciplinary and process perspectives)?*

I have argued above that although the existing research identifies a number of impacting factors of acquisition performance, conclusive findings about the determinants of the performance/success of cross-border acquisitions are lacking, and there is a need for an integrative model from multidisciplinary and process perspectives (see the detained discussion in chapter 2). It is important to mention that since performance of acquisitions can be viewed from different stakeholders' perspective, such as the target firm and the employee, this study stands in the position of the acquiring company and has the ambition to help them improve CBA



success. Therefore, acquisition performance in this study points to the “performance” from the point view of the acquiring company.

*(3) What is the value creation mechanism in cross-border acquisitions?*

The documented evidence indicates that cross-border acquisitions usually destroy the firm’s value. It has been suggested that synergy can be the main source of 'value creation' in cross-border acquisitions. However, synergy initiatives often fall short of management’s expectations (Goold and Campnell, 1998; Ficery et al., 2007). Therefore, the present study seeks to examine how value is created in cross-border acquisitions. This question thus requires this research not just to name a list of impacting factors, but also to investigate the coherent combination among the factors (e.g., resource-based factors, implementation factors, see chapter 2) that jointly produce the acquisition outcomes.

By answering these three questions the current research sets to achieve the following research objectives: (1) since CBA strategy is aggressively utilized by the firms and the acquisition motives guide the whole acquisition implementation process, the first objective is thus to check the primary motives under driving CBA behaviour and to compare the acquirers with different motives to see whether they perform differently. (2) The second objective is to further identify the determinants of CBA performance by examining the effect of a list of potential impacting factors, such as resource similarity, resource complementarity, home-country experience etc. (3) The third objective is to investigate how value is created in CBAs by taking a dynamic and process perspective and analysing the inter-relationships among the impacting factors and their joint effect on CBA performance, for example, to examine whether and how contextual factors impact implementation processes, and whether and how pre- acquisition implementation activities impact post-acquisition practice. (4) The fourth objective is to perform more fine-grained group analysis to see whether the determinants play different roles and whether value creation mechanisms are different in CBAs with different motives. However, whether the final research objective can be achieved will be constrained by the final sample size.

The achievement of these research objectives should lead us to some answers to the general and ongoing question in M&A research field, which is 'why many M&As are aggressively conducted when most of them are doomed to fail?'. As stated by Child et al. (2001, p.2), 'many acquisitions fail, and the key question is whether this is inevitably so'. Hence, this study has the ambition and the main purpose to develop an integrative model from a multi-disciplinary perspective (e.g., financial economics and strategic management), considering both contextual and implementation factors, and both pre- and post-acquisition issues to better explain the performance of cross-border acquisitions, from which the practitioners can also draw some lessons to enhance the rate of CBA success. It is worth mentioning that performance measurement for cross-border acquisitions in this study has been adjusted by different primary acquisition motives. As stated by Cloodt et al. (2006, p.643), 'if M&As involve no or only a few technological components, they are expected to have little or no influence on the innovation routines of the acquiring firms'.

Meanwhile, it should be noted that this study is concerned with 'acquisitions' and not 'mergers'. Although the two terms are usually used interchangeably or synonymously in both statistics and academic research, they actually mean slightly different things. A typical merger is a combination of two or more companies which are usually equal in size and strength, and top managers from the combined firms will be the joint owners of the new combined entity. With an acquisition, one company takes controlling ownership interest in another firm, typically buying the selected assets or shares of the target company. In legal sense, true mergers are rare (Pausenberger, 1990). Even in a merger, there is clear acquiring firm taking a controlling position (Lynch and Lind, 2002; Brealey et al., 2007). A detailed discussion about the differences of two concepts can be found in chapter 2.

### **1.3 STRUCTURE OF THE PRESENT STUDY**

The following figure (Figure 1.1) depicts the research logic (on the left side) and structural arrangement of this study (on the right side). However, it should be mentioned that the practical research process is not as linear as depicted in this Figure. I frequently go back and forth between these stages. The whole thesis is divided into six chapters. Chapter 1 introduces research background of this study, presents research questions and objectives, delimits research scope, and displays research logic and structure of this thesis. Chapter 2 presents the literature review (on M&A research gaps, conceptualization of research questions, M&A motives, performance measurement, and potential impacting factors of M&A performance), develops the hypotheses, and specifies the conceptual framework. Chapter 3 discusses philosophical foundation of this study, justifies choices of data collection method (i.e., survey questionnaire) and data analysis technique (i.e., partial least regression based structural equation modelling, PLS-SEM), and describes design of the whole research process. Chapter 4 operationally defines the researched variables, describes the process of questionnaire development, and illustrates the sampling and data collection process. Chapter 5 systematically analyses the data and tests the hypotheses by using PLS-SEM technique. Chapter 6 discusses the findings, contributions, and managerial implications, meanwhile, points to limitations of the study and suggests avenues for further research. In general, the results of this study shed light on the mechanisms through which the constructs influence CBA success, and highlight the procedural and dynamic character of the antecedents. It becomes evident that take an integrative and process perspective is an important step forward in M&A research. Moreover, many of the findings from research offer tactical implications for international acquirers.

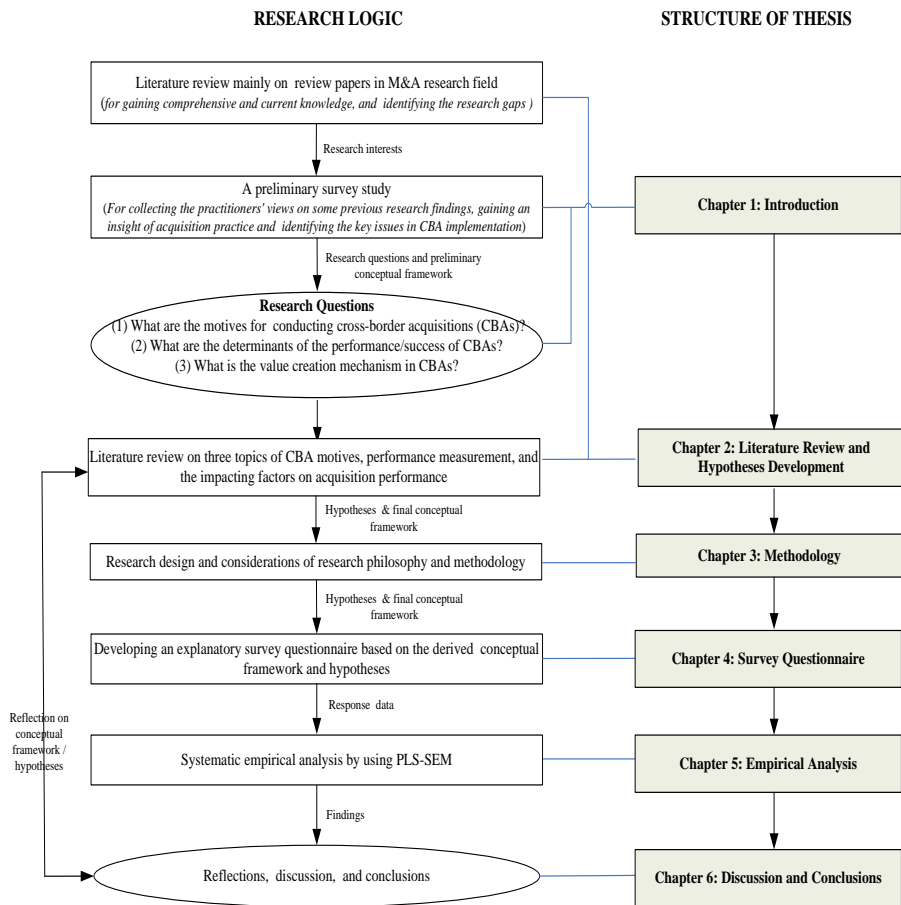


Figure 1.1 Structure of the thesis

# CHAPTER 2 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Chapter 1 discussed the importance and prevalence of acquisition activities and their disappointing performance as reported in existing research. I also briefly introduced some research gaps that my review of the existing literature have produced and used them to justify the objectives for the present study. The present chapter aims at presenting the literature review in greater details and to reinforce the arguments that I have presented in chapter 1. This chapter also serves as the theoretical foundation of the study and presents the hypotheses that I have drawn from the theories and tested empirically in chapter 5. The review takes its point of reference in 'success paradox' phenomenon, focuses attention on four questions that have been continuously debated in the literature – namely (1) What are the knowledge gaps in M&A research field? (2) Which M&A motives are identified? (3) How is M&A performance/success defined? (4) What are the impacting factors of M&A success/performance? This chapter presents an extensive literature review on these topics.

The materials reviewed in this chapter were identified through a systematic literature search. I searched for the relevant papers in the system of Proquest using the key words 'merger' (or 'acquisition', 'bidding'), 'performance' (or 'perform', 'outcome', 'success', 'failure'), but not 'bank' (or 'banking') included in the title and choosing the publication period from 1/1/1990 to 15/3/2013. I chose 1990 as my starting point since it is the year in which significant increase in M&A activities appears to begin (Ranft and Lord, 2002). The bulk of published acquisition research appeared in management, business and finance fields after 1992 (Haleblian, et al., 2009). The search resulted in 3,525 papers. I did a screening to determine the relevance of the papers for the present study. The screening process produced a total of 387 papers which have formed the basis of this review. Meanwhile, if I found a relevant reference in an article, I incorporated the referenced articles or books in the literature review. Based on this elaborate search process I am confident that the review covers a significant number of the essential studies published in the field.

I have organized the discussions in the chapter as follows. First, I present common definitions and clarifications of some of the key terms used in the study. These include 'merger', 'acquisition' and 'cross-border' M&As. I then present the knowledge gaps that form the foundation of the study. These include the limited attention paid to the multiplicity of M&A motives and process perspectives in existing empirical investigations, the inconclusiveness of the findings from the

studies, the lack of multi-disciplinary and integrative perspectives in the studies, and the problems of performance measurements. I have also noted that to the best of my knowledge, Nordic companies experiences with cross-border mergers and acquisitions (CBM&A) have hitherto not received empirical attention. These observations are followed by a more detailed discussion of motives underlying CBM&As, performance measurement issues, and the potential impacting factors of M&A performance. These discussions have then formed the foundation for the hypotheses that I have formulated.

## **2.1 DEFINITIONS AND CLARIFICATIONS OF KEY CONCEPTS**

In the strictest sense, the terms 'merger' and 'acquisition' describe two different phenomena.

In a merger, two or more firms will be unified into a new one (Pausenberger, 1990; DePamphilis, 2012) and these combined firms are often comparable in size or strength (Child et al., 2001; DePamphilis, 2012). Also, a merger is the result of a friendly arrangement between the management of companies (Child et al., 2001) with the top management team remaining in their positions (Coyle, 2000). The combined firms often share their resources to achieve common objectives after the merger (Sudarsanam, 2010). 'In a typical merger, shareholders of the target firm—after voting to approve the merger—exchange their shares for those the acquiring firm. Those not voting in favor are required to accept the merger and exchange their shares for acquirer shares or cash' (DePamphilis, 2012, p.20). There is no premium payable (Angwin, 2007a). After a merger, the acquired firm ceases to exist as a separate business entity (Brealey et al., 2007). A merger is thus characterised by the fact that there are fewer firms than before.

An acquisition occurs when one company purchases the majority of the shares, a legal subsidiary or selected assets from another firm (DePamphilis, 2012). The term 'acquisition' is often used when more than 50% of a company's equity has been purchased or the acquirers take controlling ownership interests over its target (Teerikangas and Very, 2006; Angwin, 2007a; DePamphilis, 2012). Subject to the distribution of voting shares, sometimes small shareholdings can also exert considerable control. In the acquisitions, acquirers are generally larger than their targets (Angwin, 2007a). Target managers often resist acquisition, making the cost of acquisition higher than the cost by merger (Brealey et al., 2007). The acquirers thus need to pay the price above the existing share price (premium) to encourage the target's shareholders to part with their shares (Angwin, 2007a).

Because the sample used for testing my theoretical model is from the Zephyr database, definitions of 'acquisition' and 'merger' in the database are also put here: Zephyr defines an 'acquisition' as 'any deal where the acquirer ends up with 50% or more of the equity of the target is coded as an acquisition as the acquirer now has control of the target. Even if the acquired stake is very small, if the final stake is 50% or above the deal is classed as an acquisition. Zephyr defines a 'merger' as a 'one-for-one share swap for shares in the new company', where 'the deal involves a 'merging of equals'. If the swap is not on equal terms, the deal would be coded as an acquisition'. According to Zephyr, 'a true merger is quite rare'.

In general, people argue that 'mergers and acquisitions are different but very similar referring to all kinds of corporate combination and takeover' (Brealey et al., 2007, p.576). Both activities are almost the same except for one key difference: ownership after the merger or acquisition (i.e., the right of control) (Coyle, 2000). Merged firms will share ownership, while the right of control in an acquisition belongs to the company that is purchasing the ownership of the other company (Child et al., 2001). Child et al. (2001) also stressed that a significant difference between a typical acquisition and a typical merger is that the latter aims at the total integration of the joining firms while the acquirers may choose to subsume their acquisition of choice. In a legal sense, true mergers are rare (Pausenberger, 1990). As Lynch and Lind (2002, p.5) state, 'there are few if any true mergers. There is almost always a dominant party' (see also Brealey et al., 2007). In most instances, one company acquires a majority or minority equity stake in another. These acquisitions are usually categorised into mergers, both in published statistics and in popular discussion (Child et al., 2001)

To summarise, the existing literature on M&As identifies the following characteristics in a typical 'merger': (1) the joining firms are equal in size and strength; (2) after the merger, all assets and liabilities are integrated; (3) the joining management's attitude is friendly; (4) senior managers from both firms continue in their positions and they become joint owners of the combined entity; (5) the stockholders exchange shares for the new entity and there is no premium during purchase; (6) a new entity is set up after the merger. The existing literature identifies the following characteristics in a typical 'acquisition': (1) the acquirer is usually larger than the acquired firm; (2) the acquirers may totally integrate the acquired firm or leave it autonomous; (3) the acquisition can be friendly or hostile; (4) senior managers from the acquired firm may be replaced, especially in hostile acquisitions; (5) the acquisition may involve the purchase of another firm's assets or stock and the acquirers usually take a controlling ownership; (6) the acquirers usually pay a premium for controlling the acquired firm.

Although these characteristics differentiate a typical merger from a typical acquisition, 'it is very difficult to distinguish between a merger and an acquisition in the case of mega deals' (Child et al., 2001, p.9). Two terms are usually used together and interchangeably in the research (e.g., Child et al., 2001; Straub, 2007; Risberg and Meglio, 2012). Internationally, the expression 'merger and acquisitions' is usually abbreviated as M&A(s). Because of this, this thesis's literature review covers research on both mergers and acquisitions. However, it is worth noting that this thesis only focus on the 'acquisitions', where the acquirer ends up with 50% or more of the equity (or taking controlling ownership interests) of the target. Such a definition is consistent with widely accepted concept of a typical acquisition (e.g., Child et al., 2001; Angwin, 2007a; DePamphilis, 2012) and also consistent with the definition in the Zephyr database.

M&As can be classified according to various criteria (Elgers and Clark, 1980; Seth, 1990; Conn et al., 2005). Classifying M&As according to the firms' headquarters' geographic location is an important consideration in this thesis since 'cross-border acquisitions' are the object of study. Cross-border acquisitions are defined as acquisitions where the acquiring firm and the target firm are headquartered in different countries. However, it is important to note that 'M&As of companies with their headquarters in the same country, though normally classified as domestic, often have cross-border features when they require the integration of operations located in different countries' (Child et al., 2001, p.7-8). Another classificatory characteristic considered in this thesis is the relatedness of the joined firms. Generally, one distinguishes M&As according to horizontal, vertical and conglomerate types (e.g., Lubatkin, 1987; DePamphilis, 2012). Horizontal M&As occur between firms with identical products operating in the same industry or similar product/market segment. Conglomerate M&As are those in which the acquiring company purchases firms in largely unrelated industries. In conglomerate M&As, two firms have no buyer-seller relationship, no technical and distributional relationship and do not deal with identical products. Vertical mergers involve firms that participate at different stages of the production or value chains. Moreover, a vertical merger can be backward and forward. Backward vertical acquisition is carried out when the buying firm tries to strengthen its position through the inclusion of proceeding stages in the industry chain. Forward vertical acquisition is adopted when the buying firm aims to strengthen its position in the succeeding stages, such as in the distribution or further refinement of the product.

It is worth mentioning that the following literature review does not distinguish cross-border M&As and domestic M&As for three reasons: (1) cross-border acquisitions are under-explored and existing research is limited. Some important knowledge and findings will be missed if the review concentrates only on cross-border acquisitions;

(2) some previous research uses samples combining both domestic and cross-border acquisitions; (3) most importantly, the reviewed research topics, i.e., acquisition motives, performance measurement and impacting factors (most of them), are not unique to either domestic or cross-border M&As. Moreover, it is difficult to distinguish research on 'mergers' and research on 'acquisitions' since the two terms are usually used interchangeably. Aware of this, I will discuss previous research that is unique to cross-border acquisitions. Because this literature review covers research on domestic acquisitions and cross-border acquisitions, as well as both mergers and acquisitions, I use the resulting comprehensive body of knowledge as a basis for deriving my research questions, and developing my theoretical framework and relevant hypotheses.

## **2.2 M&A RESEARCH AND THE KNOWLEDGE GAPS**

With these definitions as a background, I did a comprehensive search of the existing literature on M&As with specific focus on the issues taken up in the present study (i.e., the M&A motives, performance measurement, and the impacting factors of M&A performance). My literature search (using Google Scholar and other databases available at the Aalborg University library) identified 30 recent review journal papers, and several books. I have read these materials thoroughly in order to gain an understanding of the current published academic knowledge in the field. This is to help me identify current knowledge gaps and to strengthen the justification for my research questions. In addition to these readings, I conducted an exploratory survey study into M&A activities in Denmark. Details of the results of this study are placed in Appendix A. In this section, I discuss the most relevant findings that help me in determining my research questions.

### **2.2.1 A NEGLECT OF MULTIPLE M&A MOTIVES**

There is a general agreement among M&A researchers that the performances of these business activities have been very disappointing. As Booz-Allen and Hamilton, (2001, p.1) bluntly observed 'Most mergers fail. Though this reality is uncomfortable, it is an indisputable fact. By whatever measure you choose-stock price, revenues, earnings, return on equity-most deals fall short of expectations'. Several researchers have directed the searchlight for explanations of the poor performance at the motives for the M&As themselves (Bower, 2001; Javidan et al. 2004). The underlying premise for these studies is that the primary motives for conducting acquisitions will guide the whole implementation process (e.g., target selection, valuation and integration), and then largely influence the outcomes (Haspeslagh and Jemison, 1991). Furthermore, the motives for conducting M&As



will, to a large extent, determine the type of resources and capabilities that will be acquired. Thus, in order to understand the acquisition process, one needs to start with the strategic thinking (motives) underlying it (Brouthers et al., 1998; Bower, 2001; Angwin, 2007b; Das and Kapil, 2012). The emerging view is that managers must have clear motives for their acquisition decisions. Some scholars have drawn distinction between value creation motives such as synergy and efficiency, (see Seth et al., 2000; Bruner, 2002; Ismail, 2011), and value-destruction motives, including hubris, for managerial self-interests, (see Trautwein, 1990; Berkovitch and Narayanan, 1993; Haleblian et al., 2009). It has been argued, for example, that if M&As are conducted for the managers' own interests (i.e., agency problems) or out of irrational considerations (e.g., imitation, hubris), the acquiring firms' performance is likely to be negative. In spite of the growing awareness that motives are important to the performances of acquisitions, my review of the literature reveals that, hitherto, there has been limited empirical studies that have focused attention on the links between motives and performance.

### **2.2.2 A LACK OF M&A PROCESS RESEARCH**

A number of scholars (Jemison and Sitkin, 1986; Haspeslagh and Jemison 1991; Cartwright and Schoenberg 2006; Meglio and Risberg, 2010; Weber, Tarba and Rozen, 2011) have argued that the best approach to understanding M&A outcomes is to adopt a process approach to the investigations. For example, Haleblian, (2009, p.490) writes that 'to develop a deeper understanding of the consequence of acquisitions, we urge greater attention to the processes that acquirers use to seize value from acquisitions'. Furthermore, based on their 30-year research programme, Marks and Mirvis (2010) conclude that the processes used to put companies together are critical to a deal's success. In the same vein, Reus, et al. (2012) called for more research into the interrelationships between contextual and process factors, and their interactive effect on acquisition outcomes. But although there is some increase in the number of scholars adopting this approach, the general view in the literature is that the perspective is still under-developed (Gomes et al., 2013) and its usage has been described as uncertain, complex, and rare (Shimizu et al., 2004).

### **2.2.3 A CALL FOR MULTI-DISCIPLINARY AND INTEGRATIVE PERSPECTIVES AND MODELS**

Some scholars have pointed out that M&A research has developed largely along disciplinary lines (see Cartwright, 2005). For instance, finance scholars focused on whether M&As create (or destroy) value for the shareholders and stress the

problems of agency, while strategic management researchers focus their attention on investigating strategic and process factors (e.g., strategic fit and integration) for explaining M&A underperformance. Building on this observation, Haleblian et al., (2009, p.470) writes that 'the range of findings from these diverse areas lacks theoretical integration, which constrains scholars' abilities to synthesise notable contributions from each discipline'. Other scholars including Angwin (2007a), Faulkner et al. (2012), Cartwright et al. (2012) and Gomes et al., (2013) have all made similar observations. As Angwin (2007a, p.329) puts it, 'the failure of disciplines to integrate other perspectives and the lack of interdisciplinary research may be a reason why so many 'results' from M&A research are inconclusive or unhelpful...there is now a critical need to adopt a more integrative view of M&A'. Following the same line of argument, Weber (2012) notes that M&A is a multi-stage, multi-levelled, and multidisciplinary phenomenon, while most of the research tends to be conducted in a single stage, at a single level and in single discipline.

It is important to note, however, that there is an emergent and growing research field originating from the disciplines of psychology, organizational behaviour and human resource management that has taken up the multidisciplinary approach. This strand of research examines the cultural dynamics of M&A and the emotional and behavioural response of the employees involved. Scholars adopting this approach argue that such issues may play a large role in determining the success or failure of M&As but are disregarded by researchers in the financial and economic fields (Larsson and Finkelstein, 1999). They therefore urge the inclusion of the human factors in all M&A studies.

#### **2.2.4 CHALLENGES IN THE MEASUREMENT OF M&A PERFORMANCE**

Since the 1970s there has been a general observation that findings regarding M&A performance have often been contradictory. Therefore, the literature contains discussion of how M&A performance should be measured and the challenges in doing so. It makes sense to argue that the manner in which performance is measured will determine the extent to which an acquisition can be assessed to be successful or otherwise (see DePamphilis, 2012). The literature shows that the definition of performance varies – in terms of accounting, financial, operational and perceptual metrics – making the comparison among empirical findings difficult (Meglio and Risberg, 2010). Some scholars measure performance by examining the abnormal movement of share prices, while others use cost savings, or revenue gains as metrics. Others assess the outcomes by examining the extent to which the pre-acquisition objectives have been met.

Short-term abnormal stock market returns surrounding acquisition announcements (i.e. short-term event studies) have also been widely used as a performance metric (Zollo and Meier, 2008; Haleblan et al., 2009; Cording et al., 2010), especially in the finance field, assuming that investors are capable of accurately predicting the combined firm's future cash flows. The primary advantage of this method is to minimize the 'noise' from other potentially confounding events. Nevertheless, it is increasingly considered to be the 'default' measure of acquisition performance (Schoenberg, 2006; Haleblan et al., 2009). Others have suggested that post-merger integration phase of an acquisition is central to its outcome (Ellis and Lamont, 2004). However, even acquiring managers have difficulty predicting all the issues that will arise in the integration process (Very and Schweiger, 2001). It is therefore not suitable to assume in the short-term event studies that the investors outside the firms can accurately judge the internal implementation issues that can accompany an acquisition. In addition, the capital market is not that efficient or, at least, is not always efficient.

Each measure actually has its strengths and weaknesses (see Schoenberg, 2006; Papadakis and Thanos, 2010). There is no perfect performance assessment method but there may be a more suitable one, and the rule of thumb to select the measure is to make sure that the theoretical logic behind the measures and questions under investigation is aligned (Cording et al., 2010). Meglio and Risberg (2011) also emphasize these is neither possible nor desirable to seek for the best measures of M&A performance that would work in all situations, but we need to clarify what we actually want to measure. Multiple measures are necessary not only because each approach has its limitations, but also because acquisition performance by its nature is extremely complex and multifaceted. As such, no individual method can capture its different aspects (Cording et al. 2010; Zollo and Meier 2008).

It has also been argued that although the use of multiple performance measurements can shed light on different aspects of the outcomes of acquisition, they can also produce confusions in two principal ways. In the first place it may result in different judgments about whether an M&A is successful or not (Risberg and Meglio, 2012). Secondly, it may produce conflicting conclusions on the impact of antecedents (Schoenberg, 2006). For example, studies by Datta and Puia (1995) and Morosini et al. (1998) have produced contradictory findings on the impact of national cultural distance on acquisition outcomes, largely because they have been based on different performance measures. As mentioned earlier, some scholars suggest that M&A performance measurement should be linked to the acquisition motives (Brouthers et al., 1998; Angwin, 2007a,b; Meglio and Risberg, 2010; Das and Kapil, 2012), but currently there are few empirical studies that take this into account.

## **2.2.5 INONCLUSIVENESS OF FINDINGS ON ACQUISITION PERFORMANCE**

Judging from the discussions above, it is not surprising that the empirical findings on M&A performances have been largely inconclusive (see meta-analysis conducted by King et al., 2004, and Stahl and Voight, 2004). Previous studies of acquisition performance (see e.g., Hitt et al., 1998; Moeller et al., 2004; Faccio et al., 2006; Stahl and Voigt, 2008; Zaheer et al., 2010) have uncovered a number of variables that tend to impact performance. As noted above, some scholars argue that the adoption of different performance measures (King et al., 2004; Meglio and Risberg, 2010), different typologies of M&As and different research settings (Meglio and Risberg, 2011) actually make the findings non-comparable. In most cases, a failed acquisition may be attributed to several root causes, e.g., buying for the wrong reasons, or at wrong time, selecting the wrong target and paying the wrong price (Marks, 1997). However, the researchers continue to be bewildered by the unpredictable nature of M&As, and the huge portion of variance that remain unexplained in their studies (see Stahl and Voigt, 2004). Some wonder if researchers actually look at the 'right' set of variables (King et al., 2004).

Again, as noted above, there is a need to link performance to motives of acquisition and to find the right combination of variables that better explain acquisition performance. It has also been suggested that previous studies have not adequately taken the effects of firms' unique and heterogeneous resources and capabilities into account in their studies (Madhok, 1997; Shimizu et al., 2004). Thus, Shimizu et al., (2004, p.345) suggests that 'more fine-grained measures of firm-specific factors are needed to provide a better understanding of the wealth creation mechanisms'.

## **2.2.6 AN EXPLORATORY STUDY OF DANISH CBM&AS**

The literature review has also revealed that previous research on M&As has largely been confined to the USA, UK, and large continental European countries (Cartwright, 2005; Haleblan et al., 2009; Martynova and Renneboog, 2011)., M&As from small but advanced countries that are located in the Nordic region have received little research attention (Larimo and Pynnönen, 2008). Furthermore, much of the empirical investigations have been limited to domestic M&As. Cross-border M&As have largely remained an underexplored research terrain (Shimizu et al., 2004; Meglio and Risberg, 2011; Bertrand and Bestschinger, 2012). This is apparently because cross-border transactions appeared in higher volumes only

beginning in the fifth merger wave (1993 - 2000). This awareness has provided additional justification for the present study.

Due to the lack of empirical knowledge about CBM&As in the Nordic region, I decided to conduct a preliminary survey among Danish international acquirers with these main objectives: (1) to ask for the practitioners' views about whether cross-border acquisitions can create value or not; (2) to check how the Danish international acquirers perform; (3) to gain knowledge about their cross-border acquisition practices, such as valuation and performance assessment; (4) to identify the tough issues they have experienced during acquisition implementation; (5) to collect practitioners' opinions about some explanatory factors related to acquisition performance, (e.g. acquisition experience and business relatedness). I expect the results of this exploratory investigation to guide me in determining whether or not the present study is worth undertaking and what key dimensions I should focus my attention on in order to make some contribution to the current level of knowledge in the field. Detailed information about the survey design and findings of this preliminary study are presented and discussed in Appendix A. I, however, consider it purposeful to summarize the main findings here and to build on them for further development of my arguments for the study.

The investigation has revealed that, on the whole, Danish international acquirers have experienced disappointing acquisition performance. The reasons are partly cultural differences, inaccurate valuation, over-payment and imprudent implementation decisions. The respondents believe that, acquisition experience and business relatedness can help improve acquisition performance. The results also suggest that, most of the cross-border acquisitions are synergy related. However, 'synergy prediction and realization' is described as the biggest challenge. Furthermore, cross-border acquisitions do seem to help the acquirers create some value, in terms of both immediate financial improvement, and access to some strategic resources for long-term development. The fact that the respondents acknowledge the creation of value as outcome of the acquisition, but experience the overall performance of the acquisitions as disappointing is partly indicative of the discrepancies between motives/objectives and acquisition outcomes. The results are also a reflection of the multifaceted nature of acquisition performance and justifies the necessity of using multiple performance assessment methods.

Collectively, the findings from this exploratory study, together with research gaps identified from the literature, indicate to me where further research efforts are needed (i.e., helping me lay down research questions and research strategy to be adopted of this thesis).

## 2.2.7 MY RESEARCH QUESTIONS REVISITED

I have presented my research questions briefly in chapter 1. But I consider it informative to revisit them here again in order to see the link between the questions and my discussions above as well as the theoretical discussions that follow.

Building on the discussions above, I formulate my first research question as follows:

### *1. What are the motives for conducting cross-border acquisitions?*

The purpose of this research question is not only to investigate the primary motives for utilizing this strategy, but also to further examine whether the acquirers perform differently when their deals are done under different motives. If my final sample size is big enough, I shall also attempt to do some fine-grained analysis about whether the impacting factors play different roles among the groups with different CBA motives, i.e. further testing the proposed framework using group data divided according to their CBA motives (group analysis). Firm-level performance is also weighted by different primary CBA motives.

The second research question is:

### *2. What are the determinants of the performance/success of cross-border acquisitions?*

We have noted in the discussions above that empirical studies about determinants of M&A performance have hitherto produced inconclusive results. Different explanations have been offered in the literature for the conflicting findings. Some are problems of research design (including variations in sampling and sample sizes, differences in research setting and differences in measures used). Irrespective of the reasons, the net effect is that we still do not know the real determinants of M&A performance and therefore need more research on the issue. I intend to use a process and multi-disciplinary perspectives for this aspect of the study. I will also simultaneously consider pre- and post- acquisition issues, contextual and implementation factors that have been identified in different disciplines.

The third research question is:

### *3. What is the value creation mechanism in cross-border acquisitions?*

We have noted above that theories of M&As that emphasize value creation tend to highlight the importance of efficiency gains derived from various synergy sources (e.g., Lubatkin, 1983; Chatterjee 1986; Seth, 1990), including managerial,

operational, financial, and collusive synergies. However, synergy prediction still challenges most of the practitioners and synergy realisation still fall short of their expectation (see Goold and Campbell, 1998; Seth et al., 2000; Bruner, 2002; Ficery, 2007; Alexandridis et al., 2010; Ismail, 2011; Das and Kapil, 2012 for discussions of these issues). In order to disentangle value creation mechanism in CBAs, it is not enough just to name a list of potential impacting factors, but to find the way of their acting and how they are combined to cause value creation to occur.

Having re-stated the research questions that guide the current study, I now intend to devote the remaining sections of the chapter to a more detailed discussions of the theoretical arguments informing them and the hypotheses that the theories generate.

### 2.3 MOTIVES FOR CONDUCTING M&As

I have drawn attention to the importance of identifying motives underlying firms' decision to acquire other firms in any meaningful assessment of the performance of these acquisitions. We have also noted that the literature suggests that firms may have multiple motives for their acquisitions and it is useful to identify these multiple motives. This section of the literature review takes a closer look at the debate on M&A acquisition motives with a view to providing a theoretical foundation for some of the hypotheses that I have subsequently formulated.

My review of the existing literature has produced 22 theories/assumptions regarding the motives for M&As. These are summarised in Table 2.1. Table 2.2 illustrates some empirical evidences related to these M&A motive theories or hypotheses. These theories and hypotheses can be broadly classified into two: (1) acquisitions proactively initiated to fulfil decision-makers' objectives, and (2) acquisitions reactively driven by shocks/disturbances in external environment. Most of the time, the firms' decision-making and strategy adoption are impacted by both internal development intentions and external environmental changes. However, these theoretical statements seek to draw attention to the main driving force behind a firm's decision-making and strategy adoption. With regard to the first set of motives, one stream of research assumes that decision-makers always act in a rational manner (i.e. to fulfil clearly defined objectives or address agency problems) while the second stream of researchers assume that decision-makers' inferences are rationally bounded.

*Table 2.1A summary of theories/assumptions of M&A motives*

Criteria for classifying M&A motives			Theory/hypothesis about M&A motives	Suggested references
<b>1. Proactive M&amp;A motives (for</b>	<b>1.1 Under rational hypothesis</b>	1.1.1 Firm-serving motives	(1) Monopoly theory (market power)	Stigler, 1950; Scherer & Ross, 1990

realising decision-makers' objectives)		<p>(2) The market for corporate control (disciplinary)</p> <p>(3) Tobin's Q theory</p> <p>(4) Mis-valuation hypothesis</p> <p>(5) Resource-based view (RBV)</p> <p>(6) Resource dependence theory (RDT)</p> <p>(7) Organisational learning theory</p> <p>(8) Real-option-based acquisition</p> <p>(9) Synergy theory</p> <p>(10) Empire-building hypothesis</p> <p>(11) Defensive tactics (Excessive managerial risk aversion)</p> <p>(12) Agency cost of free cash flow</p> <p>(13) Managerial entrenchment</p>	<p>Manne, 1965; Jensen &amp; Ruback, 1983</p> <p>Tobin,1969; DePamphilis,2012, pp11</p> <p>Loughran &amp; Vjih, 1997; Shleifer &amp; Vishny, 2003</p> <p>Barney, 1986, 1991</p> <p>Pfeffer &amp; Salancik, 1978; Finkelstein,1997</p> <p>Amburgey &amp; Means, 1992; Haleblan et al., 2006</p> <p>Sudarsanam, 2010, p.77&amp; 141</p> <p>Ansoff ,1965; Williamson,1998</p> <p>Mueller, 1969</p> <p>Amihud &amp; Lev, 1981</p> <p>Jensen, 1986, 1988</p> <p>Shleifer &amp; Vishny, 1989</p>
	1.1.2 Manager-self serving motives (Agency problems or managerialism)		<p>(14) Process theory</p> <p>(15) Hubris hypothesis (over-confident)</p> <p>(16) Herding hypothesis (Imitation)</p> <p>(17) Escalating confirmation bias</p> <p>(18) Envy-based motivation</p>
	<b>1.2 Under bounded rational hypothesis</b>		



<p><b>2. Reactive M&amp;A motives (for adapting to shocks from external environment)</b></p>	<p><b>2.1 Rival-driven</b></p> <p><b>2.2 Country-level shocks</b></p> <p><b>2.3 Industry-level shocks</b></p>	<p>(19) Preemption theory</p> <p>(20) Disturbance theory</p> <p>(21) Population ecology theory</p> <p>(22) Industry-level shocks (e.g., technological innovations, supply shocks, deregulation)</p>	<p>Fishman, 1989; Fridolfsson &amp; Stennek, 2005 Gort, 1969</p> <p>Hannan &amp; Freeman, 1989 Mitchell &amp; Mulherin, 1996</p>
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Table 2.2 A summary of relevant empirical analysis of M&A motives

Study	Sample description	Sample period	Major findings related to M&A motives
<b>With Synergy Theory</b>			
Bermile & Baugness (2011)	3935 M&A deals between companies listed on NYSE, NASDAQ, or AMEX.	1990-2005	Synergies' expectations and realisations are important determinants of merger activity and performance.
Devos et al. (2009)	264 large mergers between public domestic firms in the US and the acquisition is 100% of the target firm.	1980-2004	(1) Focused mergers are likely to be primarily motivated by synergies while diversifying merger may be undertaken for a variety of reasons unrelated to synergy; (2) stock-market-driven mergers are not undertaken with a view to realise synergy gains.
Fields et al.(2007)	129 M&As between banks and insurance companies in the US and EU	1997-2002	Positive bidder wealth effects are significantly related to economies of scale, potential economies of scope and the locations of the bidders and targets.
Sudarsanam et al.(1996)	429 UK publicly-listed companies	1980-1990	The shareholder wealth experience is conditioned by influences of synergy, hubris and ownership structure. Particularly, financial synergy seems to dominate operational synergy.
Harrison et al. (1990)	1100 acquired firms	1970-1989	The results support for the concept of private and uniquely valuable synergy accruing from acquisitions.
Hayn (1989)	640 acquisitions	1970-1985	Tax considerations could motivate acquisitions.
Bruner (1988)	161 bidding firms from Fortune 1000 lists, making 428 merger attempts	1955-1979	The results support both financial economies motive and the theory of Myers and Majluf (1984) that 'slack-rich' bidders pair with 'slack-poor' targets to create value.
Chatterjee (1986)	157 mergers	1969-1972	Collusive synergy is associated with the highest value, followed by financial and operational synergy.
<b>With Monopoly Theory (Market Power)</b>			
Bhattacharyya & Nain (2011)	130 domestic mergers in the U.S.	1984-2003	The findings strongly support horizontal mergers create buying power.

Eckbo (1983)	259 horizontal and vertical mergers in mining and manufacturing industries	1963-1978	They found the antitrust law enforcement agencies systematically select relatively profitable mergers for prosecution, and there is little evidence indicating that the mergers would have had collusive, anticompetitive effects.
<b>With Market Mis-valuation Hypothesis</b>			
Ang & Cheng (2006)	3,862 successful & unsuccessful domestic mergers	1981-2001	Stocks' overvaluation is an important motive for firms to make acquisitions financed by their stocks.
Dong et al.(2006)	2,922 successful and 810 unsuccessful acquisition bids	1978-2000	Irrational market mis-valuation, at both the transaction and aggregate levels, affects the volume and character of takeover activity.
Rhodes-Kropf et al. (2005)	4,325 acquirers corresponding to 4,025 target firms	1977-2000	They found strong empirical evidence that market mis-valuation drives mergers.
Servaes (1991)	704 completed takeovers	1972-1987	The abnormal returns of targets and bidders are larger when targets have low q ratios and bidders have high q ratios, which supports Tobin's Q Theory.
<b>With Resource Dependence Theory (RDT)</b>			
Jun (2010)	46,620 observations from 370 industries from 21 countries	1995-2000	RDT provides a useful model for predicting international constraint-absorption activities (e.g, M&A), although its effect deteriorates over time in a host country-industry.
Casciaro & Piskorski (2005)	1907 inter-industry deals, 61 of which were hostile takeovers.	1985-2000	Mutual dependence is a key driver of M&As, while power imbalance acts as an obstacle to their formation.
Finkelstein (1997)	17850 deals in 51 industries	1947-1992	Resource dependence hypothesis in explaining interindustry mergers was supported, however its predictive power has some boundary conditions. The institutional environment (mainly refer to antitrust enforcement actions) may also act on such application of uncertainty-reducing strategies, i.e., lessen the likelihood of mergers.
Galbraith & Stiles (1984)	176 mergers in 11 primary manufacturing industries	1948-1972	Organisations manage their market and resource interdependencies by means of merger activity, yet not always through the physical extension of their organisational boundaries.

Pfeffer (1972)	854 large mergers in manufacturing and mining industries	1948-1969	The pattern of mergers among industrial companies was analysed as a response to organisational interdependence.
<b>With Resource-Based View (RBV)</b>			
King et al. (2008)	133 publicly traded high-technology firms in the U.S.	1994-1997	They provide the evidences supporting that the firms use acquisitions to leverage the external technology resources with substitution and complementary relationships to create competitive advantage and overcome its resource heterogeneity and immobility.
Wang & Zajac (2007)	584 largest firms listed in Forbes in 1990.	1991-2000	Resource similarity and complementarities as well as combined relational capabilities of pair of firms and their partner-specific knowledge will affect their governance structure - forming an alliance or engaging in an acquisition.
Capron & HULLAND (1999)	253 questionnaires to CEO who has conducted horizontal acquisitions in domestic market (France and USA)	1988-1992	(1) The acquiring and target firms frequently redeploy marketing resources between businesses in horizontal acquisitions; (2) immobile resources are more likely than less immobile resources to be redeployed from the target to the acquiring firm following merger; (3) resources are more likely to be redeployed from acquirer to target than in the reverse direction.
Capron & Mitchell (1998)	253 horizontal acquisitions involving North American and European firms	1988-1992	Their empirical results indicate acquisition is an important strategic tool that allows both the acquiring and target firms to obtain resources that they could not purchase in arm's length market exchanges due to market failures. The analysis shows that firms frequently undertake substantial bilateral resource redeployment following horizontal acquisitions, and this helps improve business capabilities, such as R&D skills, time to market, product quality, product cost and output flexibility.

**With Bounded Rational Hypothesis**

Goel & Thakor (2010)	5417 early acquisitions and 4134 late acquisitions within a wave	1979-2006	This paper proposed and testified that envy-based motivation generates the merger waves.
Liu & Taffler (2009)	3162 CEOs for 2129 publicly traded US firms and 1888 M&As	1993 -2005	Overconfident CEOs are more likely to conduct M&A than economically rational CEOs.
Moatti (2009)	83 firms from the global retail industry	1984-2003	(1) M&As as well as alliances formation are influenced by both internal and external factors; (2) the choice of expansion mode is highly influenced by competitor moves; (3) imitation influences both M&As and alliances but through different mechanisms.
Bogan & Just (2008)	165 undergraduate business students and 45 CEOs in Ivy league university (US)	2006-2007	Their research evidence support the existence of confirmation bias in the decision making about mergers, especially in the behavior of actual corporate executives.
Malmendier & Tate (2008)	394 large publicly traded US firms	1980 - 1994	CEO overconfidence can be one of the drivers of the merger decision and this has a negative impact on the firm's short-run stock market performance around the announcement.
Moeller et al. (2004)	12,023 successful offers	1980 -2001	Managerial hubris playing more of a role in the decisions of large firms.
Fanto (2001)	10 largest stock-for-stock mergers in the US	1998 -2000	Psychological factors (Myopia, loss aversion, over-optimism are strong) are forcefully present in merger decision-making.
Pangarkar (2000)	43 large firms in pharmaceutical industry from Sweden, Switzerland, Germany, UK, Japan, France and USA	1975-1989	(1) They found robust support for the Bandwagon theory, which argues that firms will tend to imitate their close rivals regardless of whether such imitation is value-enhancing or not; (2) unequivocal support was offered for the strategic momentum explanation.
Haunschild (1993)	327 firms	1981-1990	Firm managers imitate the acquisition activities of those other firms to which they are tied through directorships.
<b>With Agency Problems (Managerialism)</b>			
Wright et al. (2002)	182 publicly listed acquiring firms	1993-1998	In firms with passive monitors, increased corporate size due to an acquisition will explain compensation changes.

North (2001)	684 acquired firms	1990–1997	Research evidence supports entrenchment hypothesis, where the level of managerial ownership is negatively related to acquisition likelihood.
Hadlock et al.(1999)	287 bank acquisitions made by US acquirers	1982- 1992	Research evidence is consistent with an entrenchment hypothesis, where management teams block attempts to be acquired.
Lang et al.(1991)	101 tender offers	Oct.1968 - Dec.1986	The empirical results support free cash flow hypothesis. It is found that bidder returns are significantly negatively related to cash flow for bidders with low value of Tobin's Q but not for high q bidders.
Amihud & Lev (1981)	309 firms	1961-1970	Conglomerate mergers were performed to reduce the managers' employment risk (i.e., risk of losing job, professional reputation and etc.).
<b>With External Environment Factors</b>			
Ahern & Harford, (2014)	51,002 mergers between the U.S. firms	1986 -2010	The network of real economic transactions through customer-supplier links helps to explain the formation and propagation of merger waves.
Choi & Jeon (2011)	All M&A data in US	1980-2004	(1) Macroeconomic factors, which include real GDP, stock market conditions, monetary policy, business cycle, play an important role in determining the trend of aggregate merger activity in the US economy. (2) The most important macroeconomic variables in determining merger activity include real income (for the frequency of M&A activity) and stock market condition and monetary policy (for transaction values of aggregate mergers), the ascending phase of business cycle (for producing more mergers). (3) Economic growth (GDP as a proxy) and high liquidity (corporate net cash flow as a proxy) encourage firms to more actively pursue mergers than during the period before 1998.

Ovtchinnikov (2010)	173,190 non-financial firms	1966-2006	Economic deregulation is endogenous, and mergers or acquisitions that follow deregulation represent a form of exit from poorly performing industries.
Di Giovanni (2005)	A large panel data set of cross-border Merger & Acquisition (M&A) deals	1990-1999	Financial variables (e.g., tax rate, exchange rate) and other institutional factors (e.g., bilateral service agreement) are found to play a significant role in M&As. Particularly, the size of financial markets measured by the stock market capitalisation to GDP ratio, has a strong positive association with domestic firms investing abroad.
Mitchell & Mulherin (1996)	1064 firms in 51 industries listed in the Value Line Investment Survey and 3,660 firms in 46 industries from CRSP database.	1982-1990	Various economic, technological or regulatory shocks from different industry levels result in aggregate merger waves.
<b>With Multiple Theoretical Perspectives of M&amp;A Motives</b>			
Garfinkel & Hankins (2011)	All merger or tender-offer bids	1981-2006	<i>Theoretical perspectives:</i> synergy theory (financial synergy), imitation hypothesis (managerial herding behavior) and macroeconomic shock hypothesis. <i>Primary findings:</i> (1) Merger waves appear to be partly driven by a desire to hedge cash flow uncertainty; (2) The research evidence supports managerial herding behavior; (3) Economic shocks and behavioral factors influence merger activity. <i>Theoretical perspectives:</i> organisational learning theory, stewardship theory and agency theory. <i>Primary findings:</i> Business acquisition experience positively influences the inclination of the acquirer adopting a subsequent acquisition while board characteristics do not, which supports the argument of the stewardship theory and rejects agency theory.
Peng & Fang (2010)	92 acquisition events of Taiwanese electronics firms	1997-2007	<i>Theoretic perspectives:</i> managerialism, synergy theory, monopoly theory, industry shock and RBV. <i>Primary findings:</i> (1) The data does not support the notion that
Huyghebaert & Luypaert (2010)	484 private and listed Belgian bidders engaging in 990 M&As.	1997-2007	

Keller (2010)	3 merger cases	1999- 2001	<p>managerial incentive problems and/or hubris underlie the takeover decisions of Belgian firms; (2) financial synergy hypothesis is also not supported; (3) the transfer of intangibles assets is the principal reason behind the M&amp;A decisions; (4) securing market power is a major consideration in horizontal and domestic takeover decisions.</p> <p><i>Theoretical perspectives:</i> synergy theory and monopoly theory (market power)</p> <p><i>Primary findings:</i> There is no empirical evidence supporting monopoly (market power) theory but some indication of efficiency increases.</p> <p><i>Theoretical perspectives:</i> market misvaluation theory and imitation hypothesis (managerial herding behavior).</p> <p><i>Primary findings:</i> (1) Stock prices affect corporate M&amp;A decisions and acquisitions undertaken during periods of high-market valuations are of lower quality than those undertaken during periods of low-market valuations; (2) The underperformance cannot be supported by overpayment and market timing, but are consistent with herding behavior by managers.</p> <p><i>Theoretical perspectives:</i> RBV, synergy theory (tax reduction) and monopoly theory.</p> <p><i>Primary findings:</i> The evidence suggests that mergers generate gains by improving resource allocation rather than by reducing tax payments or increasing the market power of the combined firms.</p>
Bouwman et al.(2009)	2944 acquisitions (The acquirers are US listed firms)	1979-2002	<p><i>Theoretical perspectives:</i> synergy theory, managerialism and hubris hypothesis.</p> <p><i>Primary findings:</i> (1) synergy theory is empirically supported as the predominant explanation for the U.S. firms' foreign acquisition activities; (2) hubris also play a role in the acquisitions characterised by positive total gains, while the</p>
Devos et al. (2009)	264 mergers.	1980-2004	
Seth et al.(2000)	100 cross-border acquisitions by US firms	1981-1990	



<p>Hayward &amp; Hambrick (1997)</p>	<p>106 large acquisitions with payments over \$100 million between publicly traded firms</p>	<p>1989-1992</p>	<p>acquisitions with negative gains are mainly caused by managerialism.  <i>Theoretical perspectives:</i> disciplinary hypothesis, synergy and hubris theory.  <i>Primary findings:</i> CEO hubris is found to be highly associated with the size of premiums paid and the subsequent wealth losses for the acquiring firms' shareholders.</p>
<p>Berkovitch &amp; Narayanan (1993)</p>	<p>330 tender offers</p>	<p>1963-1988</p>	<p><i>Theoretical perspectives:</i> synergy theory, agency theory and hubris hypothesis.  <i>Primary findings:</i> synergy is the primary motive in takeovers with positive total gains with the coexistence of hubris, and agency is the primary motive in takeovers with negative total gains.</p>
<p>Matsusaka (1993)</p>	<p>855 mergers</p>	<p>1968,1971 and 1974</p>	<p><i>Theoretical perspectives:</i> managerialism; the market for corporate control; and synergy/efficiency theory.  <i>Primary findings:</i> the empirical evidence does not support the hypotheses of 'managerialism' and 'the market for corporate control'. Instead, the result is consistent with 'managerial synergies hypotheses'.</p>

### 2.3.1 PROACTIVE M&A MOTIVES

One strand of research on theories/hypotheses of M&A motives maintains that firms proactively conduct M&As to fulfil decision-makers' objectives, either for the firms' benefits or for the managers' own interests. Scholars who have endorsed this perspective have drawn on several different theories in economics and management to support their arguments and to guide their investigations. I present these theories in this section of the chapter and discuss their relationship with M&A motives.

#### 2.3.1.1 Firm-serving motives

Monopoly theory was once described as the main motive for the first big merger wave in America (1887-1904) (Stigler, 1950; Scherer and Ross, 1990). It states that firms will utilise M&As, especially horizontal M&As, to improve their market share and raise the entry barriers for other companies. By doing so, they can make profits by fixing prices autonomously. Due to regulatory changes, this factor is not as important today. However, within a given regulatory border, firms still pursue market power to increase their negotiation position vis-à-vis suppliers and customers. Acquisition can also work as a disciplinary tool in 'the market for corporate control' (Manne, 1965). Jensen and Ruback (1983) empirically support this proposition. The proposition argues that a firm takes over other firm, which had failed to make the most efficient use of their resources and capabilities. The acquiring firm then puts these resources and capabilities to more profitable use. Hostile takeovers are usually viewed as disciplinary ones, targeting companies where managers had failed to achieve the shareholders' objectives (Cosh and Guest, 2001).

According to Tobin's Q theory (Tobin, 1969), if the Q ratio of the market value of a firm to the replacement cost of its assets is greater than one - signifying more efficient use of assets can be possible, then the firm should increase its capital stock in the form of both domestic investment and investment abroad (i.e., M&A or 'green field'). On the other hand, the theory suggests that firms can obtain new assets by acquiring a company with a market value less than the replacement cost of the assets (DePamphilis, 2012). Consistent with the logic of 'high-Q firm buy low-Q firm' strategy of Q-theory, the market misvaluation assumption explains M&A phenomena based on the hypothesis of inefficient capital market (Steiner, 1975; Shleifer and Vishny, 2003). According to this theory, the overvalued acquirers, who have more valuable information about the targets over the stock market, will take this chance to buy the relatively undervalued companies and their overvalued shares are usually used for payment. Examining successful and unsuccessful acquisition deals, both Ang and Cheng (2006) and Dong et al. (2006) provide empirical evidence supporting the importance of market misvaluation as a reason for firms to make acquisitions.

Research on organisational learning theory (see Amburgey and Means, 1992; Halebian et al., 2006) suggests that routines stemming from experience and the

performance feedback of prior actions will guide organisational future behaviour. It is thus used to account for serial M&A activities. Both Haleblan et al. (2006) and Peng and Fang (2010) found acquisition experience positively enhanced the acquirers' inclination to adopt a subsequent acquisition. Moreover, following the real option logic described by Sudarsanam (2010, p.77&141), an acquisition can also be used as a stepping-stone for further investment opportunities. This means the value of a strategic acquisition not necessarily depends on the cash flows brought by that acquisition per se, but accrues from the follow-on opportunities opened up by that acquisition.

Some researchers draw on the resource-based view (RBV, see Barney, 1986, 1991) and resource dependence theory (RDT, see Pfeffer and Salancik, 1978) to explain firms' proactive motives to acquire other firms. In general terms, RBV offers an internal perspective of how organisations specify resource needs and use M&A as an instrument to obtain missing resources and/or enhance existing resources to maintain or improve their competitive advantages. In particular, strategic resources with value, rareness, inimitability and non-substitutability attributes (VRIN), are described as the reasons for sustained competitive advantage (Barney, 1991). 'As some resources are not easy to trade on the market, the most effective way to get control over them is to acquire the whole company' (Colombo et al., 2007, p.203). Capron and Hurland's (1999) study shows that substantial resource reconfiguration occurs following acquisitions. Immobile resources are more likely to be redeployed than the mobile resources from the target to the acquiring firm. Devos et al. (2009) also report that gains are generated in mergers mainly through improving resource allocation. RDT examines how the external resources of organisations affect the behaviour of the organisation. Building on this perspective, it has been suggested that M&As constitute one of the options that a firm uses to reduce its environmental interdependence and uncertainties (Finkelstein, 1997; Jun, 2010). It follows from these discussions that it is useful to turn to the resource-based view of firms in order to gain insight into the resource motives of M&As.

Synergy is often cited as the reason for conducting M&As (Seth et al., 2000; Bruner, 2002; Ismail, 2011). Operational synergies usually arise from economies of scale and scope or knowledge transfer (Trautwein, 1990; Sudarsanam et al., 1996), both of which can be generated in horizontally and vertically integrated firms. Decreasing marginal production costs while increasing output volume results in economies of scale (Hughes et al., 1980). If a firm is smaller than its optimally efficient size, it can achieve cost savings by increasing or reorganising its manufacturing output. Some original fixed costs, such as those for advertising, R&D and administration can be assigned to more products, thus decreasing the product's cost. Economies of scope can be achieved when M&As help firm enlarge their product lines and when there is complementarity such as multiple usages of a brand name and bundling strategies. Operational synergy resulting from knowledge transfer refers to the learning curve outcomes and the exchanges of management know-how between the involved companies in M&As. Managerial synergies are often coupled with knowledge transfer. This can arise when the acquiring firm has better management skills than

the acquired firm, which allow them to run the acquired firm more efficiently. Financial synergies can result from risk diversification of a firm's investment portfolio through investment on unrelated businesses, tax advantages, coinsurance of debt, and access to cheaper capital as well as complementarity of the growth opportunities and financial resources of the merging firms (Trautwein, 1990; Sudarsanam et al., 1996). Generally, financial synergies will result in lower costs of capital.

The synergy motive draws on synergy theory to support its underlying arguments. Ansoff (1965) is the first researcher who related the synergy theory to M&A motives, which Williamson (1998) later expanded. According to this theory, combined firms can produce more benefits than two firms working independently. Berkovitch and Narayanan (1993) examine three motive theories: (1) synergy; (2) agency; and (3) hubris. Their examination identifies synergy as the primary motive in takeovers with positive total gains. Operational, managerial and financial synergies result in efficiency improvements and value creation (see Trautwein, 1990; Sudarsanam et al., 1996).

The literature has suggested different classifications of synergy. Clougherty and Duso (2011) identifies three types of synergies that firms may gain from M&As. These are (1) efficiency-based synergies, differentiating it from (2) collusive synergies and (3) monopoly synergies. The latter two synergies usually occur in horizontal acquisitions. For example, collusive synergies will lead to increased market power that helps reduce competition where prices and profits increase for all firms in a market (see e.g., Chatterjee, 1986; Seth, 1990; Clougherty and Duso, 2011). Goold and Campnell (1998) suggest a more detailed classification of synergies – breaking them down into six forms: (1) shared know-how; (2) shared tangible resources; (3) pooled negotiating power; (4) coordinated strategies; (5) vertical integration; and (6) combined business creation. All of these synergies are possible but very difficult for companies to achieve due to a range of internal and external challenges (Datta, 1991; Sirower, 1997).

In sum, CBM&As offer firms opportunities to gain new resources, capabilities, markets growth opportunities and diversification benefits across different geographic locations. They also improve acquirers' ability to manage some risks, improve technology and enjoy favourable government policies (see Moeller and Schlingemann, 2005, p.534). Along the same line of thinking, Dunning (1993) suggests four principal motives for cross-border acquisitions: (1) resource seeking; (2) market access; (3) efficiency and (4) strategic asset- or new capability- seeking. They actually all related to different types of synergies.

### **2.3.1.2 Manager-self-serving motives (agency problems or managerialism)**

There is a group of scholars who contend that managers make acquisitions for their own interests but at the expense of the firms' shareholders (Jensen and Meckling, 1976; Fama, 1980; Jensen, 1986). For example, managers may have an 'empire-

building' intention (Baumol, 1959; Marris, 1964; Williamson, 1964; Mueller, 1969) or an excessive managerial aversion to risk (Amihud and Lev, 1981) or to entrenchment themselves in their managerial positions (Shleifer and Vishny, 1989). These contentions are rooted in arguments related to the separation of ownership and control in corporations (Berle and Means, 1933). The argument is that managers with empire-building tendencies may have excessive taste for running larger firms, as opposed to simply profitable ones (Stein, 2003). This enables them to attain personal benefits, such as more power and prestige that cannot be measured in monetary terms.

Another way in which managers' interests may diverge from those of shareholders is their viewpoints toward risk. Managers are usually regarded as more risk averse than shareholders, as their whole livelihood, career and rewards are largely connected with the development of enterprises. But some managers may be risk averse and tend to insulate themselves against 'employment risks' (e.g. risk of losing job, professional reputation, etc.). These types of managers will seek to diversify their undiversifiable 'employment risk' through conglomerate mergers and acquisitions (Amihud and Lev, 1981).

Related to the issue of risk, Jensen (1986, 1988) forwards the free cash flow hypothesis, arguing that managers who are endowed with free cash flow will invest it in the projects with negative net present value (rather than pay this money out to shareholders) if such projects will provide them with increased managerial benefits like compensation, power and reputation. Following the same logic, Shleifer and Vishny (1989) proposes managerial entrenchment model. Such model argues that rather than distributing the free cash flow as dividends, and focusing on making value-maximizing investments, managers are mainly in the pursuit of entrenching themselves by making manager-specific entrenching investments to make it costly for the shareholders to replace them, so that they can extract higher wages and larger perquisites as well as exert their influence on corporate strategy in the long term. In this situation, managers will buy assets that entrench them even if these acquisitions reduce shareholder wealth. For instance, when a manager is considered a good performer in one of the firm's main businesses, he has the incentive to commit more resources to that business even though such marginal investment will cause a negative net present value.

Hypotheses based on the managerial self-serving motives have been supported by some empirical studies (Ismail, 2011; Wright et al. 2002; North, 2001; Hadlock et al., 1999, Lang et al., 1991). The literature, however, registers some dissenting views on such aspects of the agency problems as constraints of 'the market for corporate control' (Manne, 1965), 'manager market' (DePamphilis, 2012, p.11), 'ownership structure' as well as 'financial structure' (Huygebaert and Luybaert, 2010; Caprio et al., 2011).

### **2.3.1.3 Bounded rational motives**

The third group of proactive motives are based on the concept of bounded rationality (Simon, 1972) which assumes that cognitive limitations, information gathering costs and the complexity of managerial decision processes tend to constrain rational human actors from making fully optimal decisions. The bounded rationality argument has encouraged the development of a range of theories to explain managers' behaviours in M&A processes. These include process theory (Duhaime and Schwenk, 1985; Jemison and Sitlin, 1986), hubris theory (Roll, 1986), herding theory (imitation) (Scharfstein and Stein, 1990) and escalating confirmation bias (Bogan and Just, 2008). According to the process theory, M&As are not the result of managers' rational decisions. Instead, they are the result of existing processes that are influenced by managers' limited information processing capability and their prior experiences, organisational routines and political power. Liu and Taffler (2009) find that overconfident CEOs are more likely to conduct M&As than economically rational CEOs. Managerial hubris is found to play more of a role in large firms (Moeller et al., 2004). Herding behaviour is posed to explain M&A 'wave' phenomenon. Graham (1999) states that managers of low ability will herd and managers with strong reputations will also herd to protect their reputation. More recently, Goel and Thakor (2010) proposed and demonstrated that envy-based emotion was also a reason of generating the merger waves. Moreover, Bogan and Just (2008) demonstrate the existence of confirmation bias in the M&A decision-making process. Their experimental evidences show that the executives attaches more importance to the information that supports his views while spent less time reviewing information that had the greatest potential to affect the final decision, and compared with non-executives (i.e., the students), they are less likely to change their mind.

### **2.3.2 REACTIVE M&A MOTIVES**

Discussions of reactive motives cover situations in which M&As are conducted due to external pressure or changes in the external environment. For instance, firms may merge to preempt a forced merger with a rival even if it may reduce their profits ( see Jensen, 1988; Fridolfsson and Stennek, 2005). There are other situations in which firms may conduct M&As due to the institutional pressure (e.g. government/regulators/financial institutions) or pressure from competitor, supplier or customer's actions (Angwin, 2007b). In cross-border acquisitions particularly, industry-level factors such as technological imperatives, advertising/sales force intensity (Anand and Delios, 2002) and country-level factors such as market growth (Brouthers and Brouthers, 2000) may act as driving cues. Other studies have suggested that cultural idiosyncrasies (Kogut and Singh, 1988) may increase the likelihood of firms entering host country markets via acquisitions.

Over the last century, there have been two recurring phenomena: (1) mergers have often occurred in waves; and (2) within a wave, mergers strongly cluster by industry (Gort, 1969; Mitchell and Muhlerin, 1996; Harford, 2005; Rhodes-Kropf et al., 2005). Gort (1969) attributes this to discrepancies in expectations held by current

shareholders and non-shareholders, arguing that this may lead to a large number of shares changing hands. Specifically, when economic turbulence occurs, the insiders of the firms (potential targets) will become pessimistic about their future, whereas the outsiders (the potential acquirers) become more optimistic. In this situation, firms will conduct M&As. The result is a merger wave. Gort proposes disturbance theory to explain this phenomenon. Similarly, according to Hannan and Freeman's (1989) population ecology theory, merger is looked at as a natural selection and adaptation process according to regulatory and technological changes. Mitchell and Mulherin (1996) attribute this phenomenon to industry-level shocks (e.g., technological innovations, supply shocks, deregulation) and state that the industries react to these shocks by restructuring, often via a merger. In addition, Di Giovanni (2005) used a large panel data set of CBM&As during 1990-1999 and found that macroeconomic variables (e.g., the size of financial markets), financial variables (e.g., tax rate and exchange rate) and other institutional factors (e.g., bilateral service agreement) played a significant role in M&A flows. Choi and Jeon (2011) identify a number of macroeconomic factors such as real GDP and stock market conditions as factors contributing to aggregate merger activity in the US economy between 1980 and 2004. Furthermore, Ahern and Harford's (2014) empirical findings show that customer-supplier relationships between industries drive both industry-level and aggregate merger waves.

### **2.3.3 APPLYING THE DISCUSSIONS IN THE PRESENT STUDY**

The above discussions indicate that at the firm level, acquisitions may be driven by multiple motives of differing importance. The motives can be seen either from proactive and reactive perspectives as well as from external and internal factor perspectives as discussed above. They can also be grouped into two general categories from value creation perspective: (1) value-maximising motives and (2) non-value maximising motives (Berkovitch and Narayanan, 1993; Capron and Hülland, 1999; Seth et al., 2000). Value-maximising motives mainly point to different types of synergy (see e.g., Chatterjee, 1986; Trautwein, 1990), while non-value maximising motives usually refer to managerial hubris (Roll, 1986), agency problems and empire building by managers of cash rich firms (Jensen, 1986) as well as managerial entrenchment incentive (Shleifer and Vishny, 1989). While some acquisitions may be driven by non-value maximising motives, Seth et al. (2000) concludes that the majority of acquisitions are motivated by value creation opportunities. Alexandridis et al., (2010, p.1671) also state that 'the fundamental aim of mergers and acquisitions is the generation of synergies that can, in turn, foster corporate growth, increase market power, boost profitability and improve shareholder's wealth'.

The general conclusion that can be drawn is that no single approach can render a full account of the motives that underlie firms' decision to engage in M&A. It is sometimes necessary to combine the various motives in order to provide a meaningful explanation. Furthermore, it is difficult for researchers outside the

companies to know which specific motive is the primary one. For example, managerial hubris, perhaps driven by a high stock valuation, might drive firms to incorrectly extrapolate strong pre-merger performance and expand in the mistaken belief that merger synergies are larger than they actually are. However, the widely accepted view is that for most of firms the fundamental or primary motives of doing M&As is in pursuit of synergy (Seth et al., 2000; Bruner, 2002; Alexandridis et al., 2010; Ismail, 2011; Das and Kapil, 2012). My preliminary exploratory study supports this observation that most of the cross-border acquisitions are also said to be synergy related (see Appendix A).

Based on the current debate, I consider acquisition motives to influence all other variables that impact M&A performance. As such I consider it inappropriate to isolate the motives in my conceptual framework. Instead I will treat the variables to be discussed subsequently as being embedded in the motives. In other words, in my opinion, the motives form a platform on which the conceptual understanding of M&A performance should rest. In addition, since synergy theory dominates the explanations of M&A motives, and increasing the value of the combined firm through synergy is what most of the acquirers finally seek for in cross-border acquisitions, I develop the model mainly based on the basic assumption that cross-border acquisitions are mainly conducted for value-maximising motives. For this reason, theories/assumptions concerning agency problems and irrational behaviour are not included in my research construction. I will argue that if the managers seek to conduct CBAs not for creating value for the firms but only for their own benefits or just out of imitation, the acquisition result is more likely to be negative. In this scenario, it will be meaningless to investigate and test the effects of other impacting factors. And it also does not make sense to research on value creation mechanism in CBAs. Moreover, as discussed earlier, agency problems in M&A contexts tend to be constrained by such mechanisms as 'the market for corporate control', 'manager market', 'ownership structure', and 'financial structure'. The nature of research population have also led me to believe that the agency problems tend to be less serious in Nordic context, where 70% of Nordic acquirers are privately-owned firms and their owners are often directly involved in the acquisition decision making process. Along similar lines, Tichy (2001) notes that the heavy concentration of share ownership in firms from Continental Europe makes the principal-agent problem less severe in these firms compared to firms with a Anglo-American governance system. Thomsen (2014) also argue even the large owners in Nordic firms can behave quite well and derive fewer private benefits than in the US or UK because of social pressures and/or legal protection of minority investors and stakeholders.

## **2.4 PERFORMANCE MEASUREMENT OF M&As**

I have noted above that M&A performance assessment has long been a challenge facing the researchers and a wide variety of performance measures has been proposed in the literature (Zollo and Singh, 2004). In an analysis of 88 empirical studies between 1970 and 2006, Zollo and Meier (2008) identified 12 different



approaches for measuring the impact of takeovers. According to the literature related to M&A performance (e.g., Schoenberg, 2006; Zollo and Meier, 2008; Meglio, 2009; Papadakis and Thanos, 2010; Meglio and Risberg, 2011; Thanos and Papadakis, 2012), approaches used for assessing M&A performance vary along several dimensions: (1) subjective vs. objective assessments; (2) expected returns vs. realised returns; (3) short-term vs. long-term perspectives; (4) basing on public information vs. basing on private information; (5) on task level, acquisition project level and firm level; and (6) returns to acquiring firms separately vs. returns to the combined entity. At the firm level, M&A performance measures can be summarised as five types: (1) stock-market-based measures (short-term and long-term event studies); (2) accounting-based measures; (3) innovation performance measures; (4) subjective assessments from top executives or expert informants; (5) divestiture. These measures have different underlying assumptions as well as different advantages and disadvantages. In the following sections, I provide a short summary and discussion of these five widely adopted performance measures and the relevant empirical findings.

#### **2.4.1 STOCK-MARKET-BASED MEASURES (EVENT STUDIES)**

Event studies have been dominant approach since the 1970s and are broadly applied in M&A research. Recent work by Zollo and Meier (2008) reports that 41 percent of the articles they reviewed used short-term event study, whereas only 28 percent used accounting based measures. Event study is designed to measure whether there is an ‘abnormal’ stock price effect associated with an unanticipated event (e.g., M&As) (see e.g., MacKinlay, 1997; Binder, 1998; Loughran and Vijh, 1997; Fama, 1998; Lyon, et al., 1999). This approach states that stock returns reflect quick, unbiased, rational and risk-adjusted expectations of the value of the firm in the forthcoming period based on the arrival of new information. The researcher usually defines a period (event window) over which the impact of the event will be measured. Thus, this approach can be classified into short-term (usually a couple of days) and long-term (in months or years) event study. Short-term event study represents an ex-ante analysis, assuming that the investors are capable of accurately predicting the combined firm’s future cash flows. Long-term event study, on the other hand, is grounded on the consideration that the stock price cannot immediately capture the effect of this event as some uncertainties can be eliminated as the M&A process is going on. The principle that both long-term and short-term event studies base on is to gauge the acquiring firm’s success or failure in terms of value created for its shareholders from M&As. Since this performance assessment method is the most complicated and the most widely adopted method compared with the others, I elaborate it in the following sections.

The assumptions underlying event studies are mainly three:

1. The market is efficient, which implies that stock prices incorporate all of the relevant information that is available to market traders and financial markets are forward-looking. It has been noted, however, that for acquisition projects that usually last for several years, it takes time for investors to become aware of certain information such as the potential acquirers and integration effects. This implies that, at the announcement time, investors may overlook the integration challenges of acquisition. Stock price then will adjust as additional information is revealed. Investors may also react to the event irrationally. Good examples of this are the 'Monday effect' and 'size effect' shown in the stock market (see Bromiley et al., 1988).

2. Investors do not anticipate the 'event' being studied. This is not always true. Especially, M&As are usually part of firms' business strategies, which may be anticipated before an M&A announcement. Further, information may leak outside of a firm because of rumours or insider trading (Lubatkin and Shrieves, 1986).

3. There are no confounding effects during the event window. This strongly depends on the length of event window and is also difficult to guarantee.

If these assumptions are violated, the empirical results may be problematic. Thus, under these assumptions, abnormal stock returns (ARs) from the event study will be potentially determined by: (1) how new the information that is revealed to the market is; (2) how much information is disclosed in the observation window and how clear and persuasive it is; (3) how long it will take for the investors to access this information; (4) how correctly investors can interpret this information, and (5) how the investors' reaction to the information of confounding effects be isolated.

### *Basic approaches*

Central to the event studies is the measurement of ARs. They are usually calculated as the sum of the daily/monthly/yearly ARs within an event window spanning from some days/months/years before and after the merger event. ARs are equal to actual returns minus the expected returns (benchmarks) on the stock conditioned that the event does not take place. According to Cording et al. (2010), 'measures based on the event study method differ in terms of the length of the event window, the market portfolio benchmark used, allowance for stability of firm-specific betas and the method of calculating ARs'. The most common benchmarks are Market Model (M&M, Sharpe, 1963), Market-adjusted Model, Capital Asset Pricing Model (CAPM) and Fama–French Three-factor Model (Fama and French, 1993). Furthermore, three approaches are generally used to calculate actual returns, which

are Cumulative ARs (CARs, Fama et al., 1969), Buy-and-Hold ARs (Lyon et al., 1999) and Calendar Time ARs (Fama, 1998).

### *Application complication*

The event window can be the most crucial aspect of a research design in implementing the event study. Since the observation period is centred on the event date, it is critical to first define the event date. Most commonly, the event date is defined as the announcement date. Alternatively, it is defined as the actual merger date (effective date) on which all uncertainties can be resolved (Halpern, 1983). Others such as Mitchell and Stafford (2000) define the event date as the end of the completion month. Regarding the event window, a long window might help capture more important information but incorporate the impact of confounding events. Moreover, the stability requirement of the expected stock price is a foundation of the long-term event study, which is difficult to meet. Otherwise, the power of the test statistic will be severely reduced (Tuch and O'sullivan, 2007). The magnitude of M&A effect on the share prices are sensitive to the estimation method used to predict the benchmark returns and thin trading will undermine the reliability of empirical evidence. Furthermore, long-term measures can be seriously distorted when the measurement interval is long (Dimson and Marsh, 1986). McWilliams and Siegel (1997) point out five critical issues that need to be considered in an event study. After taking these issues into consideration, they replicate three previous studies but get different empirical results compared with the original studies. This suggests that one should be very careful in applying this method.

### *Strengths and weaknesses*

The event study, especially the short-term event study, dominates the M&A performance research field with these attractive features: (1) it is relatively objective public assessment; (2) data are easy to get publicly, allowing the researcher to study a large sample; (3) short-term event studies can screen the influence of exogenous factors to a large extent; (4) because abnormal return is calculated, data is not subject to industry sensitivity, enabling a cross-section of firms to be studied. However, it is challenged by the facts that the stringent underlying assumptions are difficult to meet and what it assesses is the predicted outcomes of M&As. Moreover, the event study overlooks the private acquirers' M&A performance, leading to sampling bias. Because the logic for assessing the success of a merger event is whether M&As create value for the firm's shareholders, multiple motives for M&As are ignored. Furthermore, short-term event studies cannot incorporate the important implementation information (e.g., integration). The reliability of long-term event studies has also been doubted due the absence of a method for precisely measure

long-term expected returns (Andrade, et al., 2001) and the stability requirement of the expected stock price is difficult to meet (Tuch and O'sullivan 2007). Moreover, it constrains researchers to assess M&A performance at the firm level if M&As only influence a particular unit of a firm. Finally, Schoenberg (2006, p.19) states that 'results obtained from event studies may be subject to technical aspects of computational procedure, including the choice of daily or monthly share data, the relevance of the benchmark market index and the appropriateness of the event period'.

Generally, empirical findings, using short-term event study, show that the target shareholders in either domestic acquisitions or international acquisitions make substantial gains, while the acquirer shareholders just break even or gain negative returns (see Bruner, 2002; Zollo and Singh, 2004; Goergen and Reneboog, 2004; Tuch and O'Sullivan, 2007; Papadakis and Thanos, 2010). Moreover, according to Wübben's (2007) literature review, cross-border transactions are not found to have additional benefits that yield higher wealth gains for acquirers' shareholders compared to domestic transactions.

Stock market performance of the acquiring firms assessed through long-run event studies is reported to be either negative (Tuch and O'Sullivan, 2007), or depends on the estimation method used to predict the benchmark returns (Martynova and Renneboog, 2008). These findings are accounted for in three ways. (1) The target firm's shareholders obtain statistically significant gains due to the large premium paid (Bertrand and Zitouna, 2008). (2) Before the merger, the acquiring firm already had some share ownership in the target firm. Any gains from the merger may have already been reflected in the acquirer's stock price (Halpern, 1983). (3) 'Size effect' also plays a role (Bruner, 2002). Typically, acquirers are much larger than targets and thus get smaller percentages of gains from a merger, even if the gains from the merger were divided equally between two sides.

#### **2.4.2 ACCOUNTING-BASED MEASURES**

Accounting-based measures of performance also take a long-term perspective of acquisition performance similar to long-term event study. However, they also embody ex-post, actual realised returns (see e.g., Zollo and Singh, 2004; Thanos and Papadakis, 2012). These studies' rationale are the assumptions that a business's strategic aim is to earn a satisfactory return on capital and that any benefit arising from M&As will be reflected in the firm's accounting statements (Papadakis and Thanos, 2010). This approach usually consists of a comparison of accounting measures prior and subsequent to a takeover. Accounting measures are broad. A

wide range of accounting ratios in M&A performance assessment can be found in Martynova and Renneboog' (2008) research. Return on sales (ROS), return on assets (ROA), return on investment (ROI), market share, sales growth and operating cash flow are usually adopted as the metrics (see e.g., Colombo et al., 2007; Richard et al, 2009; Reus and Lamont, 2009).

The accounting-based approach has the advantages of being objective by examining the M&As realised value and incorporating more information related to the M&A process. Moreover, it can capture the effects of multiple M&A motives. However, disadvantages for the method exist. It may suffer from the potential manipulation of accounting data, be limited to different accounting rules and incorporate the effects from other events (e.g., investment decisions). Moreover, accounting policy choice varies over time and between companies, which makes it difficult to make comparisons with their benchmarks. Since it is used to assess the M&A performance at the firm level and is not a specific assessment of a particular acquisition's effect, the result will be invalid (Bruton et al., 1994). This is especially the case when the target size is much smaller than the acquirer's size. Valid combined performance after an M&A is difficult to measure, because the financial reporting regime is different when the target is dissolved or becomes an independent subsidiary of the bidder (Powell and Stark, 2005). Moreover, some financial ratios, like ROA, are affected by the merger's accounting method (purchase vs. pooling accounting approach) and the method of financing the merger (cash or equity).

Broadly speaking, data on post-merger performance measured by accounting-based metrics are ambiguous (Campa and Hernando, 2004; Tuch and O'Sullivan, 2007; Martynova and Renneboog, 2008; Thanos and Papadakis, 2012). Studies vary in terms of the definitions they use for operating performance, deflator choice (e.g., book value of assets/sales), performance benchmarks, samples and time lags.

### **2.4.3 INNOVATION PERFORMANCE MEASURES**

The innovation performance of M&As is frequently measured in terms of innovative inputs and/or innovation outputs (see Wang and Moini, 2015). The measures of innovation inputs mainly include R&D expenditure (see Kallunki et al., 2009), R&D intensity (see Desyllas and Hughes, 2010) and retention of key employee/inventors (see Ernst and Vitt, 2000; Graebner, 2004). Measures of innovation outputs are usually patent intensity (see Hagedoorn and Duysters, 2002), R&D productivity (see Desyllas and Hughes, 2010), patent account (see Valentini and Dawson, 2010), patent citation (see Makri et al., 2010) and new products launched/improvement of the product pipeline (see Prabhu et al., 2005 and Puranam et al., 2006). These

indicators are mainly applied to assess the performance of technology-based M&As. Generally, research on technology driven M&As report that M&As can be a way to improve the acquirer's innovation performance. This is, however, contingent on a number of factors (see Ahuja and Katila, 2001; Phene et al., 2012; Wang and Moini, 2015).

#### **2.4.4 PERCEPTUAL ASSESSMENT**

Using this method, the executives or expert informants are asked to rate to what extent they have realised their preliminary objectives or how their performance in terms of financial (e.g., ROA, ROI, sales growth) and/or non-financial indicators (e.g., competitive position) has changed several years after completing M&As. Commonly, the respondents are the acquirers' executives (Capron, 1999; Homburg and Bucerius, 2006) and sometimes views are collected from the targets' executives (Brock, 2005), R&D managers (Cummings and Teng, 2003) or security analysts (Hayward, 2002). Some studies refer directly to financial press reports and commentary (Datta and Grant, 1990; Datta, 1991; Schoenberg, 2006). Zollo and Meier (2008) report that management assessments have been used in 12 of the 87 papers (14 percent) that were reviewed.

When post-acquisition performance is assessed using managerial perception, the advantages are the following: (1) private information can be used; (2) 'outside noise' is reduced; (3) performance can be assessed in a multidimensional way with financial and non-financial information (Brouthers et al., 1998); (4) multiple motives of M&As can be taken into account; (5) it is applicable across all types of acquisitions (Schoenberg, 2006); (6) it enables us to assess the outcomes of acquisition on the project level, especially when the firms are multidivisional; (7) it is suitable to use the managers' perception of M&A performance, as their perception of success will influence their actions (Papadakis and Thanos, 2010); (8) it is also a suitable approach when objective measures of performance are not available (Dess and Robinson, 1984, p. 265). Nevertheless, its disadvantages can also be identified: (1) this assessment may contain managerial bias; (2) it depends on their accurate recollection; (3) results may be subject to the respondents' familiarity with the original objectives of acquisition (Datta, 1991).

Compared with the managers' assessment, views from expert informants can be more objective and provide external assessment that can be applied when both managers' and pure objective performance measures are unavailable (Cannella and Hambrick, 1993). At the same time, they tend to offset their drawbacks. However,

this method may suffer from expert informants' subjective bias and they may have limited information (Cannella and Hambrick, 1993).

The majority of empirical evidence using these metrics report that 44-53 percent of the managers interviewed appeared to be dissatisfied with their acquisition's performance relative to the goals set before the deal closure (Schoenberg, 2006). Ingham et al. (1992) surveyed CFOs in 146 large firms in UK and 77 percent believed that profitability increased in the short run after merger and 68 percent believed that the improved profitability lasted for the long run. Bruner (2002) reviewed 13 studies, which had surveyed executives to assess M&A performance and found that 6 out of 13 studies suggest negative results. The remainder are neutral or positive. He also polled 50 business executives and asked them to give their opinion on the other firms' deals. 37 percent of deals were said to create value for the buyers and 21 percent of the deals achieved the buyers' strategic goals. When it came to their own M&A activities, 58 percent of the executives believed their M&A deals created value and 51 percent believed they achieved their strategic goals. In contrast, only 23 percent believed their deals did not create value and 31 percent believed their deals did not achieve their strategic goals. Based on financial press commentary between two and four years after acquisition, Schoenberg's (2006) study reveals that 44% of the acquisitions are decried as poor or very poor.

#### **2.4.5 DIVESTITURE**

The divestiture approach simply assesses the outcomes of M&A by identifying whether an acquired firm has subsequently been divested or not. The logic behind this measurement is the observation that merged company diversifies if the acquired firm's performance does not meet the acquirer's expectations (Montgomery and Wilson, 1986; Ravenscraft and Scherer, 1987). It is a relatively simple way to gauge success without requiring detailed financial information (Porter, 1987; Schoenberg, 2006). However, divestment in some instances signals successful restructuring and profitable sales (Kaplan and Weisbach, 1992) or appropriate resource reconfiguration in response to environmental changes (Capron et al., 2001). These arguments are supported by Schoenberg's (2006) study.

Ravenscraft and Scherer (1987) report that 33 percent of acquisitions in the 1960s and 1970s were later divested, while Porter (1987) finds that more than 50 percent of the acquisitions made by 33 firms in unrelated industries were subsequently divested. Mitchell and Lehn (1990) find that 20.2 percent of 401 acquisitions, which took place between 1982 and 1986, were divested by 1988. Kaplan and Weisbach (1992) conclude that 44 percent of the target companies acquired between 1971 and

1982 were divested by the end of 1989. However, only 44 percent of the acquirers who divested reported a loss on sales. Schoenberg's (2006) study indicates that 11 percent of acquisitions in the sample are subsequently divested within 6 years, rising to 30 percent after 9 years and 56 percent after 13 years.

#### **2.4.6 RELATIONS AMONG THESE MEASURES AND CHOICE OF PERFORMANCE MEASUREMENT APPROACH IN THIS STUDY**

As discussed before, different metrics shed light on different aspects of M&A performance. Some metrics can overcome other metrics' drawbacks. Therefore, many studies use multiple metrics to, on one hand, improve the reliability of assessment and, on the other, to examine their interrelationships.

Healy et al. (1992) find a significant and positive association between the stock market's assessment and ex-post operating performance (see also Moeller et al., 2005). Duso et al. (2010) also find this association. They find that this is particularly true when using long event windows (25 or 50 days). In contrast, Ghosh (2001) fails to find the relationship between stock market's assessment and cash flow improvements. Hayward (2002) uses both short-term event study and security analysts' assessment and concludes that announcement returns are imperfect predictors of longer-term acquisition performance. These results are confirmed by Schoenberg (2006). His findings show that ex-ante capital market reactions to an acquisition announcement exhibit little relation to corporate managers' ex-post assessment. Instead, there is a positive relationship between the managers' and expert informants' subjective assessments. Zollo and Meier (2008, p.71) also report that short-term event studies are not linked to any of the other performance metrics, indicating 'short-term window event studies gauge something different than actual acquisition performance'. Similarly, Papadakis and Thanos (2010) find that accounting-based measures are positively correlated with managers' subjective assessments, whereas CARs are not correlated to either. They draw the conclusion that the capital market is not efficient enough to predict the long-term success of an acquisition.

Moreover, it is worth noting that Datta (1991) finds a high correlation between performance assessed by executives and industry analysts, indicating that the questionnaire responses are valid measures of performance (see also Schoenberg, 2006). As discussed above, Papadakis and Thanos (2010) also report a positive relationship between managers' subjective assessments and accounting-based measures. An earlier study conducted by Dess and Robinson (1984) demonstrates that the top management executives' perception of how well their firms have



performed is consistent with how well a firm actually performed in terms of ROA and sales growth. Brouthers et al. (1998) suggest that because no alternative performance measures other than stock-based measures exist, a better indicator of performance would be the achievement or non-achievement of the predetermined objectives of the merger. All these studies tend to endorse the relevance of perceptual performance assessment method in M&A studies. These observations have therefore persuaded me to adopt this approach in the present study (i.e., perceptual assessment made by the top managers, see Chapter 4 for elaboration).

#### **2.4.7 A SUMMARY**

The definitions of post-acquisition performance vary in terms of accounting, financial, operational and perceptual metrics. This diversity of performance measures can shed light on different aspects of the outcomes of acquisition, but may also be partially responsible for contradictory results often published in the M&A literature regarding the reasons for failure acquisitions (King et al., 2004; Stahl and Voigt, 2008; Meglio, 2009; Papadakis and Thanos, 2010). Conclusions regarding whether M&As help improve a firm's performance or not are difficult to make. Only short-term event studies have some relatively consistent conclusions about M&A performance. However, it is still a puzzle whether ex-ante gains predicted by short-term event studies are well correlated with ex-post realised gains evaluated by the other approaches. This depends on the extent to which the assumptions of event study can be met. Apparently, different samples (e.g M&As conducted in different time periods, industries or countries), observation windows, performance assessment approaches and research designs will jointly result in these inconsistent or contradictory findings, which also make the comparison difficult and sometimes impossible. Even within an event study, evaluation designation varies on the length of event window, calculation of expected returns and the benchmarks. Using an accounting based method, definitions of operating performance, ratios chosen, benchmarks, time frame and methodology design can differ. Therefore, any research design examining M&A effects needs to be sharper on these aspects. The first and foremost thing is to define the performance adequately. This concerns the perspective taken and the specific outcomes at different levels of analysis (e.g., task, acquisition project or firm level). A time horizon also requires justification.

Moreover, the performance construct/definition must be as close to the motives for performing M&As as possible. If we only use one measure to assess the firms' performance, we assume that all firms' incentives in the sample for conducting M&As are homogeneous. For example, as Cloudt et al. (2006, p.643) explains it 'if M&As involves no or only a few technological components, they are expected to have little or no influence on the innovation routines of the acquiring firms'.

Following this thinking, I have decided to measure CBA performance in the present study by assigning the weights to each criterion according to the acquirers' primary objectives for doing the focal acquisition.

In summary, we see both the strengths and weaknesses for each type of performance assessment approach (see Table 2.3). There is no perfect performance assessment method but rather the most suitable one given a particular context. The rule of thumb regarding selection is to make sure the theoretical rationale behind the measures and questions under investigation are aligned (Cording et al., 2010). Multiple measures are necessary not only because each approach has its limitations, but also because acquisition performance by its nature is extremely complex, both multi-leveled and multifaceted, no individual way can highlight every relevant aspect (King et al., 2004; Zollo and Meier, 2008; Cording et al., 2010).

Table 2.3 A comparison of primary measures of M&A performance

M&A performance measurement approach	Rationale	Basic approach	Strengths	Weaknesses
<b>Stock-market-based measures (event studies)</b> (see MacKinley, 1997; Binder, 1998; Loughran & Vijh, 1997; Fama, 1998; Lyon et al., 1999)	This method is to gauge the acquiring firm's success or failure in value capture for its shareholders from M&As.	The outcome of M&As is assessed by calculating the cumulative 'abnormal' change in the stock price caused by the unexpected event (M&As) during a period (usually some days for short-term event studies and several months or years for long-term event studies).	<p><i>For short-term event studies:</i></p> <p>(1) objective assessment; (2) the data are easily accessible and allow for large-sample studies; (3) it can shield the influence of exogenous factors; (4) no industry sensitivity, enabling a cross-section of firms to be studied.</p>	<p><i>For short-term event studies:</i></p> <p>(1) assumptions are too rigorous to meet; (2) only predicted outcomes are assessed; (3) sampling bias: they are not suitable for private firms; (4) they ignore multiple motives for M&amp;As; (5) they assess M&amp;As only at the firm level; (6) they cannot incorporate important information related to M&amp;A implementation; (7) the results may suffer from computational procedure such as choice of using daily or monthly share data, the observation period and the benchmarks.</p>
			<p><i>For long-term event studies:</i></p> <p>they have the same strengths as short-term event studies except for the third one as shown above. In addition, a long window may help capture more important information.</p>	<p><i>For long-term event studies:</i></p> <p>they have the same weaknesses as short-term event studies except for the sixth one as shown above. In addition, they also have these weaknesses: (1) they suffer from the impact of confounding events; (2) they require the stability of the expected stock price, which is difficult to meet; (3) they suffer thin trading effect.</p>

<p><b>Accounting-based measures</b> (see a summary in the study of Marynova and Renneboog, 2008; Thanos and Papadakis, 2012)</p>	<p>The strategic aim of a business is assumed to be earning a satisfactory return on capital. Any benefit arising from takeovers will be reflected in the firm's accounting statements</p>	<p>Compare accounting measures prior to and subsequent to the takeover.</p>	<p>(1) Relatively objective, since the financial statements have been certified; (2) they capture realised returns; (3) they provide access to more valuable information to assess the M&amp;A effect; (4) they can uncover effects of multiple motives.</p>	<p>(1) They suffer from the impact of confounding events; (2) accounting data can be manipulated; (3) the impact of different and changing accounting standards; (4) accounting policies vary over time and between companies, making it difficult to make comparisons with their benchmarks; (5) they assess the performance of the entire organisation; (6) valid combined performance after an M&amp;A is difficult to determine when the target is dissolved or be an independent subsidiary of the bidder; (7) Some financial ratios, like ROA, are affected by the method of accounting for the merger (purchase vs pooling accounting) and the method of financing.</p>
<p><b>Perceptual assessment</b> (see e.g., Capron, 1999; Hayward, 2002; Homburg and Bucerius, 2006)</p>	<p>From top executives' perspective: the top executives' perceptions of success determine their acts and then the outcomes.</p>	<p>From top executives' perspective: the executives are asked to rate to what extent they have realised their preliminary objectives several years after completing M&amp;As. Questions refer to both financial (e.g., ROI, ROS and sales growth) and non-financial factors (e.g.,</p>	<p>From top executives' perspective: (1) private information can be used; (2) it reduces outside noise; (3) financial and non-financial information can be used, which helps capture a multidimensional phenomenon; (4) it takes multiple M&amp;A motives into account; (5) it is applicable to all types of acquisitions; (6) it enables us to assess the M&amp;A on the</p>	<p>From top executives' perspective: (1) it may contain managerial bias; (2) it depends on their accurate recall; (3) the results may be subject to the respondents' familiarity with the original acquisition objectives</p>

<p>competitive position and cost control)</p> <p>acquisition project level; (7) it is a suitable method, because the managers' perception of success will influence their acts; (8) it is a suitable method when objective data related to M&amp;A performance is not available.</p>	<p><i>From top executives' perspective:</i> the expert informant's evaluation is more objective than the top executive's evaluation.</p> <p><i>From expert informants' perspective:</i> this approach seeks views of informants, typically using the data from security analysts or indirectly via the rating in financial reports and commentary.</p> <p><i>From expert informants' perspective:</i> (1) it provides external assessment and can help offset the other methods' drawbacks; (2) it enables us to assess the outcomes of acquisition at the project level.</p>	<p><i>From expert informants' perspective:</i> (1) it suffers from subjective bias; (2) there is limited information; (3) it depends on accurate recall</p> <p><b>Divestiture</b> (<i>see e.g., Ravenscraft &amp; Scherer, 1987; Mitchell &amp; Lehn, 1990; Kaplan &amp; Weisbach, 1992</i>)</p> <p>The merged company diversifies if the acquired firm's performance does not meet the acquiring firm's expectations</p> <p>It is a simple way to gauge success</p> <p>It is coarse-grained measure. Divestiture in some instances signals successful restructure and profitable sale or appropriate resource reconfiguration in response to environmental changes.</p>
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## 2.5 THE DETERMINANTS OF CBA PERFORMANCE AND HYPOTHESIS DEVELOPMENT

My ambition in this study is to draw on the different theoretical perspectives and previous empirical findings discussed above to develop a theoretical model that will help me explain the performance of cross-border acquisitions. I will consider both contextual (static) and implementation (dynamic) issues that appear along acquisition process in the model construction. This approach to model construction using existing M&A research is consistent with viewpoints expressed in studies by King et al. (2004) and Haleblian et al. (2009). I have also drawn on the findings from my exploratory study (see Appendix A) in determining the relevant dimensions to be included in my model.

Based on this literature review and the exploratory questionnaire survey (see Appendix A), I identified nineteen factors that are frequently cited as determinants of M&A performance. Consistent with the argument that M&A success depends on both pre- and post-acquisition factors (Child, et al, 2001; Cartwright, 2006; Stahl and Voigt, 2008), I noted that some of these nineteen factors are present before and during the acquisition processes. I have been inspired by Gomes et al. (2013, p.29) statement that 'there is great potential for examining the links between pre- and post-acquisition success variables' to adopt a process perspective in the study (see also Jemison and Sitkin, 1986; Haspeslagh and Jemison, 1991; Weber, 2013; Bauer and Matzler, 2014). With these observations in mind and using a bottom-up approach<sup>2</sup> (see Hair et al., 2014), I have endeavoured to develop a hierarchical model that connects these factors. I have drawn largely on the combined theoretical perspectives of resource based view (RBV), dynamic capabilities, process, and synergy theory to build the model. Table 2.4 summarises the critical acquisition success factors at each stage of the process.

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<sup>2</sup> A hierarchical component model (HCM) can be established following a bottom-up or top-down approach. In the bottom-up approach, several latent variables' information are combined into a single, more general construct (see Hair et al., 2014, p.229).

Table 2.4 A summary of critical M&A success factors along acquisition process from multi-disciplinary perspectives

School of thought	Issues in pre-acquisition phase	Issues in post-acquisition phase
Financial economic school	<ul style="list-style-type: none"> <li>• Health (or pre-acquisition performance) of the combining firms (e.g., <i>Rau &amp; Vermaelen, 1998; Harford, 1999</i>)</li> <li>• Relative firm size (e.g., <i>Asquith et al., 1983; Agrawal et al., 1992; Bhagat et al., 2005</i>)</li> <li>• Due diligence (e.g., <i>Baker &amp; Kymaz, 2011</i>)</li> <li>• Bidding competition (e.g., <i>Moeller &amp; Schlingemann, 2005; Boone &amp; Mulherin, 2008</i>)</li> <li>• Attitude of the acquired firm management (e.g., <i>Schwert, 1996; Andre et al., 2004; Ismail, 2011</i>)</li> </ul>	<ul style="list-style-type: none"> <li>• Premium (e.g., <i>Hayward &amp; Hambrick, 1997; Krishnan et al., 2007; Laamanen, 2007</i>)</li> <li>• Payment method (e.g., <i>Linn &amp; Switzer, 2001; Andre et al., 2004; Lau &amp; Proimos, 2010</i>)</li> </ul>
Strategic management school	<ul style="list-style-type: none"> <li>• Planning (e.g., <i>Datta, 1991; Marks &amp; Mirvis, 2001; Colombo et al. 2007</i>)</li> <li>• Strategic fit / resource relatedness (similarity and complementarity) (e.g., <i>Chatterjee et al., 1992; Homburg &amp; Bucerius, 2006; Homburg et al., 2009</i>)</li> </ul>	
Organisational behavior school	<ul style="list-style-type: none"> <li>• Acquisition experience (e.g., <i>Haleblian &amp; Finkelstein, 1999; Finkelstein &amp; Haleblian, 2002; Barkema &amp; Schijven, 2008</i>)</li> <li>• Host-country experience (e.g., <i>Luo, 1997; Høbert et al., 2005</i>)</li> </ul>	<ul style="list-style-type: none"> <li>• Organisational integration (e.g., <i>Birkinshaw et al., 2000; Ahammad &amp; Glaister, 2011</i>)</li> </ul>

- Organizational fit / cultural compatibility (e.g., *Datta, 1991; Cartwright & Cooper, 1994; Ahammad & Glaister, 2011*)

Human resource management  
school

- Coordination efforts, including communication (e.g., *Robino & Demeuse, 1985; Schweiger & Denisi, 1991; Weber et al., 2012*); involvement of the acquired top managers in the integration team (e.g., *Graebner, 2004; Colombo et al., 2007*); retention of key employees (e.g., *Richey et al., 2008; Reus & Lamont, 2009; Ahammad & Glaister, 2011*)
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## 2.5.1 KEY THEORIES AND GENERAL HYPOTHESIS

I will initiate the discussions with an overview of the main theories that have informed my thinking. As stated earlier, I have drawn largely on the resource based view, the dynamic capability perspective, and combined them with process and synergy theories.

In general, resource based view (Barney, 1986; 1991) emphasises the importance of resource possession while dynamic capability theory (Teece et al., 1990; Teece et al., 1997; Capron and Anand, 2007) and process perspective (Jemison and Sitkin, 1986; Hasepslagh and Jemison, 1991) stress the internal firm processes that allow a firm to better redeploy and exploit the combined resources (i.e., resource utilisation) to achieve superior CBA performance or success. Synergy theory has been the dominant theory in M&A research field and is frequently cited as a major motive for doing M&As (Seth et al., 2000; Bruner, 2002; Alexandridis et al., 2010; Ismail, 2011). This theory also helps reveal the mechanism of value creation from the resource base. It is argued that acquisition outcomes can be best explained by a combination of these perspectives. Clearly, acquisition is a strategy that will change the quantity, quality and border of the firm's resource. However, the accumulation of two firms' resources will not automatically transfer into value or performance improvement. From the perspective of synergy, one plus one can be lower than two, equal to two, or greater than two, depending on how the acquirers utilise these resources. It has been suggested that the process of value creation must however be seen in terms of contextual variables such as relative size, business relatedness, health of the seller and target (Hunt, 1990). But, just as in all human mediated processes, it the behaviours of individuals that hold the key to acquisition success (Hunt 1990). These theoretical perspectives will be elaborated more in detail later.

Adopting such combined perspectives is also inspired by Makadok's (2001) study, in which he synthesizes resource-based theory and dynamic-capability views. He argues that Richardian perspective of resource-picking (Ricardo, 1817) and Schumpeterian perspective of capability-building (Schumpeter, 1950) are two mechanisms proposed for understanding how the managers create economic rents for their firms. The former mechanism asserts that firms create economic rents when the managers can make more accurate expectation about the future value of resources than their rivals, while the latter mechanism asserts that firms create economic rent by being more effective than their rivals at deploying resources. Resource-picking mechanism take place before the firms actually acquire the resources, whereas capability-building mechanism only works after the successful acquisition of resources. The first perspective is actually consistent with the resource

based view of the firm while the second is in line with the perspective of dynamic capabilities.

The basic logic of using such combined perspectives to set up an integrative model is first to view the firm as a collection of resources and that acquiring a firm means acquiring a pool of resources. Therefore, for an acquisition to achieve desirable results, potential synergy or value creation opportunities embedded in the joining of both firms' resource bases should exist at the beginning (i.e., resource quantity, resource quality, resource relationship and strategic resource of acquisition experience and host-country experience). 'If there are no true synergies between the merging firms in the first place, then even a high-quality, low-cost implementation of the merger may lead to only negligible benefits' (Zollo and Meier, 2008, p.60). Thereafter, the acquirer needs value identification capability to identify the opportunities and the threats as much as they can to make a correct assessment of the realistic value of the target firm. To further increase the odds of a desirable outcome after closing the deal, processes must be in place to ensure that the acquired firm's resources are effectively reconfigured and exploited to realise the synergy potential and/or value creation opportunities. 'Good deals are not achieved by pricing alone: strategies and skills of post-merger integration matter immensely' (Bruner, 2002, p.15). Favorable deal setting (i.e., lower or no competition for acquiring the target firm, friendly attitude of the target firm's management team and fit between two organisations) tends to support the implementations and in turn facilitate the success of acquisition. These factors are all necessary but none of them alone is sufficient. These discussions have guided me in presenting my overarching hypothesis as follows:

*Hypothesis 0 (H0): Post-acquisition performance is jointly determined by the combining firms' resource base (RB), the acquirer's value identification capability (VI) and resource reconfiguration capability (RR), as well as deal-setting variables (DSV)*

The following sections present and discuss the variables in detail that reflect the value of the firms' resource base, pre- and post-implementation activities, as well as the important deal setting variables that may allow a firm to realise desirable outcomes. Related hypotheses to each variable are developed at the same time, but the applied theories are introduced first before developing the relevant hypotheses. Finally, the whole model will be presented with all variables and their hypothesised relationships included.

## 2.5.2 IMPACTING FACTORS FROM RESOURCE BASED VIEW

### 2.5.2.1 Resource based view (RBV)

Business economists generally hold the view that the primary pursuit of business is to create and maintain value (Conner, 1991). Resources are seen as 'a prerequisite for all firms to function and all other steps to achieving high performance are dependent on the possession of resources' (Andersén, 2011, p.89). This understanding appears in the earlier works of such scholars as Penrose (1959) and Rubin (1973). In the mid-1980s the resource based view (RBV) was formulated by Wernerfelt (1984), Rumelt (1984) and Barney (1986). It became the dominant theory (i.e., resource based theory, RBT) in the field that employed an efficiency-based explanation of superior firm performance (Barney and Clark, 2007). The traditional industrial economics paradigm states that industry structure influences strategy, which in turn impacts the organisational performance. On the contrary, RBV suggests that competitive advantage (or superior performance) originates within the firm rather than at the industry level. In particular, the resources and capabilities that firms own or control determine their competitive advantage (Barney, 1991; Conner, 1991; Peteraf, 1993). In RBV, firms are defined as a bundle of productive resources and the term 'resource' is defined as 'all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness' (Barney, 1991, p.101). However, several authors make a distinction between resources and capabilities. For example, Markides and Williamson (1996) argue that capabilities refer to human skills, whereas resources refer to all other assets. Hitt et al. (2012) also distinguish between resources and capabilities by suggesting that resources are a firm's 'fundamental' financial, physical, individual and organisational capital attributes, whereas capabilities are those attributes of a firm that enable it to exploit its resources in implementing strategies. Drawing on Amit and Schoemaker (1993), Makadok (2001) defines capabilities as 'organisational embedded non-transferable firm-specific resources whose purpose is to improve the productivity of other resources'. Barney and Clark (2007) use the terms 'resource' and 'capabilities' interchangeably. Generally, they summarise firm's resources into four categories: physical capital resources, financial capital resources, human capital resources and organisational capital resources (Barney and Clark, 2007). This study leans on Barney (1991), Peteraf (1993) and Barney and Clark (2007), and uses the term 'resources' broadly to refer to both resources and capabilities, but treats capabilities as special types of firm resources.

It is assumed that firms are heterogeneous in their resources and these resources may not be perfectly mobile across firms. Thus, heterogeneity can be stable over time and enable firms achieve sustained competitive advantages (Wernerfelt, 1984; Barney, 1991; Hunt and Morgan, 1995; Teece et al., 1997). Barney (1991) argues that not all firm resources hold the potential of sustained competitive advantages. In his view, if a firm possesses resources and capabilities that are valuable and rare the firm will attain a competitive advantage and enjoy improved performance in the short term. Only when the resources and capabilities also meet the other two criteria of being imperfectly imitable and non-substitutable (altogether termed as VRIN criteria) can the firm sustain this advantage and attain long-term performance. This model emphasises the importance of a firm's resource endowments in creating sustained competitive advantages and aims to examine the link between a firm's internal resource characteristics and performance (Barney, 1991).

However, researchers argue that there is a missing link between resource possession and resource exploitation in the VRIN model. 'A firm may achieve rents not because it has better resources, but rather the firm's distinctive competence involves making better use of its resources' (Mahoney and Pandian, 1992, p.365). In response, Barney (1997) updated the traditional VRIN model and added the concept of 'organisation' (now generally referred to as the VRIO model). Barney argued that in addition to the possession of valuable, rare, imperfectly-imitable (or non-substitutable) resources, a firm needs to be organised in a particular manner with aspects such as formal reporting structure, explicit management control systems and compensation policies that affect its ability to exploit the full competitive potential of those resources (Barney, 1997; Barney and Wright, 1998; Barney and Clark, 2007).

Barney (2001a) clarifies that his definition of competitiveness is at the firm level and offers two observations: (1) firms have a competitive advantage when they are engaging in activities that increase their efficiency or effectiveness in ways that current or potential competing firms cannot; (2) firms have a competitive advantage when they generate higher returns than the firm's stockholders expected. Perhaps because competitive advantages are difficult to measure and researchers seldom attempt to make direct assessment (Crook et al., 2008), many researchers have attempted to empirically link strategic resources to performance. Barney (2001a, p.48) stresses that 'rather than refer to the definitionally ambiguous "competitive advantage", researchers should specify exactly what they are trying to explain'. Barney and Clark (2007) suggest again that these general definitions about (sustainable) competitive advantage will have to be modified to be applied in particular empirical settings. Using cross-sectional data, the primary objective of this study is to check whether an acquirer reaps synergy from a particular acquisition and

whether a CBA strategy adds to or destroys the firm's value three years after the acquisition. Post-acquisition performance is measured by examining deal-level performance of synergy realisation and firm-level motive-weighted performance in terms of innovation, marketing and financial outcomes. Moreover, it appears to me more appropriate to use the combining firms' pre-acquisition performance as the benchmark rather than their competitors' performance, because the managers are unlikely to have precise information about their competitors' performance, especially when their competitors are privately-owned companies. Further, it is difficult to isolate the impact of other events on their competitors' performance.

The above observations are in line with the current line of thinking in the field. Generally, RBV presumes that resource-based differences among firms can help explain performance differences. Over the last two decades, resource-based theory has become widely accepted as a key perspective for explaining firm performance (Newbert, 2007). In addition to the bulk of empirical research on RBV focusing on strategic management, RBV has also been applied to other related fields such as marketing, entrepreneurship and operations management. These researches examine how various kinds of functional resources (e.g., human resources in Huselid et al., 1997; Barney and Wright, 1998; marketing resource in Hooley, et al., 2005) impact a firm's performance using a resource-based approach. However, following Barney and Clark (2007, p.229), 'strategy implementation has received less attention in the resource-based empirical literature'. They also noted that 'resources have no value in and of themselves and only create value when they are used to implement strategies, researchers should examine the value these strategies create to infer the potential value of a firm's resources' (ibid .222). In this thesis, I draw on the ideas from RBV, and view the firm as a collection of resource. The research objective is to examine whether and how the joining firms' resource bases play a role in explaining the performance of cross-border acquisitions. This entails an investigation of the value creation mechanism from inputs (i.e., the joining firms' resource base) to output (i.e., post-acquisition performance).

Going back to my previous discussions on M&A motives, it can be argued that in the contemporary dynamic business environment, the value of existing resources is subject to erosion and, in some cases, fast erosion. Firms therefore need to continuously upgrade their resources and capabilities via renewal, acquisition, redeployment and recombination to respond to the changing environment (Eschen and Bresser, 2005). However, resource immobility and heterogeneity suggest that firms' resources are not commonly, easily or readily exchanged in the market. Firms therefore employ M&As to gain quick access to resources and capabilities (Teecce et al., 1997; Capron et al., 1998) that the firms do not currently possess or are costly for them to create. At the same time, firms face the prospect of failure factor markets

and time constraints. Intel and Cisco are good examples of companies that have successfully acquired many firms.

Barney and Clark (2007) emphasise that searching for competitive advantage or superior firm performance must begin with an analysis of the resources and capabilities a firm currently possesses. In particular, the acquirer needs to discover unique synergies to achieve superior performance. Based on RBV, an organisation is regarded as a bundle of resources and the acquisition strategy will bring together two pools of resources from the acquiring and acquired firms. Combining two firms' resources from different countries thus can produce synergy. For understanding value creation (or destruction) in cross-border acquisitions, it is necessary to look inside both firms to examine each firm's resource mix and investigate the linkage between the attributes of these resources and the outcomes of CBAs.

Thus, taking a resource-based perspective, I have identified the representative firms' resources and the widely discussed resource attributes that tend to impact the success/performance of acquisitions from the existing M&A literature. These resource attributes are the relative size of the acquired firms to the acquiring firm (*indicating resource quantity*), pre-acquisition performance of the joining firms (*indicating resource quality*), resource complementarity and similarity (*indicating resource relationship*), as well as the acquirer's acquisition experience and host-country experience (*indicating strategic resources*). These can be seen as valuable strategic resources, which have been developed over long period and embedded in the firm, cannot be easily detached from the firm and replaced, and are also difficult for the competitors to copy at the same time. Based on the logic of RBV, with these attributes, these resources tend to enable the firm successfully implement cross-border acquisition strategy to improve the firm's efficiency and effectiveness and achieve a good performance.

I now discuss these resource-related factors in details in the following parts. My literature review has informed me that most of the factors have received inconclusive findings regarding their effect on M&A performance. In discussing them in the sections below, I start with a presentation of the inconsistencies in the previous empirical findings. I then discuss the theoretical arguments regarding possible pros and cons of the factors, and use these arguments as the basis for formulating my hypotheses. As stated earlier, different research samples, research settings, research methods, especially different measurement approaches for both the impacting factors and post-acquisition performance, make the comparison among findings from these studies impossible or even meaningless. For this reason, my emphasis is placed on the causal relationships that can be theoretically deduced.

### **2.5.2.2 Relative firm size (*denotes resource quantity*)**

There are both positive and negative findings reported in empirical studies regarding the effect of relative size of firms on acquisition performance. Asquith et al. (1983) first incorporated the effect of relative size on the acquisition performance into an M&A analysis. Their results indicate that the relative size of the target to the bidding firm (in terms of the market value of the firms' equity) has a strong positive impact on the acquirer's stock market returns at the announcement period (see also Jarrell and Poulsen, 1989; Eckbo and Thorburn, 2000).

The findings of Bhagat et al. (2005) indicate that relative size (in terms of the market value of two firms) is also positively related to total (combined) value improvements in stock market. Using long-term stock market performance measures, King et al.' (2008) analysis also show acquiring larger target firms positively impact the acquiring firms' performance. Rather than examining stock market performance, Larsson and Finkelstein (1999) analysed 61 domestic and cross-border M&As using a case survey method and also found that relative size (measured in terms of annual sales, total assets or the number of employees of both firms) was positively associated with combination potential and synergy realisation. Based on the managers' perceptual assessment of sales growth, market share, profit and overall performance, Slangen (2006) also finds significant positive effects of relative size (in terms of the number of employees) on foreign acquisition performance. Since in the acquisitions the target firms are generally smaller than the acquirer (Angwin, 2007a; King et al., 2008), other authors (Chatterjee and Wernerfelt, 1991; Finkelstein and Halebian, 2002; Papadakis, 2005; Heeley et al., 2006; Puranam and Srikanth, 2007) provide supporting evidence showing increased profitability when both the acquirer and target are similar in size. The main argument is that targets and acquirers of similar sizes have the advantage of being able to identify redundancies easier (Krishnan et al. 2007), can implement cost-based synergies (Ficery et al., 2007) and attain a better and more efficient integration of knowledge (Ahuja and Katila, 2001).

In contrast, the negative effect of relative size is also reported, which means acquiring smaller sized firms can be more beneficial. For example, Sudarsanam et al. (1996) find that bids involving smaller targets raise average abnormal returns by 1%. Ramaswamy and Waagelein (2003) also report that the firms that acquire smaller relative sized firms experience significantly better post-merger financial performance. Meanwhile, some other researchers find no relationship between relative size and the acquirer's stock market performance (e.g., Agrawal et al., 1992; Uddin and Boateng, 2009).

Some scholars suggest that acquiring larger targets might result in better post-acquisition performance (Seth, 1990; Larsson and Finkelstein, 1999; Capron and Shen, 2007; Francis et al., 2008). They advance several reasons for this. First, larger targets have more information available and therefore reduce the level of information asymmetry, especially for cross-border acquisitions (Francis et al., 2008). Second, larger targets tend to reduce the potential number of bidders and therefore the premium for which they can negotiate (Rossi and Volpin, 2004). Third, most importantly, not only do larger targets substantially change the future size of the acquiring firm and to some extent improve its market power (Seth, 1990), they also provide greater potential for recombination and are more likely to generate different types of synergies such as financial synergies and operational synergies (economies of scope and scale) (Seth, 1990; Larsson and Finkelstein, 1999; Capron and Shen, 2007; Sudarsanam, 2010). Fourth, large target firms attract greater attention from the acquirer's top managers (Kitching, 1967; Ravenscraft and Scherer, 1987). Therefore there is more of an effort to realise potential benefits. However, acquiring larger targets can also have potential disadvantages, such as: (1) it may imply empire building or a pursuit of managerialism behaviour (Uddin and Boateng, 2009); (2) it will be more difficult to assimilate the larger targets into a combined organisation (Chakrabarti, 1990; Ingham et al., 1992; Fuller et al., 2002; Tuch and O'Sullivan, 2007). Furthermore, larger targets require more efforts from top managers to integrate and this may divert their attention from daily operations, possibly leading to loss of management control.

These arguments highlight the potential positive and negative effects of relative size on the outcomes of acquisitions. The advantages (e.g., more available information, less competition, improved market power and more synergy potential) tend to outweigh the disadvantages (e.g. managerial empire building motive and difficulty with integration). In terms of the first potential negative effect, acquiring larger firms may be motivated by empire building or their managers' own benefits. However, I suspect that such a phenomenon may be less prevalent in the Nordic context. My exploratory study suggests that most Nordic international acquirers are privately and family-owned and with their owners being key acquisition decision makers. In such situations the managers' benefits are closely connected to the firms' future gains. Moreover, according to Gomez-Mejia and his colleagues' studies (Gomez-Mejia et al., 2007, Gomez-Mejia et al., 2010; Gomez-Mejia et al., 2011), losing family control and relinquishing socioemotional wealth (SEW) are viewed as a crucial loss by the private family-controlled firms, this type of firms therefore tend to be reluctant to participate in the diversification and cooperative activities such as M&As that may reduce their ownership-related SEW, or they are likely to act more conservatively by avoiding business decisions that may increase performance



variability. We therefore can infer from these studies that those private family-owned firms tend to rigorously consider CBA decision, and trade-off the benefits of CBAs and the loss of SEW, rather than simply perform CBAs just for empire building. Furthermore, Thomsen (2014) argues that large Nordic firms appear to be quite well behaved and derive fewer private benefits than in the US or UK because of social pressures and/or legal protection of minority investors and stakeholders. With respect to the second negative aspect, integration problems from acquiring larger targets are probably real, but are not problematic for acquiring firms who have the ability to handle them well. Just these firms which can handle integration problems well can obtain more benefits from such acquisitions, and this strategy is also difficult or costly imitated by other firms.

The above discussion indicate that firm size is an important factor that impacts M&A performance due to its impact on the quantity of resources involved in the acquisition process, the potential benefits as well as the challenges they bring. But leaning on the theoretical arguments that the benefits are likely to outweigh the challenges, I formulate the following hypothesis:

*Hypothesis 1a (H1a): The relative size of the target and the acquiring firms positively impacts post-acquisition performance of the combined firm.*

### **2.5.2.3 Pre-acquisition performance of the joining firms (*denotes resource quality*)**

When pre-acquisition performance of the acquirers is measured by price/equity (P/E) or market-to-book value (MTB) ratio, the authors generally find poor post-acquisition performance for the acquirers with high P/E or MTB (Rau and Vermaelen, 1998; Sudarsanam and Mahate, 2003; Conn et al., 2005). Firms with high P/E or MTB ratio are usually viewed as glamour (or over-valued) acquirers while firms with low P/E or MTB ratios are called value (or under-valued) acquirers. The argument is that managers of glamour acquirers seem to become over-optimistic and misguided when their company has a strong market value. In contrast, value firms were subject to poor market value in the past and are therefore forced to evaluate acquisitions more carefully (Tuch and O'Sullivan, 2007). Baker et al.'s (2012) results show that the acquirers with historically superior operating performance (measured by cash flow to total assets and industry-adjusted cash flow to total assets) face negative reactions from the stock market and depressed long-term operating performance. They also argue that empire-building motive drives this negative relationship.

However, by assessing the health of firms in terms of profitability, general management, marketing management and technical advantage, Hunt (1990) argues that the well planned, non-opportunistic purchases of healthy companies by healthy acquirers are more likely to be successful than the reverse. He finds that the success rate is only 28 percent in unhealthy companies, while it is as high as 69 percent in very healthy companies. Furthermore, a survey conducted by Angwin and Savill (1997) among European acquirers suggests that the financial health of the target company was one of the desirable characteristics all acquirers take into account because it is believed to enhance their wealth. Saxton and Dollinger (2004) view reputation of a target firm as reflecting the value of acquired resources (reputation is measured by using 19 items on the dimensions of product quality, management, and financial performance). Their study shows that target reputation is consistently related to the desired acquisition outcomes.

Pre-acquisition performance of acquirers (or targets) has also been suggested to have either negative or positive impact on acquisition outcomes. This assertion is based on two dominant theoretical arguments. First, pre-acquisition performance will play a positive role when it is viewed as an indicator of managerial talent/ability (Zajac and Westphal, 1995; Masulis et al., 2007). It is often argued that each successful company has a set of core competencies, or a unique amalgam of skills, resources, technologies and expertise that make it a leader in a specific area (Valentino, 1992; Simpson, 1994). These core competencies are usually described as unique, sustainable and inimitable by the competitors, which allow the firm to effectively compete in the marketplace and differentiate itself from other competitors (Willens, 1993; Prahalad and Hamel, 1990). Poorly performing targets are said to have weaker skills and thus provide fewer opportunities for resource redeployment to the acquirer (Anand et al., 2005). Second, pre-acquisition performance will exert negative effect if past organisational success and performance becomes a source of overconfidence (Roll, 1986; Hayward and Hambrick, 1997; Heaton, 2002; Malmendier and Tate, 2008) or gives rise to empire-building ambition (Jensen, 1986; Harford, 1999). Managers of well performing firms are likely to become overconfident (Heaton, 2002; Malmendier and Tate, 2008) and these overconfident acquirers tend to overestimate their capabilities and may not necessarily act rationally while performing an M&A deal. They are thus likely to engage in value-destroying acquisitions. Moreover, the takeover market is often viewed as a disciplinary mechanism and low-performing targets are said to offer upside restructuring value (Chatterjee, 1992), suggesting the benefits of picking the low-hanging fruit. Nevertheless, Clark and Ofek (1994) find that the acquirers are generally unable successfully restructure those highly distressed firms, which results in declined long-term accounting performance and market returns.

Following this line of thinking, it can be argued further that if managers are irrational when conducting cross-border acquisitions (e.g., they act out of hubris and imitation with no clear acquisition objectives), the outcomes are more likely to be disappointing. In this scenario, it is meaningless to investigate other impacting factors of acquisition performance and research on value creation mechanism in CBAs. Therefore, as stated quite earlier, this study is conducted and model is developed based on the basic assumption that the acquirers are rational. Moreover, as noted by Hunt (1990) that fewer buyers are acting wildly. Furthermore, it makes sense to argue that the effect of pre-acquisition performance on the acquisition outcomes will be influenced by how it is measured. It is clear that pre-acquisition performance usually measured by free cash flow, or P/E, MTB ratios are not good indicators of resource quality or the health of the joining firms. According to Coakley and Thomas (2004) measuring an acquiring firm's pre-acquisition performance in terms of P/E, MTB ratios is also not stable and reliable because of the impact of market momentum and investor sentiment. Instead, multi-item measurements used by Hunt (1990), including profitability, general management capabilities, marketing capabilities and technical advantages, appears to provide a better indication of the reflect the health of the firms. This understanding has informed the study conducted and reported in this thesis. My argument is that two high quality sets of resource have higher recombination and/or redeployment potential to create more synergy or value for the combined firm. The above discussions have informed the following hypotheses:

*Hypothesis 1b (H1b): Superior pre-acquisition performance of the acquirer positively impacts post-acquisition performance of the combined firm.*

*Hypothesis 1c (H1c): Superior pre-acquisition performance of the target firm positively impacts post-acquisition performance of the combined firm.*

#### **2.5.2.4 Resource relatedness (complementarity and similarity)**

Resource (or business) relatedness has long been considered a source of various synergies (Lubatkin, 1983; Singh and Montgomery, 1987; Chatterjee and Lubatkin, 1990). Firm relatedness is often explained in terms of resources. According to resource-based theory, firms' resources can be related in supplementary and complementary ways. Their resources will be supplementary when the target provides similar resources that the acquirer already possesses. Their resources will be complementary when the target's resources combine effectively with the resources possessed by the acquirer (Wernerfelt, 1984). Larsson and Finkelstein (1999, p.6) conclude that 'synergies can be achieved through both "economies of sameness" (from accumulating similar operations) and "economies of fitness" (from

combining different but complementary operations)'. Similarly, as Zaheer et al. (2013) argue, economic synergies in acquisitions stem from business relatedness which comprises both similarity and complementarity, and acquisitions may involve either dimension of relatedness alone, both, or neither. They argue further that the meaning of 'complementarity' in this context must be viewed in terms of the differences between two attributes that must specifically round out or complete each other in a way that can create greater value together than separately. King et al. (2008) focus on the acquisitions of R&D-intensive targets. They find that resource interactions in the acquisitions involve both resource complements and substitutes, and resource substitution negatively impacts the acquirer's stock market performance whereas resource complements (i.e., the target firm's R&D complements the acquiring firm's marketing resources) positively impact the performance. However, it is worth mentioned that the term of 'resource substitution' discussed in their study is different with resource similarity between the acquirer's existing resources and the acquired resources (a possible source for substituting the existing similar resources) as discussed above. They consider resource substitution as using the acquisition of technology resources to substitute the acquirer's internal R&D investment and measured it in the way when the acquirer's R&D intensity is less than industry average.

Value creation from the combination of similar business/resources may arise from economies of scale, economies of scope, greater opportunities for sharing relevant resources, greater absorptive capacity for improvement and market power (Ansoff, 1965; Capron, 1999; Capron et al., 2001). Considerable amount of research has been done over the years to show that business similarity (as distinct from administrative or organizational similarity) offers acquirers the potential for improved profitability through high integration (Larsson and Finkelstein, 1999; Puranam et al., 2006; Zollo and Singh, 2004). Complementary resources provide firms with both efficiency synergies and value created from those differences that are mutually supportive (Bauer and Matzler, 2014). As noted by Kim and Finkelstein (2009, p. 618), complementarities offer the combining firms 'a wide array of business opportunities to develop competencies that either firm could not create alone' (see also Harrison et al., 1990; Hitt et al., 1998; Capron et al., 1998; Karim and Mitchell, 2000; Puranam et al., 2006; King et al., 2008). This includes bringing together a mix of products and services that yield a more complete business portfolio, opening up the opportunities of bundling and cross-selling strategies, using one firm's technology resources to complement another firm's marketing resources, overcoming and controlling the weaknesses, creating potentials for knowledge sharing across organisations, and facilitating the adoption of risk spreading strategies.

In effect, resource relatedness has the potentials of generating operational, financial and administrative synergies. Singh and Montgomery (1987) argue that all three forms of synergy (i.e., operational, financial and administrative synergies) are theoretically possible in related acquisitions. However, only financial synergies and administrative efficiencies are available in unrelated acquisitions. This implies that, related acquisitions have the potentials for creating more value than unrelated ones. This is particularly true in cross-border acquisitions where differences in management practices between the two companies can pose serious post-acquisition management challenges (Child et al., 2001). Challenges, such as 'liability of foreignness' (Zaheer, 1995), 'double-layered acculturation' (Barkema et al., 1996) and 'asymmetric information' (Kogut and Singh, 1988; Zaheer, 1995), tend to be obstacles for realising administrative synergy and operational synergy. In such a situation, the relatedness of the businesses serves as a buffer against these negative impacts. In contrast, unrelated acquisitions may generate more uncertainties in the acquisition process. For instance, Dickie et al. (1987) state that an unrelated bidder will be less aware of the particularities of the competitive environment and the specific production and distribution difficulties associated with the target.

It has also been argued that, when compared with unrelated acquisitions, the acquirer of a related business can better uncover the target's hidden problems, better understand what actions should be taken after purchasing the business and more easily uncover opportunities for synergy (Dundas and Richardson, 1982; Zaheer et al., 2013). Familiarity with the industry also facilitates learning from the acquisition process and shortens the learning time (Hitt et al., 2001). This provides a justification for King et al's (2004, p.190) argument that 'related acquisitions can enable the acquiring firm's pre-existing resources to be productively leveraged and redeployed in new businesses where those resources are more likely to be valued and relevant'. Roy and Roy (2004) summarized the benefits of acquiring related resources as: (1) two firms can share critical resources and replace or dismiss redundant pre-existing resources at the same time; (2) the acquirer has the opportunity to exploit economies of scale/scope; (3) the acquirer has the opportunity to create a uniquely and non-imitable combination of assets to earn positive abnormal rents on investments and (4) it may lead to eventual consolidation in industry.

In line with the arguments above, a number of empirical studies find that acquiring related firms leads to increased post-acquisition performance measured in different ways (Markides and Ittner, 1994; Eun et al., 1996; Markides and Oyon, 1998; Palich et al., 2000; Gregory and McCorriston, 2005; Francoeur, 2006; Uddin and Boateng, 2009; Homberg et al., 2009). Most of the respondents in my exploratory study also

agree that an acquisition in a related industry is worth more than an acquisition in a non-related industry.

However, there are some findings that do not reveal clear-cut positive post-acquisition outcomes (see Datta and Puia, 1995). For example, Bruton et al. (1994) find that business relatedness only exerts positive effect in the acquisitions of distressed firms, while the outcome is not very clear in non-distressed acquisitions. Their argument is that the distress of the target encourages the acquirer to more carefully analyse the target firm and execute the acquisition. The relatedness itself further facilitates the combination. Similarly, Datta and Puia (1995) conclude from their study that the influence of relatedness on the shareholder value creation of acquiring firm is unclear. Limmack and McGregor (1995) even find a negative relationship between relatedness and acquisition performance. It is worth noting however that the last two studies use event-studies to assess performance. This approach only measures the investors' reaction to these types of acquisitions, and ignores the real acquisition outcomes with the benefits that business relatedness will bring. Anyhow, the importance of business relatedness and these different findings suggest further examination is necessary.

Building on the theoretical arguments discussed above, I hypothesize as follows:

*Hypothesis 1d (H1d): Resource similarity positively impacts post-acquisition performance of the combined firm.*

*Hypothesis 1e (H1e): Resource complementarity positively impacts post-acquisition performance of the combined firm.*

### **2.5.2.5 Acquisition experience (*denotes strategic resources*)**

It has been argued that organisational experience-based knowledge plays an important role in the formulation and performance of an internationalisation strategy (Høbert et al., 2005). Building on this understanding it has also been suggested that experienced acquirers are better at identifying promising targets, avoiding the problematic ones, picking up the valuable information during due diligence, uncovering the true value of the target, making sufficient preparation for negotiations and conducting efficient post-acquisition integration (Bruton et al., 1994; Halebian and Finkelstein, 1999; Very and Schweiger, 2001; Hayward, 2002; King et al., 2004; McDonald et al., 2008; Aktas et al., 2009). Following Haspeslagh and Jemison (1991), this specialised tacit knowledge about the acquisition process is vital to acquisition success.

Marks and Mirvis (2010) identify three types of approaches that the acquirers can use to gain acquisition experience and knowledge. These are: (1) periodic learning events; (2) a focus on refining combination methods and processes and (3) a 'stepping stone' approach by first making small acquisitions and moving up to larger ones. Various combinations of these approaches help acquirers to build up experiences that strengthen their capacities to overcome the challenges of overloading information, strict time constraints and the need to recognise the long-term strategic implications of potential acquisitions (McDonald et al., 2008). This may be achieved through the creation of standard mechanisms and procedures and the development of acquisition capabilities. The success of Banc One (Winter and Szulanski, 2001), Cisco Systems (Reinhardt, 1999; Goldblatt, 1999) and General Electric well exemplified this point.

The relationship between acquisition experience and performance has been empirically studied since the early 1980s. The findings have, however, been inconclusive. Some studies have shown non-significant associations (e.g., Lubatkin, 1983; Ravenscraft and Scherer, 1987; Hayward, 2002; Zollo and Singh, 2004; Ahammad and Glaister, 2011). Others have found positive associations (e.g., Fowler and Schmidt, 1989; Bruton et al. 1994; Pennings et al. 1994; Barkema et al., 1996, Laamanen and Keil, 2008; Reus and Lamont, 2009 ). Some of the associations found have been negative (e.g., Kusewitt, 1985; Uhlenbruck et al., 2006). Other forms of association have also been revealed. Examples include U-shaped (e.g., Halebian and Finkelstein, 1999; Porrini, 2004; Zollo and Reuer, 2010), and inverted U-shaped associations (see Hayward, 2002; Meschi and Metais, 2006). Ekkayokkaya et al. (2009) also report that acquisition experience (i.e., the frequency of bids) is insignificant in the short run, but it has a positive impact on the long-term performance of acquirers. Drawing on transfer theory (Cormier and Hagman, 1987), some scholars attribute these inconsistent findings to non-similarity of prior acquisition experience in terms of the targets' industry/product market environment (Halebian and Finkelstein, 1999; Finkelstein and Halebian, 2002; Hayward, 2002), cultural region (Barkema et al., 1996), host country (Barkema and Schijven, 2008), or even the size of targets (Ellis et al., 2011). Especially, it is more difficult for the less-experienced acquirers to judge the similarity between the prior acquisitions and the focal one and avoid a negative transfer of acquisition experience (Amiryany et al., 2012). In addition, Billet and Qian (2005) and Ismail (2008) argue that CEOs' hubris can be the reason for poor performance of experienced acquirers. Generally, the inconsistencies in the findings suggest further studies in this area.

It is noticeable that measurement of acquisition experience also matters for the empirical findings. Acquisition experience is often indirectly proxied by the number of acquisition cases that have been conducted by the acquirer before the acquisition

deal being examined (see e.g., Bruton et al., 1994; Beckman and Haunschild, 2002). Although this measurement can be described as objective, it may not be a good indicator of the acquirer's actual acquisition experience. It has been suggested that acquisition experience can be obtained not only from the acquirer's own acquisition cases, but also from periodic learning events (Marks and Mirvis, 2010) and by observing M&A activities performed by other companies (DeLong and DeYoung, 2007). Findings from my previous exploratory survey study also suggest that some companies systematically and intentionally manage their historical acquisition cases and learn lessons from them, whereas some others do not pay attention to this.

Drawing on the available literature in the area as well as my own study, I would like to suggest that the acquisition knowledge gained by acquirers from either their own acquisition cases or from similar cases that are in some ways related to the specific acquisition implementation practice, can provide a better indication of their true acquisition experience that is relevant to the focal acquisition. Therefore, in this study, in order to fully capture the acquirer's acquisition experience, apart from using the typical count of acquisition cases completed five years before the focal acquisition, a multi-item measurement composition developed by Straub (2007) is adopted. This directly measures the acquirers' experience/knowledge regarding the main acquisition implementation processes. The detailed measurement information can be found in chapter 4. It is expected the actual acquisition experience captured in this way can improve value creation in cross-border acquisitions.

The results of my exploratory survey study indicate that the Nordic acquirers consider acquisition experience to be helpful in acquisition decisions and subsequent integration processes. In the light of the theoretical arguments and the results from most of the empirical studies, I forward the view that the potential benefits of acquisition experience essentially outweigh the potential problems it may bring. Leaning on the discussion above, I hypothesize as follows:

*Hypothesis 1f (H1f): Acquisition experience positively impacts post-acquisition performance of the combined firm.*

### **2.5.2.6 Host-country experience (also denotes strategic resources)**

Host country experience generally refers to operational experience in a particular foreign country. This experience enables a firm to develop capabilities so that it can be effective in its new environment and overcome competitive difficulties (Delios and Beamish, 2001). According to Child et al., (2001, p. 17) 'the sensitivity of post-acquisition management is likely to increase when it is cross-border in scope, with



the acquirer and acquired firm coming from different countries, bearing different management philosophies and practices as a result'. I have argued earlier that compared with domestic acquirers international acquirers need to overcome more challenges, such as 'liability of foreignness' and 'double-layered acculturation' (Barkema et al., 1996). Moreover, the first-time investors are also likely to face high information costs and considerable uncertainties in a new market (Li, 1995). International acquirers have to learn how to deal with local institutions, local customer needs, local competitors and a different socio-political and legal conditions (Høbert et al., 2005). Prior experience increases a firm's familiarity with a host country, thereby reduces the associated 'liability of foreignness', and enhance the necessary knowledge of local idiosyncrasies, thus help the international acquirers deal with those challenges in implementing CBAs (Li, 1995; Luo, 1997; Høbert et al., 2005).

Also, the acquirers with host country experience may have some established subsidiaries operating in the host country, in which local staff and country natives can assist in finding local targets, negotiating and managing the acquisition and in adapting any central knowledge (Høbert et al., 2005). On the basis of in-depth interviews with 26 top managers, Very and Schweiger (2001) identified the lack of host country experience as a third broad problem that confronted practitioners of CBAs (i.e. apart from difficult valuation and integration) in their acquisition decisions. They noted that a number of associated problems have been experienced by the managers due to lack of host-country experience. These include difficulties in identifying acceptable targets and advisors, structuring teams to conduct the acquisitions process, understanding and managing local legal, tax and accounting systems, communicating with target, etc. They therefore concluded that 'the lack of knowledge and experience affects the management of the entire acquisition process, from target selection through integration' (p. 20).

Relatively few empirical investigations have been done on the impact of host country experience on cross-border acquisition outcomes, when compared with acquisition experience discussed earlier. The results of these studies have been inconclusive. Barkema et al. (1996) find that the longevity of acquisitions is positively influenced by prior expansion experience of the firm in the same country. Scholars such as Kostova (1999) as well as Delios and Beamish (2001) report that host-country experience helps effectively transfer firm-level resources and strategic organisational practices across borders. Measuring the acquisition performance by using the managers' perception of sales level, market share, profit level and overall performance during the first two years after the acquisition, Slangen (2006) also reports positive effect of host-country experience on international acquisition performance.

Reus and Lamont' (2009) used 'host country experience' as a control variable and reports an impact on performance of international acquisitions (perceptual performance in terms of profitability, market shares, sales volume, new product development). However, Høbert et al. (2005) find neither general acquisition experience nor industry acquisition experience, local acquisition experience, industry experience, or host-country experience to have independent effects on acquisition performance (in terms of longevity) in their study of cross-border acquisitions by Japanese multinational corporations (MNCs). Since both 'host-country experience' and 'acquisition performance' are defined or measured differently in these studies (see e.g., Slangen, 2006 and Reus and Lamont, 2009), it is difficult to make a meaningful comparison. Therefore, I submit that there is a need for additional empirical investigations on this issue, particularly because host country experience is seen as a strategic resource in M&A management processes. These observations justify the following hypothesis:

*Hypothesis 1g (H1g): Host country experience positively impacts post-acquisition performance of the combined firm.*

In sum, the first group of hypotheses related to the impact of the joining firms' resource base can be summarized as follows:

*Hypothesis 1(H1): The stronger the joining firms' resource base (i.e., larger relative size of the target firm, higher quality resources or superior pre-acquisition performance, higher resource relatedness, more strategic resources of acquisition experience and host-country experience), the higher the post-acquisition performance of the combined firm.*

### ▪ **2.5.3 IMPACTING FACTORS FROM DYNAMIC CAPABILITIES AND PROCESS PERSPECTIVES**

The explanatory constructs/factors of 'value identification' (VI) and 'resource reconfiguration' (RR) as well as their roles in the conceptual framework are mainly developed from theoretical perspectives of dynamic capabilities and process. This section introduces and discusses these two theoretical perspectives before deriving associated hypotheses.

#### **2.5.3.1 Dynamic capabilities**

As earlier discussed, resource-based view/theory looks inside the firm for the sources of superior performance and attempts to link the performance with the VRIN resources/capabilities possessed by the firms. Essentially, the core theoretical

assertions of resource-based theory are considered to be static (Barney 2001a, b.; Priem and Butler 2001; Lockett et al., 2009). Dynamic capabilities perspective introduces relevant dynamism into the configuration, usage and further development of resources in firms. As Ambrosini and Bowman (2009, p.29) stated, 'RBV does not specifically address how future valuable resources could be created or how the current stock of VRIN resources can be refreshed in changing environments'. Similarly, Helfat et al. (2007, p.41) also argued that we learn an important lesson from RBV that resources and capabilities come in bundles, but 'how these bundles form, change and are managed by means of various integration and coordination processes presents an important set of question that dynamic capabilities brings to the fore'. The understanding presented by scholars of dynamic capabilities is that resources are of no real value to firms in isolation; their latent value can only be made available to them via idiosyncratic dynamic capabilities (Newbert, 2007). Stated in other words, the possession of VRIN resources by firms is a necessary but insufficient condition for their competitive position or superior performance (see e.g., Barney, 1997; Eisenhardt and Martin, 2000; Castanias and Helfat, 2001; Lippman and Rumelt, 2003; Sirmon et al., 2007; Newbert, 2007).

In spite of the above observations, many empirical studies on RBV investigate the relationships among a firm's stock of resources, the resource attributes and firm performance (e.g., Huselid et al., 1997; Hitt et al., 2001; Hooley et al., 2003; Zollo and Singh, 2004). There are few empirical studies within RBV research that have taken both concepts of resource possession and resource utilisation into consideration (Newbert, 2007; Andersén, 2011). Crook et al.'s (2008, p.1150) meta-analysis again makes a caveat that 'few of the studies investigate the processes through which strategic resources yield performance gains'. Thus, the switch in focus from resources to how competitive advantage and superior performance are achieved is the insight gained from combining RBV with the dynamic capabilities perspective (Roy and Roy, 2004).

Teece et al.'s (1990) working paper is the first contribution to the development of the notion of 'dynamic capabilities', which has its root in evolutionary economics (Nelson and Winter, 1982). This concept is further elaborated in Teece et al.'s (1997) study where they explicitly argue how the dynamic capability view could overcome the limitations of the RBV by emphasizing that a dynamic capabilities perspective provides a valuable focus on change processes within the firm. They define dynamic capabilities as 'the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments' (Teece et al., 1997, p.516). Eisenhardt and Martin (2000) extend the original definition of dynamic capabilities to include both the response to exogenous change and the creation of market changes. Eisenhardt and Martin (2000, p.1107) define dynamic capabilities

as 'the firm's processes that use resources-specifically the processes to integrate, reconfigure, gain and release resources-to match and even create market change'. Similarly, Capron and Anand (2007, p.1) define the concept of 'dynamic capability' as 'the capacity of an organisation to purposefully create, extend, or modify its resource base', through which new strategic alternatives or 'paths' can be opened for the firm. They argue further that 'a dynamic capability is not a capability in the RBV sense but a process that impacts upon resource' (Capron and Anand, 2007, p.30).

In the capability hierarchical model, the ordinary<sup>3</sup> (or 'zero-level') capabilities are said to enable a firm to 'make a living' in the present by using more or less the same techniques on the same scale to support existing products and services for the same customer population (Winter, 2003; Helfat and Winter, 2011). 'Dynamic capabilities' are viewed as higher level capabilities which operate to alter how the firm currently makes its living by altering or renewing ordinary capabilities (Winter, 2003), the firm's resource base (Helfat et al., 2007) or the external environment or ecosystem (Teece, 2007). Teece (2014) further emphasises that 'ordinary capabilities are about producing and selling a defined (and static) set of products and services' (p.18), while 'dynamic capabilities are about how an enterprise seizes the future and develops the products, processes and business models to meet (and shape) ever-changing markets' (p.23). Dynamic capabilities are 'higher-order, difficult-to-replicate capabilities' (Teece, 2014, p.21).

Overall, dynamic capabilities perspective shares similar assumptions with RBV in that they all view the firm as a bundle of heterogeneous and path-dependent resources. And a central concern of both RBV and 'dynamic capability' is their connection with organisational performance (Helfat et al., 2007). The definitions presented are consistent with each other. They all indicate that dynamic capabilities have the propensity to 'change' the firm's resource base and that they usually work as the intermediate steps to convert the inputs (i.e., resource base or ordinary capabilities) into whatever output(s) the firm desires. The firm's dynamic capabilities therefore have high potential impact on the firm's performance (Barreto, 2010). However, it is worth noting that the value of a dynamic capability depends on whether or not its function creates value and to what degree (Helafat et al., 2007). Dynamic capabilities do not necessarily ensure good outcomes, and they may damage rather than improve a firm's performance if they are used at an inappropriate time or when false cause-effect assumptions are made (Barreto, 2010). For example, Cisco has very strong acquisition-based dynamic capabilities with extensive skills for selecting among different growth strategies (e.g., alliance or

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<sup>3</sup> Ordinary is in the sense of maintaining the status quo (Winter, 2003).

acquisitions), identifying and negotiating with the target firms, as well as integrating the acquired businesses.

Based on the literature review of the studies in the area of dynamic capabilities, Newbert (2007) concludes that empirical research in this field is still in its infancy and is still evolving. "There is an increasing range of conceptual elaboration about dynamic capabilities but empirical support is limited, the same with RBV" (Ambrosini and Bowman 2009, p.37). Hence, this study adopts the perspective of hierarchical capability model as discussed before and views the capabilities in RBV as the ordinary capabilities and view 'dynamic capabilities' as higher-order capabilities which tend to alter or renew the firm's resource and ordinary capabilities. Specially, dynamic capabilities in this study context refer to the acquisition-based dynamic capabilities proposed by Capron and Anand (2007), which include acquisition selection, identification and reconfiguration abilities. This thesis aims to empirically investigate whether and how these acquisition-based dynamic capabilities create value based on the joining firms' resource base in cross-border acquisitions.

An acquisition-based dynamic capability is stated as one of the most important dynamic capabilities underwriting firm growth strategy and serving as a necessary condition for acquisition success (Helfat et al., 2007). Capron and Anand (2007, p.79) define the concept of 'acquisition-based dynamic capability' as 'the capacity of the firm to purposefully create, extend, or modify the firm's augmented resource base, which includes the resources of partners'. They have developed a model of acquisition-based dynamic capabilities (see Figure 2.1), which includes three main steps: (1) acquisition selection; (2) identification and (3) reconfiguration abilities. Capron and Anand (2007, p.81-82) make three observations. First, acquisition selection is the capacity to recognise whether an acquisition would be the most suitable strategic move for gaining new resources. In this way, firms need to assess the existing resource gaps, assess the degree of market failure and assess the number of points of contact that inter-organisational creation of new resources would require. Second, identification is the capacity to find and negotiate with the most suitable targets and an effective due diligence is thus required. Third, acquisition reconfiguration capability is the capacity to reshape resources within the target and acquiring firms and involves the capacity for combining resources from the acquired and the acquiring firm in order to create new resources.

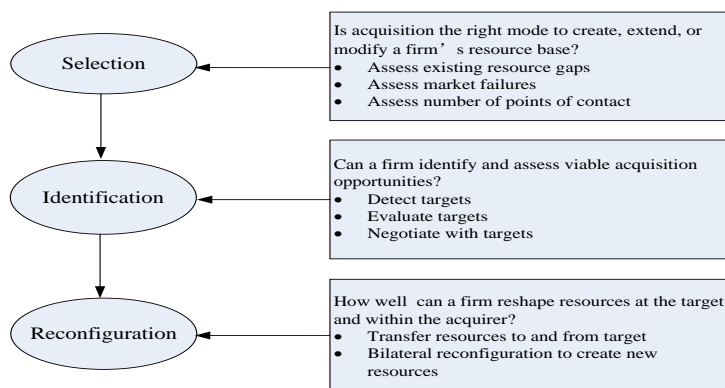


Figure 2.1 Acquisition-based dynamic capabilities

Source: Capron and Anand, 2007, p.83

Clearly, the line between the steps of 'acquisition selection' and 'identification' is blurry. To some extent, the acquirer needs to conduct a thorough due diligence to finally confirm whether acquisition is the right strategy and whether the firm is a suitable target. 'Identification' is the necessary step for 'acquisition selection'. In my study for the present thesis, I assume that the need for cross-border acquisition has been established. Therefore, I consider it appropriate to combine two elements in Capron and Anand's (2007) model and label them as 'value identification'. Together with 'resource reconfiguration', this study examines their role for explaining the success of cross-border acquisitions. Haspeslagh and Jemison (1991, p.14) state that 'acquisitions are a severe test of a firm's organisational capabilities, one on which many firms do not achieve a passing grade'. 'Those that can manage the complexity of M&A by building the capabilities and insights required to realise its full potential for growth can enjoy an enduring competitive advantage.' (Cristina et al., 2013).

### 2.5.3.2 Process perspective

Process related to sensing and seizing opportunities and reconfiguring the organisational resource base is usually invoked to explain heterogeneity of the performance among firms (Teece et al., 1997; Teece, 2007; Wilden et al., 2013). Van de Ven (1992) identifies the term 'process' in three distinct uses in the literature of strategy research: (1) process as a logic that explains a causal relationship; (2) process as a category of concepts referring to actions of individuals or organisations and (3) process as a sequence of events describing how things change over time. The

first definition, in terms of an input-process-output model (Mohr, 1982), uses process logic to explain the causal relationship between observed inputs variable and outcome variables. The second definition examines changes in variables over time. The third definition takes a historical developmental perspective to describe how things change over time or to represent an underlying pattern of cognitive transitions in an entity in dealing with an issue. This thesis belongs to the first line of research. It takes a process perspective to disentangle the causal relationship from inputs (the joining resource base) to outputs (CBA performance). The process examined in this study specially points to acquisition process.

#### *Process perspective required in research on M&As*

Acquisition is a complex process containing multiple steps including searching for and selecting the target company, due diligence, negotiation, integration and assessment of the outcomes. These steps are connected with each other. The impacting factors of acquisition performance can appear in any stage of this process. 'Both pre- and post- acquisition factors may account for the poor performance of many acquisitions' (Child et al, 2001, p.22). And 'the acquisition process itself is a potentially important determinant of acquisition behavior and outcomes' (Jemison and Sitkin, 1986, p.145). The process perspective was first introduced by Jemison and Sitkin (1986) into M&A research and then thoroughly developed by Hasepslagh and Jemison (1991). They stressed that 'adopting a process perspective shifts the focus from an acquisition's results to the drivers that cause these results: the transfer of capabilities that will lead to competitive advantage' (Hasepslagh and Jemison, 1991, p.12). Prior work clearly shows acquisition success depends on pre- and post-acquisition issues (Bower, 2001; Barkema and Schijven, 2008; Stahl and Voigt, 2008). However, little attention has been paid to the process itself as a source of value, and there is a separation of pre- and post- M&A research and a neglect of the interdependence of these stages. It has been suggested by many scholars that a good understanding of the acquisition process and the interconnectedness of its multiple stages is necessary in any enquiry into the reasons for acquisition failure (Sudarsanam, 2010, Cartwright et al., 2012; Weber, 2012; Gomes et al., 2013).

#### *Process perspective required in research on dynamic capabilities*

Dynamic capabilities can come in many forms and different dynamic capabilities serve different purposes, such as marketing and product development. Helfat et al. (2007, p.31) states that 'it is difficult to observe a dynamic capability that an organisation possesses unless it is put into use in some context and processes are the mechanisms that make it happen'. When we observe a dynamic capability in use, we are actually observing the underlying process. They argue further that 'taking a

process perspective can clarify the dynamic interrelationships among actions taken, processes employed and outcomes achieved in a way that addresses some of the complexities and unresolved issues in the dynamic capabilities domain' (ibid p.38). Similarly, Ambrosini and Bowman (2009) point out that in order to make dynamic capabilities as a useful construct, we need to identify discrete processes inside the firm that can be unambiguously causally linked to resource creation. Generally, as Colombo et al. (2007, p.214) put it 'a process perspective enables us to explain performance, not as a function of a group of independent variables, but as an effect on the coherent combination between these variables'. This means that a positive result does not simply depend on the ingredients, but also on the ability to combine them in a way that can better explain the result.

This thesis aims to reveal the value creation mechanism of cross-border acquisitions based on the joining firms' resource bases. For this purpose, a structural equation model is developed in which various independent variables explain the result through the relationships with intermediate variables (see Figure 2.2). Having adopted the dynamic capabilities and process perspective, the problem arises of whether these two important acquisition-based capabilities, i.e., 'value identification' (VI) and 'resource reconfiguration' (RR), play a sequential role along acquisition process in determining CBA success. These two acquisition-based dynamic capabilities are further discussed in the following sections.

### **2.5.3.3 Value identification (VI) and post-acquisition performance**

More commonly, different strategists will have different expectations about the future value of a strategy. This is particularly the case when the firms try to gain access to the geographically distant resources, where there are limited and often impaired information flows because of communication barriers, cultural differences and institutional variation. However, these barriers to information flow can raise the potential value of cross-border acquisitions for firms that can recognise the opportunity and identify the right targets (Capron and Anand, 2007). The acquirers with more accurate expectations will usually be able to avoid economic losses associated with buying overpriced strategic resources, while those that do pay for these overpriced resources suffer from the 'winner's curse'<sup>4</sup> (Bazerman and Samuelson, 1983). 'The truth is bidding firms typically overestimate the value of targets by underestimating the costs of exploiting synergies with targets' (Barney and Clark, 2007, p.217).

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<sup>4</sup> According to Bazerman and Samuelson (1983, p.618): 'The "winner's curse" occurs in competitive situations when a successful buyer finds that he or she has paid too much for commodity of uncertain value', which means the object acquired will be worth less than the price paid for the winner in a bid auction.



Much efforts need to put in the valuation stage in order to avoid or reduce potential synergy bias (i.e., overestimating the benefits and underestimating the costs of synergy), parenting bias (a belief that all synergistic effects need to be captured by cajoling or compelling the business units to cooperate), skill bias (i.e., the assumption that whatever know-how is required to achieve synergy will be available within the organization), and upside bias (i.e., concentrating so hard on the potential benefits of synergy while overlooking the downsides) as discussed by Goold and Campbell (1998). Rather than simply assuming the existence of synergy, the corporate executives need to perform rigorous evaluation of synergy opportunities and take a more balanced even sceptical view about whether the synergy really exists, whether they can be achieved, and whether they are really beneficial. 'The challenge is to separate the real opportunities from the illusions' (Goold and Campbell, 1998, p.132). Such fact is also supported by my earlier exploratory survey study (see Appendix A), where 'synergy prediction' is described as the tough issue by the practitioners and most of them have experienced overpricing the targets. Based on a survey of 250 global executives involved in M&As, Carr et al. (2004) come out a list of 11 root causes of deal disappointments. Among them, the top half can be controlled in value identification process, which are 'ignored potential integration challenges', 'overestimated synergies', 'problems integrating management teams and/or retaining key managers', 'due diligence failed to highlight key issues', 'target was dressed up for sale', and 'insufficient strategic fit'. Moreover, acquiring firms can obtain superior returns when they own private information (not known by other firms, including the other bidders and targets) concerning unique synergistic cash flow that exists between the acquiring and target firms (Barney, 1988; Barney and Clark, 2007). Value identification capability therefore is important for identifying the appropriate target and paying the right price and finally achieving acquisition success. This capability requires that a firm be able to carry out a thorough and effective due diligence and systematic pre-acquisition planning (Carr et al., 2004; Capron and Anand, 2007).

Due diligence is a process through which an acquirer evaluates a target firm for acquisition, and this process is intended to provide the acquirers with adequate information about risks and values associated with the target firms (Shimizu et al., 2004) and to substantiate sources of value creation. According to the logic of discounted cash flow model (DCF) which dominates M&A valuation practice (Lie, E. and Lie, H. J., 2002; Mukherjee et al. 2004), the purpose of due diligence is to collect enough information to accurately forecast discounted cash flows (i.e., forecasted revenues, risk and costs), so that this ensures that the acquirer does not overpay based on inaccurate projections. In cross-border acquisitions, due diligence process is even more complicated and difficult due to different institutional

environments, political influence, possible language differences, two different cultures (Angwin, 2001), and greater information asymmetry (Seth et al., 2000). Special attention is required to local taxes, accounting standards and potential trade regulations etc. that might be imposed by the foreign government (Kissin and Herrera, 1990). According to Angwin's (2001) research findings from a survey of 142 top executives about their perceptions of the value added in due diligence, six functions are identified: providing comfort there are no black holes (i.e., unanticipated substantial liabilities which may not be covered by warranties) in the target company; getting insights into existing management; helping price negotiations; adding commercial insight into sector; and help planning later integration; and help assessing cultural fit.

It says 'successful acquirers know what they are looking for and conduct a thorough due diligence to ensure that they get what they want' (Marks and Mirvis, 2001, p. 83), and they are able to collect extensive data about the seller's strengths and weaknesses (Hunt, 1990). Without rigorous due diligence, the price paid for an acquisition will have little relation with achievable value, rather may be driven by the pricing of other 'comparable' acquisitions (Rappaport and Sirower, 1999). In such cases, the acquirers know little about whether, where, when and how they can drive real performance gains. In 2002, Bain & Company surveyed 250 international executives with M&A responsibilities (Carr et al., 2004). Half of the participants said their due diligence process had failed to uncover major problems and half found that their targets had been dressed up to look better for the deals. Traditional due diligence is also criticised only focusing on financial aspects, and more and more researchers call for 'improved due diligence' with more emphasis on cultural, human resource and behavioural aspects (e.g., Perry and Herd, 2004; Lodorfos and Boateng, 2006; Marks and Mirvis, 2011). When due diligence focuses exclusively on the financial aspect of potential M&A partners, analysts tend to overestimate revenue gains and cost savings and underestimate the implementation challenges involved in integrating process.

Pre-acquisition planning is also part of the work of value identification. Most M&As are complex, involving numerous activities, plenty of unknowns and complicated relationships between firms. M&As usually have many implementation and post-acquisition problems as widely discussed in the literature (e.g., Very et al., 1996; Larsson and Finkelstein, 1998; Buono and Bowditch, 2003; Quah and Young, 2005; Homburg and Bucerius, 2006) and listed in Very and Schweiger' (2001) study based on in-depth interviews with 26 top managers. As identified by Very and Schweiger (2001), two broad categories of problems embedded with M&As are the difficulty of collecting adequate and reliable information in due diligence stage, and cultural difference and human resource issues associated with integration. These problems

are exacerbated in cross-border deals, especially when the acquirer is doing the deal without any host-country experience (Very and Schweiger, 2001). This explains Shimizu et al.'s. (2004, p. 347) suggestion that 'firms must be prepared for unforeseen events and respond to them effectively'. Carr et al. (2004) also argue that it is impossible for an acquirer to perform a thorough due diligence and make a fair price without taking integration feasibility into account. It is also important for acquirers to create clear roadmaps outlining the necessary integration steps during due diligence. A third of respondents in their study said they should have spent more time on planning integration during due diligence. Based on an in-depth analysis on 12 successful and 12 unsuccessful acquisitions, Hitt (1998) found nearly all (11) of the unsuccessful acquisitions were associated with inadequate target evaluation and planning for the acquisition.

Pre-combination preparations towards strategic and psychological issues are thoroughly discussed by Marks and Mirvis (2001) based on their experience of being researchers and consultants in over 70 M&As. They emphasise the strategic preparations for clarifying synergy sources and testing potential synergies in light of the two sides' structures and cultures, as well as the psychological preparations for understanding people's mindsets and addressing the stresses and conflicts that may occur during or after combination. A study by Colombo et al. (2007) also reports that merger planning has a positive effect on both organisational and operational integration. The underlying argument in their study is that since plan can be helpful at least in defining the problem, systematic planning before purchasing the target firm is another way of helping the acquirers identify the true value of the acquisition and provide guidance and direction for the post-closing operations at the same time.

In light of the preceding discussion, I propose the following hypothesis:

*Hypothesis 2 (H2): Value identification capability positively impacts post-acquisition performance of the combined firm.*

#### **2.5.3.4 Resource reconfiguration (RR) and the post-acquisition performance**

It is generally acknowledged in the M&A literature that acquiring a firm does not guarantee that valuable resources will be successfully shared (Inkpen et al., 2000; Meschi and Metais, 2006). Following Haspeslagh and Jemison (1991) value creation does not take place until the two firms come together and begin to work toward the acquisition's purpose (see also Anand and Singh, 1997; Larsson and Finkelstein, 1999; Birkinshaw et al., 2000). This is what happens in the post-acquisition integration process. Thus, post-acquisition integration can be viewed as the amalgamation of resources and capabilities rooted in two distinct workforces. The

integration process is said to be highly critical for the success of most acquisitions, either domestic or international (Haspeslagh and Jemison, 1991; Child et al., 2001). Chatterjee (1986) also sees post-acquisition reconfiguration as a prerequisite for increasing the efficiency (cost-based synergies) and effectiveness (revenue-based synergies) of the combining firms (see also Capron and Mitchell, 1998; Capron and Hulland, 1999; Capron et al., 2001; Capron and Pistre, 2002). Capron and Mitchell' (1998) study provides additional empirical evidence to support these assertions. Their findings show that a high degree of bilateral resource redeployment has a multi-dimensional positive impact on business capabilities of the joining firms, such as enhancing R&D skills, shortening time to market and improving product quality. In a similar vein, by analysing 61 M&As in depth, Larsson and Finkelstein (1999, p.1) come to the conclusion that 'organizational integration was the single most important factor in explaining synergy realization'. They also stress that both the quantity and quality of interaction and coordination between combined firms can help achieve synergy realisation. Birkinshaw et al. (2000) extended Larsson and Finkelstein's (1999) study by developing the integrating process into (a) task integration process, and (b) human integration process. The former consists of identification and realisation of operational synergies and the later aims to achieve cultural convergence and positive attitude among the employees from both sides. They argue that both processes are important for reaping the joint benefits.

The prevailing understanding, therefore, is that without integration, resource redeployment and the elimination of redundant resources are not feasible (Pablo, 1994; Homburg and Bucerius, 2006; Cording et al., 2008) and the potential synergistic benefits such as operational synergies in production, marketing, R&D, and administration achieved from economies of scale/scope and knowledge transfer, cannot be obtained. However, high level of integration is challenging. It may disrupt the pre-existing resources and organisational routines in both firms (Marks and Mirvis, 1985), create conflicts between the top managers (Weber, 1996) and overstretch the time and managerial attention dedicated to the implementation (Roy and Roy, 2004). There is also ample evidence indicating that post-acquisition integration processes in CBAs are particularly stressful given large-scale of change, the rapid speed of change, the multiplicity of uncertainties and threat, and the fact that the employees must shift their organizational identification to a new and probably totally different organization (Cartwright & Cooper, 1992; Marks & Mirvis, 1992; Mottola et al., 1997; Bartels et al., 2006). Under such circumstances, although cultural differences can be a source of value creation and learning, they are more

likely to bring about stress, anxiety and conflicts, which produces the so called employees 'merger syndrome'<sup>5</sup> (Marks and Mirvis, 1985).

Coordination thus becomes an issue especially when the integration is high. Higher integration requires more extensive coordination activities, such as active communication (see e.g., Schweiger and Denisi, 1991; Angwin, 2001; Jimmieson, Terry, and Callan, 2004; Stahl et al., 2011; Weber et al., 2012), retention of key employees (see e.g., Richey et al., 2008; Reus and Lamont, 2009; Ahammad and Glaister, 2011) and getting the acquired managers involved in the post-acquisition integration process (see e.g., Graebner, 2004; Colombo et al., 2007). Timely, open, accurate and well-organised communication between the two organisations and with the employees does not only help clarify some uncertainties, manage the employees' anticipations, and reduce anxiety and conflicts. It also helps the exchange of useful information and allows for cross-cultural learning (e.g., Schweiger and DeNisi, 1991; Jimmieson, Terry and Callan, 2004; Bartels et al., 2006; Meyer, 2008). Retaining key employees is not only a reflection of coordination efforts but also a reflection of integration success, because they are crucial to securing potential resource advantages (see e.g., Ranft and Lord, 2002). For example, most of the respondents in Very and Schweiger's (2001) study noted that retention of the acquired top management team was critical especially when entering a new country. This is the reason why managers of foreign acquisitions are often contracted in order to retain them for an extended period of time (e.g., three years). Getting the managers involved in integration efforts is also important as they possess important information and knowledge that can improve the quality and speed of resource reconfiguration, and they may also help to create a harmonious organisational climate (see Graebner, 2004; Colombo et al., 2007). In summary, these coordination efforts can help mollify the effects of 'cultural difference' and 'merger syndrome' and realise successful integration and cooperation.

Building on Larsson and Finkelstein's (1999) reasoning, I consider it purposeful to conceptualize reconfiguration in this study as having two dimensions: (1) the extent of integration between two firms in terms of resource restructuring and material flows, and (2) coordination efforts that accompany and assist resource integration through, for instance, active communication and transition teams.

The above discussion suggests the following hypothesis:

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<sup>5</sup> 'Merger Syndrome' in M&A is identified and proposed by Marks and Mirvis (1985). The Merger Syndrome is a fusion of uncertainty and the likelihood of change, both favorable and unfavorable, that produces stress and ultimately affects perceptions and judgments, interpersonal relationships and the dynamics of the combination itself.

*Hypothesis 3 (H3): Resource reconfiguration capability influences post-acquisition performance of the combined firm such that: (a) integration extent positively influences post-acquisition performance; (b) coordination efforts positively influences post-acquisition performance.*

### **2.5.3.5 The mediating role of VI and RR between RB and PP**

As discussed earlier I consider ‘resource base’ a foundation for the conceptual model I have used in this study (see Figure 2.2). Resource base in my model, is presented as a higher-order construct, consisting of several sub-dimensions, which are relative size of the target to the acquirer (indicating resource quantity), pre-acquisition performance of the joining firms (indicating resource quality), resource relatedness (similarity and complementarity), acquisition experience and host-country experience (indicating strategic resources). All of them together reflect important attributes of the firms’ resource base, which tend to impact two main implementation processes in CBAs, i.e., value identification (VI) and resource reconfiguration (RR). For example, business relatedness makes it easier for the acquirers to uncover the target’s hidden problems as well as the potential synergies because their familiarity and knowledge with at least some elements of the target operations and its industry (Dundas and Richardson, 1982; Zaheer et al., 2013), thus facilitating the process of value identification. Moreover, large related acquisitions provide more potential of resource reconfiguration. At the same time, they require a more complex integration process and more managerial capacity to realise synergies – i.e. in comparison to small and unrelated businesses (Lubatkin, 1983; Seth, 1990; Larsson and Finkelstein, 1999; Roy and Roy, 2004). The benefits of resource relatedness (both supplementary and complementary), are expected to emerge when extensive resource integration is performed (Roy and Roy, 2004). Because of this, and given the familiarity and superior knowledge of the acquired firm industry, the acquiring firm is likely to be more adept at integrating the two organisations and contribute to the realisation of synergistic benefits. Larsson and Finkelstein’s (1999) empirical study confirms this and finds that business similarity and complementarity (combination potential) increase the degree of organizational integration in M&As.

With respect to the acquirers’ acquisition experience, identifying the promising targets and avoiding the problematic ones is required in addition to picking up valuable information during due diligence and making sufficient preparation for negotiations (Dikova and Sahib, 2013). Moreover, acquisition experiences of the active acquirers enable them to effectively and smoothly integrate their assets and resources (Hitt et al., 1998). I have also argued that host country experience, as another strategic resource, can help the acquirers deal with the challenges of implementing international acquisition (Balakrishnan and Koza, 1993; Li, 1995;

Very and Schweiger, 2001; Høbert et al., 2005). These include, such as identifying appropriate local targets, and communicating and negotiating with the target, dealing with different legal, tax, accounting, and regulation system, and handling cultural conflicts, etc. After interviewing 26 top managers, Very and Schweiger (2001) arrived at the conclusion that the lack of host-country experience and knowledge is a significant problem that can impact the entire acquisition implementation process. Pre-acquisition performance of two firms will also impact acquisition implementation actions. As discussed earlier, superior pre-acquisition performance (as measured in this study in terms of profitability, technological advantage, general managerial capabilities, marketing competence), to a large extent, indicates the managerial talent and high quality of resource owned by the firms involved in the M&A. These collective capabilities and expertise can facilitate an organization in identifying, picking, and implementing the right strategies, and improve the chance of success (Hambrick, 1987; Kiessling and Harvey, 2008). Meanwhile, poorly performing targets are said to have weaker skills and thus provide fewer opportunities for resource redeployment to the acquirer (Anand et al., 2005).

Furthermore, in the language of dynamic capability studies, it is stated that 'dynamic capabilities are typically built rather than bought and their creation and evolution are embedded in organisational processes that are shaped by the firm's assets position and the evolutionary paths they have adopted in the past' (Barreto, 2010, p.259; see also Makadok, 2001). Dynamic capabilities can be shaped by the development of operational capabilities (Newey and Zahra, 2009) and result from superior top management orchestration skills (Teece (2014). As such, acquisition-based dynamic capabilities such as value identification and resource reconfiguration are shaped and impacted by firms' existing resource base. From the other side, the central role of dynamic capabilities is to change the key internal components of firms – i.e. resources, capabilities and operating routines (Barreto, 2010). This means that acquisition activities (i.e., pre-acquisition value identification and post-acquisition resource reconfiguration), work as a link in transferring resources to help enhance performance.

A British study of 40 cases (Hunt, 1990) concludes that the contextual variables, e.g., relative size, business relatedness, health of seller, acquisition experience, are insufficient to explain the success or failure of acquisition, but could only be predictive if analysed with acquisition process, from targeting to converting. 'It is the influence of these contextual factors on the behaviours of the negotiators and implementers that is hypothesized as the key to success' (Hunt, 1990, p.74). In effect, the match between these two groups of factors (resource-related factors and implementation factors) matters most in determining post-acquisition performance.

To sum up, a firm's historical resource base will impact the creation, evolution and utilisation of acquisition-based dynamic capabilities such as value identification and resource reconfiguration. These dynamic capabilities hereafter work as the causal mechanism through which the firms' resource base (i.e., acquisition inputs) impacts the organisation's performance (acquisition outputs). Based on this observation, I propose the following hypothesis:

*Hypothesis 4 (H4): Value identification (VI) mediates the relationship between the joining firms' resource base (RB) and post-acquisition performance (PP) of the combined firm.*

*Hypothesis 5 (H5): Resource reconfiguration (RR) mediates the relationship between the joining firms' resource base (RB) and post-acquisition performance (PP) of the combined firm.*

#### **2.5.3.6 The mediating role of VI between RB and RR**

As discussed earlier, the combining firms' resource base will impact value identification. In turn, value identification in the pre-acquisition stage is more likely to impact resource reconfiguration in the post-acquisition stage. From the process perspective (Jemison and Sitkin, 1986, 1987; Haspeslagh and Jemison, 1991), these activities are closely connected in a sequential way.

Before purchasing a firm, the acquirers need to devote effort to an extensive due diligence in order to ensure that there exist potential synergies and value creation opportunities in the acquisition, ensure that there are no disruptive surprises occur in the subsequent integration process, and ensure that the acquirer can succeed in implementing the proposed strategic vision. The M&A literature informs that acquisition integration can be extremely challenging when a complex combination of firms is required for achieving expected cash flows, especially on the human side (Cartwright and Cooper, 1994; Birkinshaw et al., 2000; Larsson and Lubatkin, 2001). However, Carr et al. (2004, p.163) find that "companies frequently don't think seriously about integration until well after a deal is announced or even closed". The literature also repeatedly cautions that only through a thorough due diligence with considering the possible integration problems and integration plan, the acquirers can be able to conduct a rapid and efficient integration and overcome the problems brought by cultural difference (Haspeslagh and Jemison, 1991). Carr et al., (2004) studied the activities of 250 global executives involved in M&As and found that a third of the respondents regretted that they did not spend enough time during due diligence on planning integration. Furthermore, as mentioned above, analysts performing traditional due diligence usually overestimate revenue gains and cost savings and underestimate the implementation challenges in integration because



they focus mainly on financial aspects but overlook human issues and cultural differences (Marks and Mirvis, 2001; Perry and Herd, 2004; Lodorfos and Boateng, 2006; Baker and Kiyamaz, 2011).

In addition, pre-acquisition planning in the value identification process also helps forecast organisational and cultural impediments, provide guidance and direction for the post-closing operations (Shrallow, 1985) and thus make integration process smoother. A number of scholars (e.g., Ansoff et al., 1970; Datta, 1991; Epstein, 2005) claim that systematic planning can significantly improve the probabilities of acquisition success, and a successful post-acquisition integration depends heavily on careful pre-merger planning (Covin et al., 1996). Using an extensive literature review on the causes of success or failure of M&As, Aggarwal-Gupta et al. (2012, p.277) also draw the conclusion that 'the amount of planning carried out at the pre-merger stage can become a clear predictor of post-merger success'. Similarly, Colombo et al. (2007) argue that planning is not a magic wand but can help managers to forecast the organisational and cultural impediments and to find ex-ante solutions to make integration process smoother. Their empirical findings support the view that planning helps the acquirer to achieve a larger and effective resource redeployment.

Given the above discussion, I propose the following hypothesis:

*Hypothesis 6 (H6): Value identification mediates the relationship between resource base (RB) and resource reconfiguration (RR).*

#### **2.5.3.7 The mediating role of RR between VI and PP**

The discussions above suggest that there is a sequential causal relationship between value identification (VI) in pre-acquisition stage, and resource reconfiguration (RR) in post-acquisition stage. These together, impact post-acquisition performance (PP). Underlying this sequential linkage is the understanding that it is only after two firms come together that they can jointly take advantage of the value creation opportunities and synergy potentials that have been identified in the pre-acquisition stage. Resource reconfiguration serves as an important mechanism for doing so (Haspeslagh and Jemison, 1991; Anand and Singh; 1997). Integration depth unlocks the advantages of combining operations through the realisation of economies of scale/scope, coordination, knowledge transfer (Cording et al., 2008) and operative efficiency as well as market power (Meyer and Altenborg, 2008).

To summarise: the more accurate and extensive the identification of synergy potential and value creation opportunities through value identification capability in pre-acquisition stage, the more extensive and efficient resource reconfiguration after

purchasing the target, and the higher the post-acquisition performance of the combined firms. The above observations suggest the following hypothesis:

*Hypothesis 7 (H7): Resource reconfiguration (RR) mediates the relationship between value identification (VI) and post-acquisition performance (PP) of the combined firm.*

## **2.5.4 DEAL SETTING FACTORS**

### **2.5.4.1 Competition**

No cross-border acquisition is conducted in vacuum. This observation has encouraged Helfat et al. (2007, p.2) to argue that 'the benefits that firms obtain from their dynamic capabilities depend not only on the efficacy of the underlying organisational and managerial processes, but also on the context in which the capabilities are employed'. Context here refers to the environmental factors that impact the deal process – i.e. the deal setting factors. The representative deal setting factors identified from M&A literature are competition among the acquirers, the attitude of target firm's management team and organisational fit between the acquirer and the acquired firms.

Competition in the market for corporate control will reduce the ability of the bidder to capture synergistic gains (Moeller and Schlingemann, 2005). Multiple bids or competed offers are found to be associated with lower returns to the acquirers (Datta et al., 1992; Moeller et al., 2004; Moeller and Schlingemann, 2005). The winners in the competition for the target suffer below normal or even negative profit, which is usually referred to as 'winner's curse' (Kagel and Levin, 1986). However, by analysing 308 takeovers, Boone and Mulherin (2008) find no impact of takeover competition on both bidder returns and operating performance. They argue that the bidders in the takeover market is consistent rational and can devise strategies to overcome potential bidding pitfalls. Likewise, Carline et al. (2009) use 'competition' as a control variable and also report no competition effect on subsequent operating performance. In addressing these inconsistent results, some researchers attribute the lack of a significant effect on bidder returns to the fact that the number of public bidders is an incomplete measure of takeover competition (e.g., Boone and Mulherin, 2003; Moeller et al., 2004). Sometimes, there are multiple potential acquirers for one target and the competition among them takes place privately. Therefore, for this thesis, I asked the top managers (CEO, CFO or acquisition project managers) about information related to potential buyers for the primary target at the time of

acquisition. My reasoning is that these managers should be able to offer more accurate information about the bid process.

Competition among acquirers can exert negative effect on acquisition performance because it tends to not only drive up the price (Boone and Mulherin, 2002; Moellera et al., 2004), but also to allow the acquirers less time for a careful evaluation of bid decisions (Tuch and O'Sullivan, 2007). The winner's curse hypothesis posits that winning bidders pay too much and fail to adjust their strategies to the level of competition and the amount of uncertainties in the takeover environment (Bazerman and Samuelson, 1983; Kagel and Levin, 1986). This will then result in break-even or negative bidder returns. In sum, a highly competitive deal setting is not favourable context within which acquirers may not engage in sober reflections and make rational decisions. Based on the above reasoning, I propose the following hypothesis:

*Hypothesis 8 (H8): Competition among the acquirers negatively impacts post-acquisition performance of the combined firm.*

#### **2.5.4.2 Attitude of the acquired firms' management**

Friendly acquisitions (i.e., those agreed between acquirer and target managements) are essentially driven by synergy consideration (Morck et al. 1988; Shleifer and Vishny, 1988), while hostile acquisitions (i.e., those resisted by the target managers) are viewed as discipline measures towards the underperforming management of the target firm (Shleifer and Vishny, 1988; Cosh and Guest, 2001). However, some researchers (e.g., Franks and Mayer, 1996; Cosh and Guest, 2001) do not find evidence supporting the disciplinary function hypothesis of hostile acquisitions. Instead, some studies (Buono and Bowditch, 1989; Hambrick and Cannella, 1993; Hitt et al., 2001; Stahl et al., 2011) argue that a hostile takeover can result in sharp inter-organisational conflict and difficulties of integrating the acquired firms. Moreover, the target firm has private information about how to achieve the highest valuation of its assets and is likely to withhold it from hostile acquirers, making hostile acquirers obtain less synergistic gains (Sudarsanam and Mahate, 2006). The situation is even worse when hostile targets take counterattack actions, such as adopting a poison pill defence or introducing a white knight, which makes the hostile acquirers less likely to succeed (Mallette and Fowler, 1992; Brickley et al., 1994; Halebian and Finkelstein, 1999). Moreover, multiple bidders attracted in hostile bid will drive up the premium (Browne and Rosengren, 1987). Such high payment makes the acquirers less likely or more difficult to make profit. Healy et al. (1997) confirm this and find that hostile deals are associated with insignificant improvements in cash flow returns and a higher acquisition premium is part of the reason. Most of the executives in my previous survey study also agree that 'a hostile

takeover often results in a higher payment to the acquired company than a friendly merger'.

Most of the time, when we talk about 'hostile' deals we associate them only with the public-listed firms since the acquirers can directly go to the shareholders and acquire the target without the target firm managers' agreement (i.e., tender offer of public shares). However, hostile acquisitions can also happen to the acquirers who target at some private (or family)-owned firms. For the private firms, even though it is not possible that the acquirers can directly acquire them without the owner's permission, the owners of private firms (especially the family-owned ones), may initially resist an acquisition, but may be gradually persuaded or induced to accept the proposition of CBAs. In some cases, some private firms may be eager to sell their firms. They will therefore take approach potential acquirers with an offer. The attitude of management team in two groups of firms will be obviously depend on the circumstances within which the acquisition takes place, and the attitude may evolve as the acquisition proceeds. As Gomez-Mejia and his colleagues argue (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2010), if losing family control and relinquishing socio-emotional wealth (the wealth such as personal authority vested in family members, the perpetuation of family emblems as values), is viewed by owners as crucial loss for them, they will tend to exhibit strong resistance to the acquisition and subsequent organizational change. Such resistance and unfriendly attitude clearly tend to result in higher cost for the acquiring firm to make this deal happen.

If the firms (both public and private) are reluctant to be acquired at the beginning, the tone of negotiation is much likely to be hostile, or at least not friendly. According to Hunt (1990), the tone of negotiation (friendly vs hostile) may be the most important influence on the subsequent success and failure of an acquisition. This is because friendly negotiations tend to have long, open discussions and the price is negotiated without the glare of publicity or the 30 per cent bid premium that is common in public hostile bids. Under such circumstances, the acquirers tend to identify less synergy potential or value creation opportunities as well as have difficulties of discovering the problems and risks due to limited information. These problems will be exacerbated when acquiring the private firms and when acquiring the firms across the border. This is because there are few ways to get information and acquirers tend to depend on the target firm's wiliness to share information when acquiring the private firms. When acquiring firms located in other countries, there are likely to exist a higher level of information asymmetry, more uncertainties, cultural and even language barriers, unfriendly attitude from the target firm's management makes such deal even more difficult. Moreover, hostile negotiations

tend to continually produce hostility in the combination phase and thus set barriers for the subsequent actions.

By analysing the attributes of 12 successful and 12 unsuccessful acquisitions, Hitt et al. (1998) found that all 12 successful acquisitions were friendly and the two sides in these acquisitions had friendly negotiations. They further explain that a friendly negotiation process can produce faster and more effective integration, increase the probability of successful combination of culture and systems, and facilitate the creation and exploitation of possible synergy, which in turn lead to the final success. On the contrary, unfriendly negotiations can lead to higher premiums and less cooperation, which reduce future financial returns. Therefore, it is expected that acquiring the firms whose management team hold more friendly attitude can result in more synergy realisation and higher firm-level performance, especially in the cross-border environment.

Based on the above reasoning, I propose the following hypothesis:

*Hypothesis 9(H9): Friendly attitude of the target firm's management positively impacts post-acquisition performance of the combined firm.*

#### **2.5.4.3 Organisational fit**

A review of the existing M&A literature reveals that empirical analysis of the effect of 'organisational fit' on M&A outcome is limited. This may be partly due to the lack of an effective model for measuring the construct, possibly due to its abstract nature. Another possible reason is that the construct has been labelled differently by different scholars (see e.g., Datta, 1991; Chatterjee et al., 1992; Very et al., 1997; and Saxton and Dollinger, 2004). For example, some scholars even used 'cultural fit' and 'organisational fit' interchangeably (see, Cartwright and Cooper, 1994; Ahammad and Glaister, 2011). Some others decompose the construct and study its sub-dimensions separately (see Datta, 1991, Schoenberg, 2004).

Those who use 'organisational fit' as a construct in their studies generally consider it as the extent to which the partnering organisations are matched in terms of their management style, corporate cultures, as well as administrative systems and procedures (usually referred to reward and evaluation system). Clearly, these aspects are correlated and cultural difference is a key component. Management style is posited as a central element of a firm's overall culture and it simultaneously reflects the influence of both national and organisational culture (Ahammad and Glaister, 2011). In Datta's (1991) study, management style is defined using the sub-dimensions of management group's attitude towards risk, decision-making approach and preferred control and communication patterns. Reward and evaluation system is

said to represent an important vehicle in reinforcing values, beliefs and practices in an organisation (Kerr and Slocum, 1987; Datta, 1991). Apart from different measurements of post-acquisition performance, such different definitions and research focuses on 'organizational fit' make it even more difficult or impossible to make the comparison and final summary about whether and how 'organizational fit' affects acquisition performance. However, almost every important dimensions related to 'organisational fit', such as compatibility in management style, cultural similarity can find its empirical evidence supporting its positive impact on acquisition results (see e.g., Datta, 1991; Chatterjee et al., 1992; Schoenberg, 2004; Ahammad and Glaister, 2011).

The present study takes its point of reference in the fact that there is a lack of effective definition of the 'organisational fit' construct and there have been very few studies have attempted to empirically investigate its impact on CBA outcomes. In the light of this awareness the study, I report in this thesis makes a modest contribution to filling this knowledge gap. Leaning on the existing literature and my discussions with practitioners and scholars in the area, I have decided to use the following dimensions to describe organisational fit: management style, corporate culture, reward, and evaluation system. Detailed information about its measurement can be found in chapter 4.

It is argued that any type of organisational changes is likely to cause feelings of powerlessness (Covin et al., 1996), while the changes accompanied with acquisitions are even more significant given the extensiveness of changes and the fact that they tend to happen usually in a relatively compressed time period. These changes almost inevitably result in enhanced complexity and uncertainty (Datta, 1991). One can reasonably expect that the acquired firm's employees will react defensively to such changes by clinging to their own beliefs and approaches and making efforts to reduce uncertainty and preserve their identity. They thus tend to suffer from insecurity and feelings of being inferior because of loss of autonomy and status (Hambrick and Cannella, 1993; Very et al., 1997). These problems will be further aggravated by significant differences between the two organisations in philosophical outlook, values, behaviours of the top management teams and reward and evaluation methods. These differences will give rise to increased anxiety, distrust (Datta, 1991), frustration and even resentment (Cartwright and Cooper, 1992). These negative feelings in turn can result in miscommunication and conflicts (Sales and Mirvis, 1984), reducing commitment toward cooperation (Weber et al., 1996), lower job performance (Buono and Bowditch, 1989), increased absenteeism (Davy et al., 1988) and high rate of turnover (Cannella and Hambrick, 1993), making the integration very difficult and stressful and culminating in declining productivity and post-acquisition performance (see e.g., Larsson and Finkelstein

1999; Slangen, 2006; Paruchuri et al., 2006; Björkman et al. 2007). On the contrary, compatibility in management styles will reduce the acquired employees' resistance (Larsson and Finkelstein, 1999) and facilitate post-acquisition assimilation (Datta, 1991). Satisfaction should be higher and social control should be more effective when the executives acquire the firm with similar belief systems, values, language and rituals (Larsson and Lubatkin, 2001).

Moreover, the acquiring firm's management often ends up imposing their own style onto the acquired firms (Datta, 1991). Organisational differences, especially different management style at this time tend to bring about more problems, such as the increased anxiety, distrust, and conflicts. It is argued that even in the acquisitions where the organisational characteristics of joining firms are preserved, the acquired firm is often subjected to very close control and scrutiny through such as increased reporting, frequent visits, strategic guidance, and financial control (Datta, 1991). Organisational difference therefore can continue to cause conflicts within the ongoing parent-subsidiary relationship and so exert a negative influence on subsequent performance (Schoenberg, 2004).

A cross-border acquisition has the effect of bringing together two management groups from two firms located in two countries. Compared with domestic acquisitions, cross-border acquisitions are more likely to bring together people with different values and beliefs because people are influenced by not only organisational culture but also national culture. However, it is worth noting that we cannot say this is the absolute truth since even two firms located in the same country may have totally different management styles and organizational cultures. For example, Very et al. (1997) did not find national culture to be particularly important in differentiating between domestic and cross-national mergers. And a survey conducted by Angwin and Savill (1997) among the 143 practitioners also found that the countries often cited as being difficult were in fact the neighboring ones. Especially, if the acquired target is a subsidiary owned by some company located in another foreign country, this subsidiary will then be influenced by not only the national culture of its located country but also their mother company's national culture. At this time, national cultural distance actually cannot really and fully capture the real cultural difference. Anyhow, definition/measurement of the construct of 'organizational fit' in this study includes both organizational culture difference and management style (see chapter 4 for detailed measurement information). These dimensions seek to capture the main differences between two organizations that directly influence organisational decision and behavior, as well as the cultural differences on the national level. This line of thinking is also consistent with the dominant viewpoint in the cross-cultural management literature showing that firms from a particular nation will exhibit management styles that are rooted in

the nation's particular institutional, legal and societal context (Hofstede, 1983; Olie, 1994), and national cultural difference, to a very large extent, can be reflected in organisational cultural differences (Schneider and Meyer, 1991; Langlois and Schlegelmilch, 1990).

Additionally, although some cultural or organizational differences may be perceived as attractive (Very et al., 1997) and can also be a source of value creation and learning opportunities (Stahl and Voigt, 2008; Weber and Tarba, 2012), it is likely that, in absolute terms, cultural and management differences will create major obstacles for two firms' working together and achieving acquisition benefits, at least it requires more efforts from the managers to address these differences. This observation is not only documented in a number of academic research, as discussed above, but also has been recognized by an increasing number of practitioners (Angwin and Savill, 1997; Hopkins, 1999; Marks and Mirvis, 2001; Carr et al., 2004). The practitioners argue that acquiring firms across borders can bring clashes of different management styles and operating approaches (Hopkins, 1999). Thus, Cartwright and Cooper (1993, p.68) concluded from their study that 'the greater the dissimilarity between the culture types, the more problematic the honeymoon period and the longer the integration process'. My own exploratory survey study (see Appendix A) also confirms this and suggests that 'cultural difference' matters a lot in implementing cross-border acquisitions. Collectively, the above discussions suggest the following hypothesis:

*Hypothesis 10 (H10): Organisational fit positively impacts post-acquisition performance of combined firm.*

## **2.5.5 CONTROL VARIABLES**

Acquisition performance may be subject to some other influences aside from the determinants discussed above. Drawing upon prior acquisition research, I control for the following three highly potential impacting factors frequently used in M&A research: (1) payment method, (2) premium and (3) industry type.

A majority of studies conclude that the means of payment appear to be a good indicator of the post-acquisition performance and the acquirers with all-cash payment is found to perform better than the acquires with all-equity payment (see e.g., Schwert, 1996; Ghosh, 2001; Tichy, 2001; Goergen and Renneboog, 2004; Walters et al., 2007; Savor and Lu, 2009; Lau and Proimos, 2010). Cash financed deals send a positive signal to the stock market that the acquirers are confident about the target's value (Myers and Majluf, 1984; Fuller et al., 2002). However, from tax



effect perspective, Fuller et al. (2002) state that the target shareholders may prefer stock to cash due to the deferred tax payment and accept a discounted price and the lower price will be reflected in the higher bidder returns for stock offers. A more recent study conducted by Dutta et al. (2013) reports a significant and positive effect on short-run stock market performance, but a significant and negative effect on long-run stock market performance. It also finds no effect on long-term operating performance for stock-financed deals in cross-border acquisitions. They also find that stock payment is viewed as a possible remedy for reducing information asymmetry and lowering corporate governance related risk in cross-border acquisitions. From the above findings we see that the payment method plays a role in determining the outcomes of acquisitions.

Acquisition premium and goodwill are often-cited as variables that are associated with high prices paid for a target company. According to Hayward and Hambrick (1997, p.103), acquisition premium is defined as 'the ratio of the ultimate price paid per target share divided by the price prior to takeover news.' Compared to other internal growth investment, the distinctive characteristic of acquisition investment is that the acquirers usually pay a premium over the targets' current market value. Managers often justify the payment of premiums based on the potential synergies from the combination of the two firms. However, price matters. When large premiums are paid to the acquired firms, creating the needed synergy becomes more challenging as the costs of making the acquisition hardly cover the higher returns required (Sirower, 1997; Krishnan et al., 2007). A number of researches find that 'paying too much' is major cause of failure (Datta and Puia, 1995; Sirower, 1997; Inkpen et al., 2000; Bower, 2001; Hayward, 2002). The above observations necessitate the inclusion of these variables as control variables.

A third control variable is industry type. Industry type refers to whether the acquisition is in the manufacturing or service industry. Firms from two types of industries tend to have different organisational structures, operational procedures and strategic resources. Thus, this study controls for the 'industry effect' to make the results more generalizable.

Figure 2.2 presents my overall conceptual/analytical model and outlines all the above hypothesised relationships. It is worth noting that RB, RR, and PP are more abstract higher-order constructs (HOC) in the structural model. I discuss the definition and measurement of these constructs in chapter 4. Generally, the foundation of this conceptual framework comprises four elements: (1) the impacting factors from resource based view (RBV), including 'relative size of the target to the acquirer' (the proxy of resource quantity), 'pre-acquisition performance of the acquirer and the target firm' (the proxy of resource quality), 'resource

complementarity and similarity' (resource relationship), as well as 'the acquirer's acquisition experience and host-country experience' (strategic resource that may facilitate CBA implementation); (2) the determinants from the view of dynamic capabilities and process perspective, which points to 'value identification' in pre-acquisition stage and 'resource reconfiguration' (embodied by 'integration extent' and 'coordination efforts') in post-acquisition stage; (3) deal-setting factors that refer to 'competition among the acquirers', 'the attitude of target firm's management', 'organisational fit between two firms'; and (4) the dependent variable of post-acquisition performance reflected in two aspects: deal level performance (i.e., synergy realisation) and firm level performance (i.e., a motive-weighted performance in terms of three aspects of market, innovation and accounting). Overall, this framework incorporates both static contextual (i.e., resource base and deal setting factors) and dynamic implementation (i.e., value identification and resource reconfiguration) factors. Besides, inspired by Cartwright (2005), this framework is defined as an 'input-process-output' model, in which resource base related variables are the important inputs, which are transferred into acquisition outputs (measured by deal-level synergy realisation and motive weighted firm-level performance) through two critical acquisition implementation processes, i.e., value identification and resource reconfiguration.

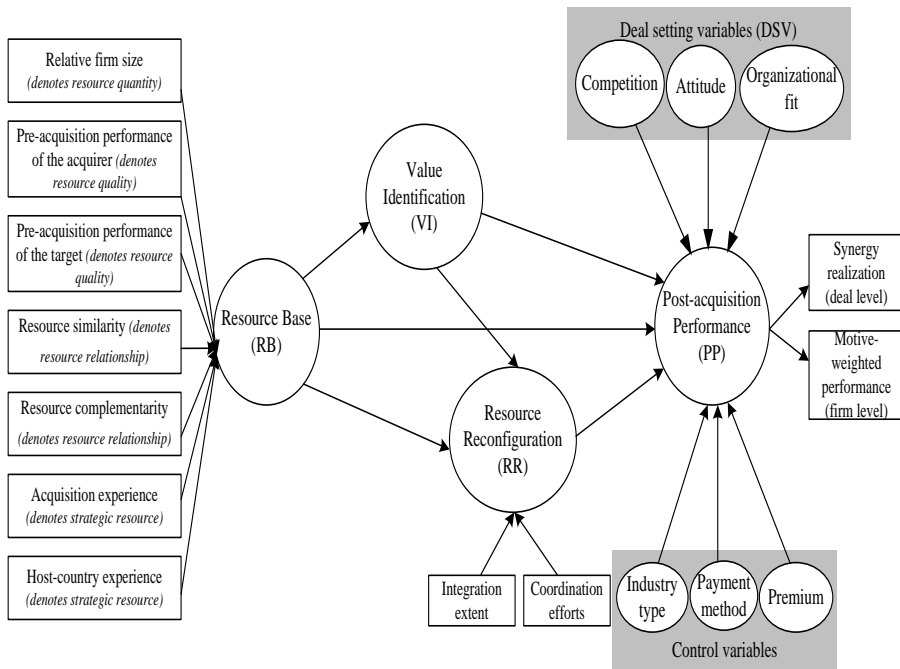


Figure 2.2 An input-process-output framework for explaining CBA performance

## CHAPTER 3 METHODOLOGY

Before deciding on the appropriate methods to adopt in collecting data for this study, I consulted a number of published empirical investigations on M&As in general and CBAs in particular to learn about what research strategies previous researchers have adopted. According to Haleblan et al. (2009) as well as Cartwright et al. (2012), the vast majority of acquisition research is conducted by using quantitative approach based on survey data. Examples include Capron (1999), Angwin (2004), Anand, Capron, and Mitchell, (2005), Colombo et al., (2007), Cording et al. (2008), Ahammad and Glaister (2011), and Bauer and Matzler (2014). As Saxton and Dollinger (2004, p.124) put, 'the factors related to successful achievement of acquisition objectives demands empirical attention, and success must be broadly conceived'.

Meglio and Risberg (2010, p.89) decry this 'methodological conformity', arguing that it is indicative of the fact that 'methods and methodology remain rather under-problematized and unquestioned in the M&A research community'. They then forwarded the view that in order to 'rejuvenate the field and increase our understanding of questions such as what drives acquisition activity, how the integration process unfolds, what affects the outcome and the performance, or why M&As have high failure rates, we must turn to other methodologies as well as methods than those prevailing today' (Meglio and Risberg, 2010, p.90). There is a growing group of researchers that share Meglio and Risberg's admonition and reject the quantitative approach to M&A research. This group of scholars argue that surveys limit scholars' abilities to get 'inside' view of the phenomenon (Haleblan et al., 2009). To them, quantitative studies of this type carry limited explanatory power, are devoid of flexibility (Easton, 2010), and do not allow researchers to obtain rich and unanticipated data (Becker, 1996). They therefore subscribe to the use of qualitative research methods aimed at providing 'a better understanding of what happens in the organization during the integration and how people experience the process' (Meglio and Risberg, 2010, p.89).

Others suggest that M&A investigations should adopt longitudinal approaches (e.g., Haspeslagh and Jemison, 1991; Meglio and Risberg, 2010) because of multi-temporal and complex nature of M&As. However, from the operational side, Bauer and Matzler (2014) argue a longitudinal design in an M&A context is problematic and unpractical to implement due to three or more years needed after the acquisition for sufficiently measuring the success, and also due to managerial turnover after acquisition and the lack of willingness of the companies to participate in such a study. This is even more problematic when research sample is large. Pinsonneault

and Kraemer (1993) also argue that the longitudinal approach is not always preferable even for the process-oriented questions, but is particularly appropriate when changes in dependent variable are expected to occur relatively rapidly after the intervention of the independent variables. However, according to Meglio and Risberg (2010, p.89), ‘longitudinal research in the field is most often based on secondary data and use the same stock of statistical analyses, which do not do justice to the generating mechanisms and the hidden arrangements that produce certain outcomes’.

These contrasting arguments have motivated me to turn to the philosophy of science literature to gain some insight into the root assumptions underlying the choices that different researchers make when studying the M&A phenomenon. Scholars of philosophy of science argue that 'different ontologies and epistemologies and models of human nature are likely to incline social scientists towards different methodologies' Burrell and Morgan (1979, p.2). In other words, the choice of quantitative or qualitative approach to a given piece of research in social science reflects particular researchers' preference for specific ontological views and epistemological assumptions. I have reviewed the central arguments in these discussions but consider it convenient to place the discussions in Appendix B for readers that may be interested in a quick overview of the arguments. I have, however, summarized the discussions in section 3.1 of this chapter in order to provide philosophical justifications for my own choices. This is followed by section 3.2 in which I discuss the reasons for my choice of quantitative methods for this investigation as well as its strengths and weaknesses. Section 3.3 presents the research process and describes how data is collected and analyzed to serve the research purpose. Section 3.4 provides a summary of the arguments in the chapter.

### **3.1 PHILOSOPHICAL FOUNDATION OF THE PRESENT STUDY**

In general, there are two schools of thought in research on social science. One group of the researchers view the social world as hard, real and external to individuals. These researchers focus their research endeavour upon an analysis of the causal relationships and regularities between the various elements/variables which it comprises. The other group view the social world as being created by subjective experiences and individual cognition. These researchers are likely to focus their attention on the explanation and understanding of what is unique and particular about the individual rather than what is general and universal. Those who subscribe to a “realist” perspective of the social world (i.e. an objectivist perspective) usually

adopt a quantitative approach in their research design while those who agree with the subjectivist view of reality most often adopt a qualitative research strategy.

The philosophy of science literature informs that the advocates of quantitative and qualitative research paradigms have engaged in fervent debate for more than a century. As Onwuegbuzie and Leech (2005, p.375) noted, such polarization ‘has led to a great divide between quantitative and qualitative researchers, who often view themselves as in competition with each other’, hence, ‘counterproductive for advancing the social and behavioural science field’ (see also Ercikan and Roth, 2006). Both qualitative purists (e.g., Smith, 1983, 1984; Lincoln and Guba, 1985) and quantitative purists (e.g., Howe, 1988; Schrag, 1992; Maxwell and Delaney, 2004) hold radical scepticism toward each other and view their paradigms as the ideal for research. They implicitly or explicitly adopt an incompatibility stand, and argue that two approaches are derived from two mutually exclusive paradigms. In their views, the two paradigms have quite different philosophical assumptions concerning reality (ontology), knowledge of that reality (epistemology), and the particular ways of knowing that reality (methodology). Two sides of purists also implicitly or explicitly assume that their approach alone is enough to know the truth of the social world. Although the debate is still lively, more and more people become reflexive and appreciate the contributions from both qualitative and quantitative research. As argued by Ercikan and Roth, (2006), all phenomena are quantitative and qualitative simultaneously, and full investigations of the phenomena need to consider both of these aspects. ‘There are varieties of research methodologies with no single accepted research methodology applicable to all research problems’ (Tuli, 2011, p.99).

The discussions suggest that quantitative and qualitative researchers, hold different views on how relevant knowledge about a given phenomenon should be acquired. For instance, the quantitative researcher usually refers to an external referent and use impersonal voice to describe the reality of a research phenomenon and demonstrates the research validity using such phrases as “research has shown...” or “the results of research indicate...” (Smith and Heshusius, 1986). On the contrary, a qualitative research usually refers to personal interpretation or meaning to label the phenomenon, and an interpretation itself becomes reality (see Smith and Heshusius, 1986; Sale et al., 2002). In general, the major characteristics of traditional quantitative research are a focus on deduction, confirmation, theory/hypothesis testing, explanation, prediction, standardized data collection, statistical analysis, seeking for general causal explanations, and interpreting the results by external reference. Traditional qualitative research are characterised with induction, discovery, exploration, contextualisation, theory/hypothesis generation, the

researcher as the primary “instrument” of data collection, seeking for understanding the meanings for the individual being studied, and interpreting social phenomena from the perspective of the actor (Bryman, 1984; Rossman and Wilson, 1985; Johnson and Onwuegbuzie, 2004; Gelo et al., 2008; Tuli, 2011). However, these typical attributes do not all exclusively belong to themselves, and the two approaches also share some common elements as discussed by some methodologists (e.g., Sechrest and Sidani, 1995; Becker, 1996; Onwuegbuzie and Teddlie, 2003; Yu, 2005; Onwuegbuzie and Leech, 2005; Ercikan and Roth, 2006; Gelo et al., 2008). For example, Onwuegbuzie and Leech (2005) noted that quantitative analyses are not necessarily confirmatory and hypotheses can lie on a continuum ranging from exploratory to confirmatory (see e.g., three types of quantitative survey studies introduced by Pinsonneault, and Kraemer, 1993 and Forza, 2002), while qualitative analyses are not definitely exploratory but can involve confirmatory thematic analyses. Also, as stated by Gelo et al., (2008, p.271), ‘each idiographic science with regard to its general concepts must refer back to nomothetic disciplines’.

Researcher or methodologist who are in favour of pluralistic or compatibilist approach<sup>6</sup> (e.g., Onwuegbuzie and Teddlie, 2003; Johnson and Onwuegbuzie, 2004; Morgan, 2007) criticise and reject such “top-down and ontology-driven” approach. They argue that the logic of justification (an important aspect of epistemology) doesn’t dictate what specific data collection and analytical methods researchers must use. It is the research purpose and associated research questions that should determine the actual research procedure and choice of specific research methods. Becker (1996, p.57) remarked that ‘a lot of energy is wasted hashing over philosophical details, which often have little or nothing to do with what researchers actually do’.

I do not consider myself a quantitative purist. I acknowledge the differences between two approaches as I discussed in Appendix B, especially on the paradigmatic level. I also believe both approaches have their merits and drawbacks (see Zelditch, 1962; Bryman, 1984; Johnson and Onwuegbuzie, 2004; Neuman, 2005; Creswell, 2013), and both are important and useful. They may allow the researchers to answer different and complementary research questions. At the same time, I agree with Smith’ (1983, p.13) statement that ‘it is unfair to judge qualitative efforts from a quantitative perspective and vice versa’. As argued by some mix-methods proponents (e.g., Rossman and Wilson, 1985, 1994; Greene et al., 1989; Johnson and Onwuegbuzie, 2004; Morgan, 2007; Gelo et al., 2008), the two

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<sup>6</sup> Four instances in mixing qualitative and quantitative paradigms have been summarized and discussed by Greene and Caracelli (2003)

approaches can draw from each other's strengths and minimize their weakness. They can be integrated in a single study or series of studies to achieve the purposes of cross-validation (or triangulation, or corroboration), elaboration, development, initiation, or expansion. The most important questions the researchers and the research methodologists need to be asked is 'when each research approach is most helpful and when and how two approaches should be mixed or combined in their research studies' (Johnson and Onwuegbuzie, 2004, p.15). I share the view championed by scholars such as Johnson and Onwuegbuzie (2004), Ercikan and Roth (2006) as well as Morgan (2007) that the most fundamental issue to bear in mind is the research question, following which research methods can have the best chance to produce useful answers. I also believe certain research questions lend themselves more to quantitative approach, while some others make the qualitative approach or mixed-methods design more suitable.

As indicated above, I have opted for a quantitative approach to this research not simply because it is the dominant methodological tradition in the field, but because I believe that the research issues I have outlined in chapter 1&2 are best investigated on the assumption that the "reality" behind the somewhat complex and chaotic CBA decision process is made on the basis of rational economic assumptions. Ontologically, this means I share the view that the "reality" I intend to investigate can be assumed to be independent of an individual's subjective ideas or thoughts, and can be studied by an outsider (i.e. a researcher like me) with an objective state of mind as much as possible. I also assume that the mechanism driving these complex decision processes have attributes that are relatively stable and can be identified through structured and rigorous research. Admittedly, every social affair and business activity is caused and carried out by people and will also affect people. However, I do not subscribe to the view that it is not only through the perspective of the participants that we can better understand and explain CBA decision-making processes or understand CBA performance. Furthermore, I share the understanding that there is usually no clear-cut line of distinction between subjectivism and objectivism. It is fair to say that in research practice, the distinction between the two is much more of a continuum. I consider myself pitched somewhere in-between the continuum. In this way, my philosophical assumptions and preferences differ from those endorsed by those who adopt the qualitative approaches to research. However, I agree with Johnson and Onwuegbuzie (2004), that the conduct of fully objective and value-free research is a myth, since we (as the researchers) are also the human beings. As the human beings, we are embedded in communities, and our attitudes, values, and beliefs potentially affect what we choose to investigate, what we see,



and how we interpret what we see (See Appendix B for elaboration of the paradigmatic discussions).

I have been guided in my paradigmatic stance by the work of Arbnor and Bjerke (2009) in designing my research strategy. Arbnor and Bjerke talk about six continuum paradigms and three methodological views (see Appendix B). My choice slants in the direction of Arbnor and Bjerke's analytical approach, since my data collection methods are mainly quantitative. I have, however, been mindful of Johnson and Onwuegbuzie's (2004) argument that no research can be entirely value-free. I have therefore tried to undertake this research in as much an objective way as I can. For instance, I develop the research questions not only from the research gaps identified in the literature, but also from the findings of an exploratory questionnaire conducted among the practitioners (see Appendix A). I defined and measured the researched constructs/variables by using multi-items, referring to many empirical studies, and leaning on the opinions of both scholars and M&A experts. I discussed and dealt with potential non-response bias and common method bias using both ex-ante procedural techniques and ex-post statistical techniques. I systematically analysed the data in order to fully examine the effect of those potential impacting factors. I made interpretation of the findings by going back to the literature and theories to reduce potential personal interpretation bias. I will explain this process of data collection and analysis in details in later sections of this chapter.

Referring to the specific topic of CBA performance/success researched in this study, although each CBA deal is unique since it involves two different organizations and many stakeholders, they also share some commonalities. For instance, each deal will connect two organizations possessing tangible and intangible resources, and there is a sequence of phases most of the acquirers have to go through during acquisition process - i.e., due diligence, valuation, negotiation, and post-acquisition (low or high) integration. Almost every acquirer needs to collect and assess the information related to the target firm before purchasing it, and share and exchange the tangible and intangible resources (more or less) after closing the deal. As acquisition practices have evolved, some efficient and effective ways (or rules) to implement some of the pivotal issues have emerged and paying attention to these rules enhances the possibility of success. Like most previous researchers who have used quantitative approach, my ambition in this study is to examine the process from acquirers' perspective and make efforts to search for the possible reasons of failure, the effective ways of doing M&As, the critical issues in M&As, or the general laws that can help improve M&A success. In doing so, I lean on studies conducted by such scholars as Capron (1999), Linn and Switzer (2001), Homburg and Bucerius

(2005), Francis et al. (2008) King et al. (2008), Carline et al. (2009), Ahammad and Glaister (2011) as well as Bauer and Matzler (2014).

In sum, the understanding I gain from reading the existing empirical literature on M&A is that both qualitative and quantitative research can contribute to the knowledge of M&As but in different ways. Since this study seeks to identify some general rules or commonalities for successfully implementing cross-border acquisitions, rather than focusing on the individuality or uniqueness between different deals, I see a justification in adopting a quantitative research design. Furthermore, I am inspired by Becker's (1996) argument that the objective of any description is not to reproduce the object completely but to focus on the abstracted dimensions from the totality of details, so that we can answer the questions we have. In addition, quantitative researchers have considered the effect exerted by differences among the acquisition deals, and they do so by accounting for the residuals and variance in their statistical analyses.

Let me also state that the idea of identifying commonalities of practice in M&A studies is not limited to scholars subscribing to quantitative approaches to research. Some scholars using qualitative approaches also see the wisdom in looking for patterns of behaviour. For example, based on in-depth analysis of seven high-tech companies, Ranft and Lord (2002) identify five major components shared by these case companies and find some specific relationships between the components. Based on this, they develop a model and make 13 cause-effect propositions to explain technology and knowledge transfer in the acquisitions. They further call for large-scale empirical studies to statistically test the model and the associated propositions. Hitt et al. (1998) also use a multiple-case design. They systematically compare the attributes between 12 successful acquisitions and 12 unsuccessful cases, and identify eight shared attributes linked to the successful group and six attributes linked to the unsuccessful group. In the end, they argue 'the research suggests that patterns or configurations of attributes/variables may help explain the degree of success of acquisitions' (p.106). The main difference, as I can see from the qualitative and quantitative studies, is that qualitative scholars tend to call the commonalities among the cases as "pattern" or shared "attributes", while the quantitative researchers name them as causal relationships. Just like what Sechrest and Sidani (1995, p.78) noted that both approaches have empirical inquiry and they 'describes their data, construct explanatory arguments from their data, and speculate about why the outcomes they observed happened as they did'. As Sayer (2000, p.14) reminds us, 'in both everyday life and social science, we frequently explain things by reference to causal powers'.

The above observations have motivated me to use a hierarchical structural model (from process and multi-disciplinary perspectives) to explain CBA performance as thoroughly discussed in chapter 2, considering both contextual and implementation factors, both deal level and firm level factors, and assessing the performance on both project and firm level. As Patomäki and Wight (2000, p.223) argue, ‘a significant part of what constitutes science is the attempt to identify the relatively enduring structures, powers, and tendencies, and to understand their characteristic ways of acting’ (see also Easton, 2010). Furthermore, I also do not quite agree with the positivists’ view that generalization of research findings is completely context free and time free, but I believe the findings from this study at least can apply to the research population and can provide at least some short-term solutions. In effect, I neither believe that all social knowledge has to be context-bound, value-laden, and time-constrained, nor do I believe that all social knowledge can be totally context-free, value-free, and time-free. It is actually a question of degree involved here, how large the context, how long the period, and how much value we talk about, and whether we intentionally let the personal value influence our research or we are aware of it and control the problem of value-related bias. Again, as noted by Patomäki and Wight (2000, p.227), ‘no synthesis can ever be absolute and final’. I will carry these perspectives with me when I discuss the implications of the present study for future research and the degree to which the findings are generalizable (see chapter 6).

## **3.2 METHODS SELECTION AND JUSTIFICATION**

### **3.2.1 SURVEY RESEARCH METHOD AND REASONS FOR ITS SELECTION**

As noted above, the general understanding conveyed in the philosophy of science literature is that research questions and objectives determine the choice of research methods. The research objective of this thesis is to set up an integrative framework, identify some general principles which can better explain the performance/success of cross-border acquisitions and help the practitioners achieve better performance in the future. In my assessment, primary survey data are required for addressing the issues in the study. I have noted that because of the private ownership of Nordic firms involved in cross-border M&A, it is not easy to collect related data from secondary sources. The philosophy of science arguments that provide justifications for my choice have been presented above. I have also suggested that scholars who subscribe to qualitative approach to M&A research also acknowledge the usefulness

of quantitative types of research in the field. For example, Meglio and Risberg's (2010, p.89) observe that the survey method 'is clearly useful for laying out the systemic patterns of relationships surrounding an organizational phenomenon'. They, however, point out the downside of survey methods as failing to 'provide temporally embedded accounts that help scholars understand how such patterns evolve over time'. The aim of this section of the chapter is to explicitly present my arguments for the choice of the data collection techniques that I have used in the present study, building largely on what scholars before me have done in the field.

### **3.2.1.1 An introduction to survey research method**

As Saunders et al., (2009) explains it, survey method is frequently used in social science research to answer questions about who, what, where, how much and how many. It allows researchers to collect a large amount of data from a sizable population in an empirical way. Three distinct characteristics of survey research are summarized by Pinsonneault and Kraemer (1993) as follows: (1) to produce quantitative descriptions of some aspects of the studied population; (2) to either describe relationships between the variables, or project findings descriptively to a predefined population; (3) to provide standardized information from and/or about the subjects being studied. In general, a survey involves collection of data from individuals, mainly through structured and unstructured questionnaires and interviews. Questionnaires can be self-administered, which are usually completed by the respondents, including internet or intranet mediated, postal, as well as hand-delivery questionnaires. Interviews can be either face to face or over the telephone (Saunders et al., 2009). Each data collection method has both merits and drawbacks (see Forza, 2002; Neuman, 2006; Saunders et al., 2009), for instance, electronic questionnaires have the advantages of large-scale accessibility, less interviewer bias, cost savings, no time constraints, etc. Their disadvantages include more limited information, less control, and potential self-report bias. Choice of data collection methods mainly depends on the survey's objectives, the nature of the questions, the characteristics of the respondents and time, cost and resource constraints.

When considering the time dimension, survey research usually comprises a cross-sectional design, in which 'data are collected predominantly by questionnaire or by structured interview on more than one case (usually far more than one) and at a single point in time' (Bryman and Bell, 2011, p.54). This is different from a longitudinal design, which collects data for at least two points in time and is typically used to describe change in business and management research (Pinsonneault and Kraemer, 1993; Bryman and Bell, 2011). However, 'longitudinal

designs are rarely used, partly because of the time and cost involved' (Bryman and Bell, 2011, p.57).

Furthermore, as introduced in the preliminary survey study (see Appendix A), three types of survey research have been summarised and compared by Forza (2002). These are: exploratory, confirmatory (that is, theory testing or explanatory) and descriptive (see also Pinsonneault and Kraemer, 1993). Exploratory survey research is usually conducted at an early stage of research with no underlying theoretical model, and the survey objective is to gain preliminary insights into the research phenomenon, and provide the basis for further in-depth surveys. Explanatory survey research takes place when the knowledge of a phenomenon has been formulated in a theoretical framework with well-defined concepts and relations, and the objective is to test the accuracy of developed concepts, of the proposed linkages among these concepts, and of the validity boundary of the models. In the case of descriptive survey research, the primary objective is to understand the relevance of a certain phenomenon and describe the distribution of the phenomenon in a population. It is argued that 'survey and non-survey research are both important in their own way and can complement each other' (Kent Baker and Mukherjee, 2007, p.12).

In the present study, I have used survey as the research method, with a self-completed questionnaire as the main survey instrument. The data collected are cross-sectional. Referring to the above three types of survey research introduced by Forza (2002), this thesis has utilised the first two types. The exploratory survey was used at an early stage to help me gain preliminary insights into cross-border acquisition phenomena, identify areas where more research efforts are needed, and form the basis for an subsequent in-depth explanatory survey. After the conceptual framework was established and the associated hypotheses were derived from the literature, an in-depth explanatory survey was performed with the objective of testing the framework and hypotheses (see chapter 4 and 5). This explanatory survey research has followed the survey process described by Forza (2002): (1) According to the established theoretical framework and associated hypotheses, the related concepts/constructs have been defined and transformed into the observable and measurable variables in chapter 4, and validity and reliability of these measurement items have been ensured and examined in chapter 5 (i.e., the process of translating the theoretical domain into the empirical domain); (2) The unit of analysis, sampling frame, the target informants, and pre-testing process have been elaborated in chapter 4 (the design and pilot testing processes); (3) The process of data collection is also reported in detail in chapter 4; (4) The process of empirical analysis and the survey findings are thoroughly presented in chapter 5; (5) The process of interpretation for the results is shown in chapter 6. Meanwhile, the potential self-reporting biases,

mainly non-response bias and common method bias, have been addressed in chapters 4 and 5.

### **3.2.1.2 Why survey method?**

A survey method was chosen for this thesis for the following reasons:

First of all, the research objective of this thesis is to set up an integrative framework, identify some general principles which can better explain the performance/success of cross-border acquisitions and help the practitioners achieve better performance in the future. I have argued above that large sample data is therefore required to test the developed model and the associated hypotheses discussed in chapter 2. Furthermore, because of the private ownership of Nordic firms involved in cross-border M&As, it is not easy to collect related data from secondary sources.

Second, most large-sample research concerning acquisitions has focused only on publicly traded larger firms (Anand et al., 2005), largely because of data availability, and this limits scholars' abilities to get 'inside' of the phenomenon (Haleblian et al., 2009). This previous research lacks fine-grained information related to acquisition implementation, and private acquirers in particular have been under-investigated, as have most Nordic firms. Therefore, this study surveys top managers to overcome these limitations and collect extensive information related acquisition behaviour. As Kent Baker and Mukherjee (2007) report: 'direct responses from decision makers add value', and 'investment decisions and practices' are the top finance issues that would benefit the most from survey-based research.

Second, Kent Baker and Mukherjee (2007) also stressed that 'survey responses can suggest new avenues for future research', which is quite consistent with the research objectives of the exploratory survey conducted at the beginning of this Ph.D. project. They propose using survey research to learn what people actually do and why they do it and then compare the results with theoretical conclusions. Such an approach is said to help bridge the gap between theory and practice.

Moreover, the perceptual nature of most variables investigated in this study (such as retention of key employees or pre- and post- acquisition performance) does not lend itself to a study using secondary (archival) data. Survey data collection is therefore most appropriate. According to the opinions of the editors from 72 finance journals (Kent, Baker and Mukherjee, 2007), survey methods can produce data unavailable from other sources, and therefore complement other approaches and yield additional insights. At times, there is no other way to answer a research question.

Finally, self-reported measures of acquisition performance through a survey have the benefits of using private information, taking multiple acquisition motives into consideration, and controlling for the confounding effects of other events. It is, therefore, reasonable to judge acquisition performance according to the firm's initial objectives. For instance, Child et al. (2001, p. 51-53) report that American acquirers usually focus on maximisation of short-term profits and satisfaction of shareholders, while Japanese acquirers emphasis long-term growth rather than instant profit. In these cases, the performance should be assessed differently. 'If M&As involve no or only a few technological components, they are expected to have little or no influence on the innovation routines of the acquiring firms' (Cloudt et al., 2006, p.643). This method may have the limitations of subjective bias, but there is evidence that supports the general reliability of self-reported performance measures, particularly when they are reported by a firm's top managers (Dess and Robinson, 1984; Venkatraman and Ramanujam, 1986; Datta, 1991; Schoenberg, 2006).

These factors, taken together, suggest that a survey method is the most appropriate one for this research project. Similar survey instruments have been used in a number of previous studies of M&As (e.g., Datta, 1991; Capron, 1999; Angwin, 2004; Anand et al., 2005; Colombo et al., 2007; Cording et al., 2008; Ahammad and Glaister, 2011; Zaheer et al., 2013).

### **3.2.1.3 Challenges I faced using the survey method**

Like any other method or instrument, survey method also has some weaknesses, especially the potential non-response bias (Oppenheim, 1966; Armstrong and Overston, 1977; Lindner et al., 2001) and common method bias/variance (Podsakoff et al., 2003; Spector, 2006; Chang et al., 2010). This study has been aware of these possible biases. I have taken steps to address them in the data collection process. I have also made estimates of their effects statistically after the survey. In effect, I have reduced potential worries that these weaknesses may bring about. I have discussed these challenges in details in chapter 5.

Non-response bias means if persons who respond differ substantially from those who do not, there will be a bias to generalize the results from the sample to the population (Armstrong and Overston, 1977). It is a threat to external validity. The first and most commonly used approach to protect against non-response bias is of course to reduce nonresponse itself. As discussed in chapter 4, a number of efforts have been made to improve response rate. For example, before conducting the survey, I discussed the questionnaire in details with some experienced scholars in the field as well as some M&A experts to make the questions concise, clear,

understandable, and to capture the meaning that I intend to measure. The discussions have also guided me in removing questions that are not very relevant to reduce the length of the questionnaire. Most of the questions are designed in a 'friendly' way, i.e., closed-end questions. I tested the response time before sending the questionnaire out and had informed the respondents about the response time. In the covering letter, Alborg University is identified as the sponsor, some professors' contact information is provided, anonymity and confidentiality of this study is assured, with the objective to gain their trust and remove their worries. Meanwhile, I emphasize the importance of this study and promise to share the research results if they have interest. During the data collection process, I sent three reminder emails to the sample. These were followed by phone calls, where I considered them appropriate and useful. After all these efforts, the effective response rate was 12.8% (103/802). Meanwhile, around 30 respondents indicated that they were willing to provide me with additional interviews in the future. Such response rate is satisfactory if we compare it with the response rate in some other studies (11.03% in Straub, 2007; 11% in Ahammad and Glaister, 2011; 11.6% in Zaheer et al., 2013). It is perhaps worth mentioning here that I faced several other challenges in the data collection process (see chapter 4 for a more detailed discussion). These challenges include the fact that most respondents were busy top managers, their turnover make them unapproachable, firm-level policy barriers, somewhat sensitivity of this topic, the length of the questionnaire due to complexity of the research model, increasing popularity of survey method that produces a number of questionnaires to the top managers every day.

Another major possible problem with self-report research (e.g., using survey instrument), as discussed in chapter 5, is common method biases/variances (CMB/V). CMV is 'variance that is attributable to the measurement method rather than to the constructs the measures represent' (Podsakoff et al., 2003, p.879). Podsakoff et al. (2003) summarize four possible sources of CMB/V: the use of single respondent/rater; some characteristics possessed by the measurement items; the context in which items on a questionnaire are placed; the contextual effects (time, location, and media). The major source of CMB/V results from the fact that the dependent and explanatory variables are perceptual measures derived from the same respondent (Podsakoff and Organ, 1986; Podsakoff et al., 2003; Chang et al., 2010). In this case, self-report data can create some false correlations since the respondents may potentially edit some answers based on the considerations, such as consistency motif (i.e., people try to maintain consistency between their cognitions and attitudes), implicit or illusory correlations (i.e., their assumptions concerning the co-occurrence of rated items), social desirability etc. (see Podsakoff et al., 2003). Unfortunately, a



list of practical challenges as presented in chapter 5 restrict the originate design of collecting dependent and explanatory variables separately from different sources.

Nevertheless, such bias will be less likely if the answers to the questions are more fact-based (Podsakoff et al., 2003), if the research model is more complicated (Chang et al., 2010), and if the informants are highly knowledgeable about the topic under investigation (Campbell, 1955), which is just the case for this study. Some scholars argue that CMB/V problem may be overstated (see Crampton and Wagner, 1994; Spector and Brannick, 1995; Lindell and Whitney, 2001) or even an ‘urban legend’ (Spector, 2006). Despite this, I performed a series of diagnostic tests and ex-ante procedural techniques to mitigate the likelihood of CMB/V, which you can find the detailed information in chapter 5. Multi-item measurement of the variables, mixing the order of the questions related to different constructs, different scale types and anchors, and complicated structural model with two layers and two mediators, make it difficult or unlikely for the respondents to visualize the relationships among the items and variables and produce a CMV biased pattern of responses. In addition, I applied Harman’s one-factor test (Podsakoff and Organ, 1986) as the post-hoc approach to assess the severity of CMB/V, and the results further suggest it is not a problem.

In addition, survey method is described by Easton (2010) as extensive research method, which employs formal questionnaires and statistical analysis to look for regularities, patterns and similarities, and privileges replication and generalization. It may have limited explanatory power compared with intensive case study research methods using interview or observations, which can go deep into limited cases and disentangle some very complex relationships. This is the truth. However, someone may raise the question like ‘so what’ if the revealed complex relationships are specific to several cases and context-bounded. Meanwhile, ‘these are rather subjective rules of reference and it may be that there are occasions when the close involvement of the researcher obscures a different range or level of phenomena’ (Bryman, 1984, p.83). Rather, the regularities identified from large sample survey study are thought to be more objective, more stable, and may have wider practical application. Survey-based method is also criticized as having no ‘flexibility’ that case research owns (Easton, 2010), and having limited ability to obtain rich and unanticipated data (Becker, 1996). However, I would argue these are not important for most of survey studies, like the present one, since most of survey studies are theory-driven and the main objective is not to collect rich and unanticipated data, but to collect the data that most relevant to the researched concepts/variables and test their effects and the hypothesized relationships.

Some other researchers mention cross-sectional survey research only provide a 'snapshot' of the situation at a certain point in time, whereas a longitudinal design can offer more in-depth information and stronger evidence regarding cause and effect, and have less CMB/V (Pinsonneault and Kraemer, 1993; Podsakoff et al., 2003; Rindfleisch et al., 2008). In addition, according to Meglio and Risberg (2010), longitudinal research design can advance M&A research since such design can overcome the lack of processual and contextual depth in cross-sectional research, and allow the researchers making multiple-level analysis and grasping evolvement of some patterns. However, Pinsonneault and Kraemer (1993) also argue that the longitudinal approach is not always preferable even for the process-oriented questions, but is particularly appropriate when changes in dependent variable are expected to occur relatively rapidly after the intervention of the independent variables. Pinsonneault and Kraemer (1993) further explain if the time lag is long, many other intervening events will cause confounds, making it difficult to establish causal relationships. This is just the case when researching on the performance of a focal acquisition. It usually takes the acquirers 3 to 5 years from making CBA decision, finishing the purchase and to finally reaping the benefits from this acquisition. During such long period, many things can happen, such as the company may perform some other M&As, launch a new products etc., which will definitely influence the acquirers' performance. There is even no chance to continue the data collection if the acquirers go bankruptcy or to be acquired or merged by some other companies, or the target informants leave the companies. Moreover, as discussed in Rindfleisch et al. (2008, p.264), 'the time at which an event occurs often differs from the time at which it is recorded...some causal relationships may be less contiguous in nature and thus appear only after an extended period'. In such cases, longitudinal assessment may actually hamper causal inference by weakening temporal contiguity and creating temporal erosion. Meanwhile, the practical challenge is how we can decide at which time point we should collect the data and how we can assure the data collected at this time will not change along with the event going on. Such challenge is even more salient and severe if we want to trace a large scale of companies in survey studies. It is also very difficult to ask the same informants (top managers in this study) to answer the questionnaire twice or more times. Limited budget and time further make such research design very difficult, especially for a 3-year Ph.D. project. 'Consequently, longitudinal survey research is easier advocate than to implement' (Rindfleisch et al., 2008, p.262). Rindfleisch et al.' (2008) research further indicates that cross-sectional approach is adequate and most appropriate in reducing the threat of CMB/V and enhancing causal inference in many situations, such as when the studies examine concrete and externally oriented constructs (e.g., resource-based factors, implementation factors investigated in this

study), when the respondents are highly educated (e.g., top-managers in this study), when measurement format and scales are heterogeneous (e.g., different measurement formats as you can see in chapter 4), when there is high likelihood of intervening events (e.g., the possibility of other events as discussed before), when causal assertions are rooted in theory (e.g., a combination of theoretic perspectives discussed in chapter 2), etc.

Some other weakness with survey research, as put by some researcher, is generalization from its findings is constrained to its population and definition of the concepts/variables. We may view these as the boundary of contribution from a survey studies. That is why I mentioned in the section of 'limitation' that 'because this study relied on data from Nordic countries, generalisation of the findings to other geographic contexts should be done with care'. I therefore also discuss managerial implications in terms of measurement/definition of the constructs or variables. The weaknesses of survey instrument listed here probably not exhaustive, yet, as argued by McGrath (1981, p. 179) 'from the dilemmatic point of view, all research strategies and methods are seriously flawed; often with their very strengths in regard to one desideratum functioning as serious weaknesses in regard to other, equally important, goals'. Evidence from a number of studies support such argument, and much has been discussed on the strengths and weaknesses of qualitative (e.g., case studies) and quantitative (survey) research (e.g., Bryman, 1984; Lee, 1991; Gable, 1994; Neuman, 2005; Creswell, 2013). Therefore, we as the researchers can only choose the method or instruments whose strengths fulfil our research purpose best, at the same time aware of and try the best to reduce its potential problems, and being tolerant of its un-avoidable weaknesses.

### **3.2.2 REASONS FOR MY CHOICE OF PLS-SEM TECHNIQUE FOR DATA ANALYSIS**

#### **3.2.2.1 An introduction of PLS-SEM**

I would like to start the discussion in this section with a brief overview of the main characteristics of structural equation modelling (SEM) in order to explain why I consider it useful for my analysis. For the past 20 years, many researchers have increasingly turned to second-generation techniques, referred to as structural equation modelling (SEM), to overcome the weaknesses of first-generation methods (e.g., multiple regression analysis, Cluster analysis) (Hair et al., 2014). Haenlein and Kaplan (2004) point out three common limitations of first-generation techniques: (1) the postulation of a simple model structure (i.e., one dependent and several

independent variables); (2) all variables are assumed to be observable; (3) the conjecture of variables measured without error. SEMs, however, enable researchers to incorporate unobservable variables measured indirectly by indicator variables (also called items, manifest variables, or observed measures) and also facilitate accounting for measurement error in observed variables (Hair et al., 2014). Meanwhile, compared with regression-based approaches, which analyse only one layer of linkages between independent and dependent variables at one time, SEMs allows simultaneously modelling of the relationships among multiple independent and dependent constructs (Gefen et al., 2000). In particular, researchers appreciate SEM's ability to assess latent variables at the observation level (referred to as the outer or measurement model) and test the relationships between latent variables on the theoretical level (referred to as the inner or structural model) (Bollen, 2014). Structural equation modelling (SEM) technique is thus employed in this study for estimating a Hierarchical Component Model (HOC) and investigating the mediation effect of some constructs. The model has been developed in chapter 2 and will be further introduced in the language of SEM research in chapter 6.

When applying SEM, two approaches have to be considered, (1) covariance-based SEM approach (CB-SEM<sup>7</sup>; Jöreskog, 1978, 1993) and (2) variance-based partial least squares structural equation modelling (PLS-SEM<sup>8</sup>; Lohmöller, 1989; Wold, 1975, 1982, 1985). PLS-SEM was originally developed by Wold (1975) under the name NIPALS (nonlinear iterative partial least squares), and Lohmöller (1989) extended it. CB-SEM estimates model parameters through maximum likelihood (ML) estimation procedure so that the discrepancy between the theoretically estimated and sample covariance matrices is minimised. In contrast, PLS-SEM maximises the explained variance (or minimises the residual variance) of the endogenous latent variables (i.e.,  $R^2$  value) by estimating partial model relationships in an iterative sequence of ordinary least squares (OLS) regressions. PLS-SEM was developed as an alternative to CB-SEM that emphasises prediction while simultaneously relaxing the demands on the data and the specification of relationships (Dijkstra, 2010; Jöreskog and Wold, 1982). 'In general, the strengths of PLS-SEM are CB-SEM's weaknesses, and vice versa' (Hair et al., 2014, p.18). The two approaches to SEM are actually thought to be complementary by the two originators of PLS-SEM and CB-SEM (Jöreskog and Wold, 1982). Several features of PLS-SEM have led to its increasing use in research fields such as management,

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<sup>7</sup> The readers can refer to Diamantopoulos (1994) for an easily understandable introduction of CB-SEM and LISREL.

<sup>8</sup> It should be noted PLS-SEM is similar but not equivalent to PLS regression, the readers can refer to Mateos-Aparicio (2011) for a more detailed comparison between PLS-SEM and PLS-regression.

strategy and marketing (e.g. Robins et al., 2002; Bontis et al., 2007; Gruber et al., 2010; Sattler et al., 2010).

### **3.2.2.2 Why PLS-SEM?**

I have decided to use PLS-SEM to analyse the data in this thesis, applying the software of SmartPLS2.0 (Ringle et al., 2005). In making this choice, I compared PLS-SEM with CB-SEM to determine which of the two would be most suitable for my study. My assessment reveals that PLS-SEM has an advantage in comparison with CB-SEM when analysing predictive research models that are in the early stages of theory development (see Fornell and Bookstein, 1982). As stated by Hair et al. (2014), PLS-SEM should be chosen when there is little a priori knowledge about the structural model relationships or the measurement of the constructs, and when the research objective is theory development and predicting key target constructs, while CB-SEM is used when the goal is theory testing/confirmation, or the comparison of alternative theories. In this study, I have developed a hierarchical conceptual framework based on combined theoretical perspectives of RBV, Dynamic capabilities, Process and Synergy theory with the objective of exploring relationships among these theoretical constructs, explaining the variance in CBA performance, and identifying the key drivers. To the best of my knowledge, the relationships in this model have seldom been examined in the literature, and there is no well-established theory that could directly serve as the theoretical foundation for setting up this framework and developing these hypothesised relationships. Besides, there is a lack of standardised measurement scales for some of the variables I consider appropriate to include in my study. I therefore consider the study to have more exploratory than confirmative characteristics<sup>9</sup>. Again, the objective of this study is to explain or predict the success of cross-border acquisitions rather than to compare different existing theoretical models.

My second justification is that PLS path modelling can be used when the distribution of the data is highly skewed (Bagozzi, 1994). The PLS-SEM algorithm transforms non-normal data in accordance with the central limit theorem (Cassel et al. 1999; Dijkstra, 2010), and this makes PLS-SEM results robust when using highly skewed data and formative measures (Ringle et al., 2009). In the present study, the normality of the variables has been tested by checking the values for Skewness,

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<sup>9</sup>According to Hair et al. (2014, p.3): the study is 'confirmatory when testing the hypotheses of existing theories and concepts and exploratory when they search for latent patterns in the data in case there is no or only little prior knowledge on how the variables are related'. However, they also stressed that the distinction between confirmatory and exploratory is not always as clear-cut as it seems.

Kurtosis, Kolmogorov-Smirnov, and Shapiro-Wilk, and the results show that normality of distribution is not an issue (see chapter 6), however, most of the variables were not perfectly normally distributed. For this reason, I consider parameter estimates through PLS-SEM to provide me with results that are more reliable.

Third, since PLS-SEM estimates models are based on a series of OLS regressions, they place minimal requirements on sample size (Henseler et al., 2009), whereas CB-SEM usually requires at least 200 observations to avoid non-convergence and improper solutions (Boomsma and Hoogland, 2001). A simulation study by Reinartz et al. (2009) indicates PLS-SEM generally achieves higher levels of statistical power than CB-SEM when the sample size is small and when a complex model is used. This view is also shared by Hair et al. (2014, p.15) who argue that 'greater statistical power means that PLS-SEM is more likely to render a specific relationship significant when it is in fact significant in the population'. Since my final sample size ended at 103, (which is not very large although it has met ten-time rule), PLS-SEM provides me with a more robust analytical tool.

Fourth, according to the rules of thumb for choosing between PLS-SEM and CB-SEM listed by Hair et al. (2014, p.19), PLS-SEM should be chosen over CB-SEM when 'the plan is to use latent variable scores in subsequent analyses'. Since the research model used in this study is a reflective-formative hierarchical model, a mixture of the repeated indicator approach and the two-stage approach is applied, in which the latent variable score obtained in the first stage is subsequently used in the second-stage analysis.

Fifth, PLS-SEM can handle very complex variables that consist of many constructs and many indicators (including those with dozens of constructs and hundreds of indicator variables) without leading to estimation problems (Wold, 1985), whereas 'estimation of (a) complex model with many latent variables and/or indicators is often impossible with CB-SEM' (Hair et al., 2014, p.23). In this study, the research model is somewhat complex as it contains two layers of constructs (i.e., Hierarchical Component Model, HCM), and some constructs have more than five indicators. Besides, two mediators are included, adding to the complexity of this model. In addition, as stated by Zollo and Meier (2008), PLS-SEM becomes very useful when multiple measures of M&A performance are adopted, as in the present study.

Based on the above considerations I felt more certain with my analysis using PLS-SEM.

### 3.3 RESEARCH PROCESS

A research process is usually comprised of a series of linked stages. Inspired by the general research or quantitative research process presented by Neuman (2006), Saunders et al. (2009), Babbie (2010), and Bryman and Bell (2011), Table 3.1 summarises the main research steps of this thesis, so that the readers can get an overview how this research project begins and what it achieves at the end. However, it should be noted that Table 3.1 suggests a straightforward research process in a step-by-step order, and the actual research process is not so linear. Sometimes, I have had to go back and forth among these stages.

*Table 3.1 Research process*

<b>Research Steps</b>	<b>Relevance to this Thesis</b>
<b>Step 1</b> Formulate and clarify the research topic	Research topic of this thesis is about 'reasons for the success/failure of cross-border acquisitions (CBAs)' ( <i>see chapter 1</i> ). This research interest arises from my experience with aggressive cross-border acquisition activities around the world and their high levels of risk and challenges as reported in the press. This research interest was strengthened after reviewing more than thirty recent review articles in the M&A research field and conducting a preliminary survey study ( <i>see Appendix A</i> )
<b>Step 2</b> Fix research questions	Three research questions are investigated in this thesis: (1) What are the motives for conducting CBAs? (2) What are the determinants of the performance/success of CBAs ( <i>from multi-disciplinary and process perspectives</i> )? (3) What is the value creation mechanism in CBAs? These research questions are mainly derived from the research gaps identified from the literature ( <i>see chapter 2</i> ) and the findings from my exploratory survey study ( <i>see Appendix A</i> ).
<b>Step 3</b> Critically review the literature	A three round extensive literature review was conducted on three topics: acquisition motives, performance measurement, and the impacting factors of acquisition performance ( <i>see chapter 2</i> ). The main content and findings of these literature reviews have been discussed and then summarised in tables.
<b>Step 4</b> Elaborate theory, develop conceptual framework and hypotheses	A conceptual framework for explaining CBA performance was established based on the literature review and from four theoretical perspectives (i.e., resource based view, dynamic capabilities, process perspective, and synergy theory) ( <i>see chapter 2</i> ). Meanwhile, ten associated hypotheses related to the determinants of acquisition performance have been derived.

<b>Step 5</b>	Understand your philosophy and approach	The research philosophy of this thesis combine the elements from both positivism and critical realism, together with research purpose and research questions, lead to the choice of an analytical view on the methodological level and a deductive quantitative research design ( <i>see chapter 3</i> ).
<b>Step 6</b>	Devise measures of concepts	The concepts embedded in the framework and hypotheses have been operationally defined according the literature ( <i>see Chapter 4</i> ). Most of them were measured by multi-items, and the reliability and validity of these measurement items have been rigorously examined and ensured ( <i>see chapter 5</i> ).
<b>Step 7</b>	Collect data	Data was collected using an online questionnaire, and the informants were top executives (mainly CFO, CEO, Top managers and M&A project leaders) from Nordic firms which have conducted cross-border acquisitions during 2005-2010 ( <i>see chapter 4</i> ). Before sending the questionnaire out, it was first discussed with ten scholars in detail and the revised version was then pre-tested via ten face-to-face interviews with M&A experts.
<b>Step 8</b>	Process data	Raw data from the received questionnaire were processed before entering them into the software ( <i>see chapter 5</i> ), such as coding written-in answers and dealing with missing data and outliers.
<b>Step 9</b>	Analyse data	Data was analysed using the technique of PLS-SEM (i.e., partial least square based structural equation modelling) with the software SmartPLS2.0 ( <i>see chapter 5</i> ). A step-by-step empirical analysis was employed in order to fully examine the effect of the proposed explanatory variables.
<b>Step 10</b>	Interpret data, draw conclusions and assess research implications	The main findings have been discussed and summarised by revisiting the research questions and hypotheses ( <i>see chapter 6</i> ). Theoretical contributions, implications to the practitioners, research limitations and future research directions were presented as well.

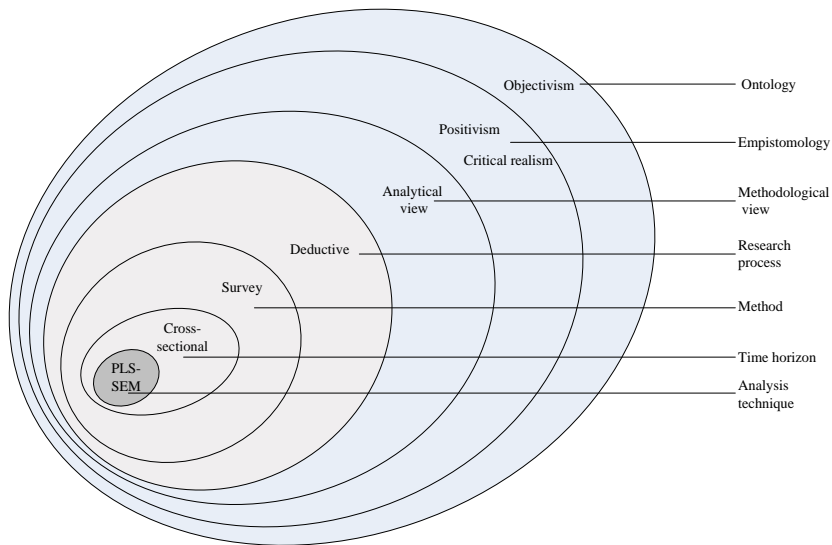
### 3.4 A SUMMARY

To recap, I view CBAs as real and concrete historical events, and believe it can be studied from outside in a more value-free way. There exist some effective ways or some relatively stable lawful cause-effect rules for enhancing CBA performance, or some pivotal issues that the acquirers need to pay attention to in order to enhance the success. Therefore, the objective of this study is to identify a number of underlying causal relationships to explain CBA performance and disentangle value creation mechanism. Since the constructs or variables in these investigated causal relationships have been operationally defined, it is expected the practitioners can



also draw some lessons from this study to improve CBA success. At the same time, I also expect this study can make some theoretical contributions by filling the research gaps proposed by many researchers. In order to achieve these research purposes, large-sample data is thus required but cannot be obtained through the second-hand. That is why survey method is chosen to collect the data.

Inspired by Saunders' (2009) research onion, Figure 3.1 illustrates the main components of the research design of this thesis, including its philosophical position, methodological considerations, data collection method, and data analysis technique. All aspects are interrelated. As stated by Saunders (2009, p.108): 'the research philosophy you adopt contains important assumption about the way in which you view the world. These assumptions will underpin your research strategy and the methods you choose as part of that strategy'. However, specific data collection methods not just determined by my research philosophy but also mainly determined by the research questions. In terms of research philosophy, this study leans on the side of objectivism ontologically and the epistemological considerations involved the elements from both positivism and critical realism. The main objective of this study is to develop a theoretical framework and identify some general principles or casual laws that can better explain acquisition performance/success, from which practitioners can draw some lessons about how to improve their odds of success. These research objectives together with my research philosophy led me to select an analytical view on the methodological level. It should be mentioned that this study also drew on some ideas from the systems view and considered the complexity of the acquisition process and interaction among the explanatory constructs. In order to answer the research questions, hypotheses were derived from the literature and tested using the analysis technique of PLS-SEM with cross-sectional data collected via online survey questionnaire. Generally, this study is quantitative (both data collection procedure and data analysis technique are quantitative) and follows a deductive research process.



*Figure 3.1 Research philosophy and methodology of this study*

On a note of reflection, I submit that, even though there is a clear consistency from my ontology (incline to the objectivism side), epistemology (a combination of components from positivism and critical realism), methodology (analytical view and quantitative research design), to data collection method (survey) and data analysis technique (PLS-SEM analysis) in this study, I agree with Johnson and Onwuegbuzie (2004) that ‘differences in epistemological beliefs...should not prevent a qualitative researcher from utilizing data collection methods more typically associated with quantitative research, and vice versa’ (p.15).



# CHAPTER 4 SURVEY QUESTIONNAIRE

As introduced in chapter 3, there are three types of survey research methods identified in Forza's (2002) study, i.e., exploratory, confirmatory (or theory testing or explanatory) and descriptive survey research. In this research project, I use the exploratory survey research method during the early stage. In so doing, I aim to gain comprehensive insights of CBA phenomena and identify the research gaps in M&A research field as well as the key issues that impact acquisition success from the practitioners' point of view. In this section, design and implementation of explanatory survey research will be reported. Explanatory survey research is a long process (Forza, 2002), which includes a number of related sub-processes: (1) the process of translating the theoretical domain into the empirical domain; (2) the design and pre-testing processes; (3) the process of collecting data for theory testing; (4) the data analysis process; and (5) the process of interpreting the results and writing the report. These steps will be introduced in detail in this chapter and the next two chapters. This chapter presents information concerning the first three processes. The next chapter analyses the data and reports the findings. Chapter 6 interprets the results and makes conclusions.

## 4.1 QUESTIONNAIRE DEVELOPMENT

Through three rounds of extensive literature review on three topics in M&A research field (i.e., the motives for doing acquisitions, performance measurement and the impacting factors of acquisition performance) and an exploratory survey research, the important determinants of CBA performance have been identified and a conceptual framework is established (see chapter 2). To utilise the conceptual framework for empirical analysis and test the hypotheses, the measurements of associated constructs/variables were developed, for which you can find the detailed measurement information in section 4.1.2. As stated by Fowler (2009, p.116), 'a prerequisite to designing a good survey instrument is deciding what is to be measured'. In social science research, measurement scales usually refer to prior research studies or scale handbooks that performed well (e.g., Bruner et al., 2001; Bearden et al., 2011). 'Future M&A researchers would be well advised to build on past research models and not simply create new models' (King et al., 2004, p.188), and 'it is best to review questions asked by researchers who have done previous work on the study topic' (Fowler, 2009, p.118). For this reason, I selected applicable and pre-tested measurement models using a literature review. However, sometimes, there was a lack of an established measurement approach, and I had to develop a new set of measurements or substantially modify an existing approach. Prior to data collection, I established the content validity of the instrument by grounding it

strongly in existing literature and conducting pre-tests. It should be noted that almost all items were measured on a seven-point Likert-type scale. Exceptions are justified and explained later. Each item is a question asked in the questionnaire.

#### **4.1.1 QUESTIONNAIRE PRE-TESTING**

According to Churchill (1999), the objective of pre-testing is to shorten the questionnaire, improve the measurement's clarity, accuracy, and reduce its bias. Two steps were used to pre-test the questionnaire. The first step involved using face-to-face discussions with the professors and researchers from different fields. The second step involved field interview with experienced acquirers. 'The development of items using both academic and practical perspectives should help researchers develop good preliminary scales and keep questionnaire revision to a minimum' (Hensley, 1999, p.348).

Initially, the draft questionnaire was discussed with ten scholars from different research fields including strategy, organisation, marketing, economics, etc. This is because cross-border acquisition is a multidisciplinary topic. Some of these scholars have survey design and research experience on M&As. They provided their opinions on the wording, structure, understandability, and relevance of these questions. In addition, they also tested whether the questionnaire accomplished the study objectives. The revised questionnaire was then pre-tested by conducting face-to-face interviews with CFOs, CEOs and M&A experts in charge of acquisition programmes from seven companies who have had substantial experience in domestic and cross-border acquisitions. They were asked to 'think aloud' while answering questions (i.e., cognitive pretesting, see DeMaio and Rothgeb, 1996; Fowler, 2009), which means they verbalize whatever answers come to their mind. During their response process, I observed their behaviour and took the notes if needed. With their permission, some of the interviews have been tape-recorded. This was done to discover response problems such as misunderstood questions, questions they were unwilling to answer and the questions they did not know how to answer. Their additional detailed feedback regarding the questions, the instructions, the layout and format of the questionnaire was used to further refine and improve the questionnaire. Some changes were made related to the wording, the questions' sequence and the questionnaire's structure. I reformulated some phrases and added new items in order to fully capture the concept, clarify the questions and improve the questionnaire's quality. Based on these discussions, the concepts and questions were developed to ensure that they were meaningful and intelligible for the relevant population. As such, these efforts ensured content validity.

#### 4.1.2 MEASUREMENT OF THE VARIABLES

Before introducing the measurement of the latent variables, there are two concepts related to measurement in structural equation modelling studies that required clarification. These are reflective vs. formative measurement. According to Hair et al. (2014), reflective measurement is developed based on the assumption that the construct causes the measurement (more precisely, the co-variation) of the indicator variables with the arrows pointing from the construct to the indicator variables in the structural equation model. Reflective measurements represent the effects (or manifestations) of an underlying construct. Indicators associated with a particular construct should be highly correlated with each other, and changes in the latent constructs are reflected in changes in the indicator (manifest) variables. In contrast, formative measurement is designed based on the assumption that the indicators cause the construct with the arrows pointing from the indicator variables to the construct. 'Each indicator for a formative construct captures specific aspects of the construct's domain and they jointly determine the meaning of the construct' (Hair et al., 2014, p.43). In general, the reflective measurement approach aims at maximising the overlap between interchangeable indicators, whereas the formative measurement approach tries to fully cover the construct domain by different formative indicators, which should have small overlaps. However, because constructs are not inherently reflective or formative, there is no definite answer to the question about when we should measure a construct reflectively or formatively. 'Instead, the specification depends on the construct's conceptualisation and the objective of the study' (Hair et al., 2014, p.45). Because the objective of this thesis is to identify the most important factors of CBA success and to test their impact on post-acquisition performance, all the explanatory (or exogenous) variables on the first level are reflectively measured. Furthermore, from the theoretic perspective of RBV, dynamic capabilities and process, these first-order variables formatively constitute the more abstract higher-order constructs, i.e., resource base (RB) and resource reconfiguration (RR) representing different facets of them. The aim is to identify the underlying drivers of RB and RR in determining CBA performance.

Moreover, another thing need to be clarified is: since most of the firms have done many CBAs in the history, therefore at the beginning of the questionnaire, I guide the respondents to select one 'MOST RECENT' Cross-Border Acquisition that they have been involved during 2005-2010 to answer the questions. I emphasized "MOST RECENT" for one objective to reduce the problems of their decayed memory, and for another ojective to avoid the bias that they may only choose the successful cases to reply the questionnaire. Meanwhile, since I only focus on the

acquisitions where the acquirer takes 'CONTROLLING OWNERSHIP' of the acquired firm, I have also emphasized this point at the beginning of the questionnaire.

#### **4.1.2.1 Explanatory variables**

The basic explanatory variables in this study are: (1) the relative size of the acquired firm to the acquiring firm; (2) the pre-acquisition performance of the acquiring firm; (3) the pre-acquisition performance of the acquired firm; (4) resource similarity; (5) resource complementarity; (6) acquisition experience; (7) host-country experience; (8) value identification; (9) integration extent; (10) coordination efforts; (11) competition among the acquiring firms; (12) attitude of the acquired firm's management; (13) organisational fit between two firms. Resource base (RB) and resource reconfiguration (RR) are the higher-order explanatory constructs in the structural model. The detailed information related to their measurement is introduced as follows.

##### *Relative firm size*

Relative firm size is usually defined or measured by the size of the target firm to the size of the acquiring firm in terms of the number of employees (Bergh, 2001; Slangen, 2006), total assets (Kumar, 2009), sales (Capron and Shen, 2007), revenue (Bruton et al., 1994; Krishnan et al., 2007), equity value (Asquith et al., 1983; Jarrell and Poulsen, 1989; Eckbo and Thorburn, 2000), transaction value (Moeller et al., 2004), etc.. In this thesis, relative size is viewed as an indicator of the quantity of the resource base of the joining firms. I exclude the literature that measures the relative size by using the transaction value from consideration. This is because the transaction value is usually defined by the total value of transaction (or price) paid by the bidder that contains the premium. It is not appropriate to view this as the quantity of the joining firms' resources before acquisition. Moreover, I do not consider the indicator of total assets to avoid the impact of industry sensitivity such as different nature between manufacturing and service. Finally, I measure the relative size in terms of the number of employee and sales volume.

##### *Pre-acquisition performance of the combining firms*

A number of researchers have investigated the impact of pre-acquisition performance of joining firms. Usually, the measurements used include P/E, MTB ratios (Conn et al., 2005), cash flow to assets (Baker et al., 2012), profitability (Anand et al., 2005), industry adjusted ROS (Krishnan et al., 2007) and multi-item

construct through survey (see Hunt, 1990). Because I view pre-acquisition performance as an indicator of the firm's resource quality, multi-items measurement developed by Hunt (1990) was thought to more fully reflect the firm's resource quality and thus adopted. The respondents were asked to evaluate pre-acquisition performance of two firms relative to industry average just before the acquisition in terms of five criteria. These included profitability, general management capabilities, marketing capabilities, technical advantage, and an overall performance assessment. For each item, the respondents used a 7-point scale with ratings ranging from 1 (much lower), 4 (equivalent), to 7 (much higher).

#### *Resource similarity and complementarity (resource relatedness)*

Scholars have defined business/resource relatedness or strategic fit differently. This ranges from the very general (relying on 2-4 SIC codes or classification schemes, see Haleblian and Finkelstein, 1999; Dutta et al., 2013) to the very specific (e.g., relatedness in ten resource functions, Very et al., 1996). Relying on SIC codes or classification cannot fully capture two firms' resource relatedness (Chatterjee, 2009), and cannot differentiate among potential sources of value creation brought about by both resource similarity and complementarity (Larsson and Finkelstein, 1999). Attention need to be paid the relationship between 'similarity' and 'complementarity' is not an either-or relationships, an acquisition may involve either dimension alone, both, or neither (see Larsson and Finkelstein, 1999; Zaheer et al., 2013).

Duncan and Mtar (2006) stress focusing on core business as an important element of strategic fit. In Bruton et al.'s (1994) study, they judge whether an acquisition is related based on the rule that 70% or more of the acquiring firm's revenues come from a business area that was related by product, market or production process to a business of the acquired firm. Following this logic, measurement of resource similarity and complementarity in this study was adapted from prior empirical research on resource/business relatedness (or strategic fit) (Very et al., 1996; Anand et al., 2005; Pehrsson, 2006; Zaheer et al., 2013) and expert interviews covering seven main business areas. Specifically, the respondents are asked to assess to what extent two firms are similar and complementary in terms of technology/R&D, product/service portfolio, production operations (e.g., know-how and process), marketing resources (e.g., sales force and brands), types of customers, general management skills and geographic markets served. In the end, they gave their assessment on two firms' overall similarity and complementarity. These criteria are assessed on a 7-point scale, ranging from 1=very low to 7=very high.

#### *Acquisition experience*



In empirical studies, the number of acquisitions that have been completed several years before the focal deal is used to measure acquisition experience (Bruton et al., 1994; Beckman and Haunschild, 2002; Cording et al., 2008 ; Zaheer et al., 2013). Other researchers assess the acquirer's acquisition experience by directly asking managers about their acquisition experience using a survey (Slangen, 2006; Straub, 2007; Ahammad and Glaister, 2011). As I discussed earlier when developing the relevant hypothesis, the former measurement approach is more objective but may not be a good proxy of the acquirer's acquisition experience, while the latter can directly capture the true acquisition experience but is more subjective. This is because some companies gain their M&A experience/knowledge not just from their own cases but also by observing the other companies' M&A behaviour and/or through periodic learning (DeLong and DeYoung, 2007; Marks and Mirvis, 2010). My preliminary survey study also found that some firms intentionally accumulated M&A experience/knowledge while some firms, even the ones who have done many M&A deals, didn't pay attention to this. It is thus clear that the number of M&As have been done before the focal acquisition is not able to capture the actual acquisition experience, whereas the accumulated experience/knowledge related to the critical implementation processes to complete M&As can reflect their actual acquisition experience better. Thus, I combine two approaches to offset each other's drawbacks in measuring acquisition experience.

Following the first approach, I asked the respondents about the number of acquisitions they have completed five years before this focal acquisition and recoded it into 7-point scales (1=0 acquisition; 4=5-6 acquisitions; 7=10+ acquisitions). In accordance with the second approach, I directly measured acquisition experience by using three items drawn from Straub's (2007) study. In particular, I asked respondents to estimate their acquisition experience at the time of acquisition compared to that of their competitors in terms of the following dimensions: the proven tools used in due diligence; the existence of procedure for the target company's integration and the existence of a proven M&A process. These dimensions are estimated on a 7-point Likert-type scale, ranging from 1=much lower to 7=much higher.

### *Host-country experience*

Referring to the Hébert et al.'s (2005) study, host-country experience is measured by asking the respondents about the number of years they have been operating the business in the country of acquired firm at the time of the acquisition and these numbers are then recoded into 7-point scales (i.e., 1=0 year; 2=1-3years; 3=4-6 years; 4=7-9 years; 5=10-12 years; 6=13-15 years; and 7= 15+ years).

### *Resource base (RB)*

Resource base is the higher-order construct in the structural equation model of this study. It consists of five lower-order dimensions introduced above. These five dimensions are relative size (the proxy of resource quantity, measured by two items), pre-acquisition performance of two firms (the proxy of resource quality, measured by five items respectively), resource similarity and complementarity (the proxy of resource relationship between two firms, measured by 8 items separately), acquisition experience (denotes strategic resource for performing CBA, measured by 4 items) and host-country experience (denotes strategic resource for performing CBA, measured by 1 item). The repeated indicators approach (see Hair et al., 2014, p.230) is used for measuring this higher-order explanatory construct (i.e., all the indicators of low-order constructs are assigned to measure it).

### *Value identification (VI)*

Because this construct incorporates the contents of pre-acquisition planning and due diligence, I draw on the studies of Capron and Anand (2007), Colombo et al. (2007) and Rappaport and Sirower (1998) to measure this variable and adapt the measurement according to the expert interviews. It is measured using 6 items, which are: pre-acquisition planning (before purchase); formal discussion about possible post-acquisition impediments; formal discussion about whether cross-border acquisition is the best strategy over others (e.g., strategic alliance); the amount of information related to the realistic value of the target firm obtained from due diligence; the accuracy of the valuation assumptions; and the knowledge/experience for identifying potential value of the acquired firm at that time. Two questions were designed to obtain the value of these items. The first question concerns the first three items and respondents are asked to rate these items based on a 7-point scale (1=minor, 7=extensive) according to their firms' practice for this focal acquisition. The second question concerns the last three items and respondents were asked to estimate these items on a scale of 1-7 (1=very low and 7=very high) based on their current perspective.

### *Integration extent*

Based on some previous studies (i.e., Cording et al., 2008; Zaheer et al., 2013; Bauer and Matzler, 2014), my discussions with the scholars, and interviews with the experts, integration extent is measured using eight items about the extent to which different areas or activities have been combined (i.e., strategy formulation, integration of employee, organisational culture, R&D, production operation,

marketing, systems, overall integration) from 1(no integration) to 7 (complete integration).

### *Coordination efforts*

Based on the literature and discussion with the scholars and M&A experts, 'the acquirer's coordination effort is measured in these three aspects: active communication, involvement of the acquired firm's managers, and retention of key employees. Three questions are designed to measure these three aspects. Measurement of communication is an average of three items adapted from Chen and Paulraj (2004) and Stahl et al. (2011), including frequency of exchange of information, frequency of face-to-face planning/communication during integration, and information provided to the employees that might help them deal with changes, uncertainties and anxiety. Based on a 7-point scale (1=strongly disagree; 7=strongly agree), the respondents were asked to indicate the extent of their agreement on the description of their communication style along these three items during the integration process. With regard to the second aspect, the respondents are required to rate the degree of the involvement of the managers from the acquired firm in the integration process from a scale of 1-7 (1=very low; 7=very high). To measure 'retention of key employees', I followed the method adopted by Ahammad and Glaister (2011). Two dimensions were used: (1) the importance of retaining employees, on a Likert-type scale ranging from 1 (not important) to 7 (very important) based on the employees' position within the acquired firm (i.e., top managers, middle managers, R&D staff, manufacturing staff, marketing staff, finance staff, as well as legal staff and others) and (2) the extent of retention on a 7-Likert scale ranging from 1 (no retention) to 7 (full retention). A composite measure of employee retention was calculated by multiplying the importance score of retaining employees with the extent score of retention. All three aspects together thus reflect the value of 'coordination efforts'.

### *Resource reconfiguration (RR)*

In Larsson and Finkelstein's (1999) study, organisational integration is conceptualised into two aspects: (1) the degree of interaction between the joining firms through, for instance, restructuring and material flows and (2) the extent of coordinative effort to improve the quality of that interaction through special integrators, transition teams, preplanning and so forth. They argue that both the quantity and quality of organisational integration should have a positive effect on synergy realisation. Following this logic, resource reconfiguration is set up as a higher order construct consisting of two dimensions as introduced above: integration

extent measured with 8 items and coordination efforts measured with 3 items. Repeated indicators approach is also used for measuring this higher-order construct.

#### *Organisational fit*

As discussed before, at the moment, there is no consistent conceptual agreement about how to measure 'organisational fit'. Drawing on the empirical studies related to organisational fit (see e.g., Datta, 1991; Covin et al., 1996; Ahammad and Glaister, 2011; Zaheer et al., 2013), and the interviews with M&A experts, I measure 'organisational fit' by using the degree of similarity between two organisations according to ten aspects: (1) business strategy; (2) management group's attitude towards risk; (3) control and communication patterns; (4) decision-making procedures; (5) managerial performance assessment; (6) manager's autonomy in decision making; (7) reward and evaluation systems; (8) organisational structure; (9) values, beliefs and philosophy; and (10) overall similarity. Respondents are asked to estimate these items based a 7-point scale, where 1 represents very low similarity and 7 represents very high similarity.

#### *Competition*

Based on the discussion with scholars and interviews with M&A experts, bidding competition for the focal acquisition is measured by asking the respondents about the number of interested buyers for the acquired firm at the moment of acquisition. These numbers are then recoded into a 7-point scale (1= 0 other acquirer; 2=1 other acquirer; 3=2 other acquirers; 4= 3 other acquirers; 5=4 other acquirers; 6=5 other acquirers; 7=5+ other acquirers).

#### *Attitude of the acquired management*

Following suggestions from M&A experts, I measured the attitude of the acquired management by asking the respondents to indicate the attitude of the acquired firm's top managers towards this acquisition on a 7-point scale, from very resistant (1) to very friendly (7).

### **4.1.2.2 Control variables**

Three potential impacting variables have been controlled in this study, which are 'premium', 'method of payment' and 'industry type'.

#### *Premium*

According to Straub (2007, p.117), premium was measured using three items on a 7-point Likert-type scale, ranging from (1) 'very low' to (7) 'very high'. These three items are: evaluation of the goodwill in comparison to the enterprise value; EBIT (earnings before interests and tax) multiple paid in comparison to industry EBIT multiple average; and evaluation of acquisition premium.

#### *Method of payment*

I use a dummy variable for 'method of payment'. Payment with cash was given 1 and other payment methods were assigned with 0.

#### *Industry type*

Industry type is also a dummy variable. The acquirers who come from manufacturing industry are given 1 and the acquirers from service industry are given 0.

#### **4.1.2.3 Dependent variable**

Post-acquisition performance of the combined firms, as the dependent variable, was measured by asking the respondents how the combined companies have performed together three years after closing the acquisition in terms of deal-level synergy realisation and nine firm-level assessment criteria, including both financial and non-financial indicators. The dependent variable, post-acquisition performance is therefore a higher-order construct in the structural model, measured in two aspects, i.e., deal-level synergy realisation and firm-level performance weighted by different CBA motives. It is expected that such measurement can fully capture the multi-level and multi-faceted nature of acquisition performance, and make the findings more generalizable.

On acquisition deal level, direct synergy realisation achieved via this focal acquisition is assessed. Specifically, adapting from the studies conducted by Larsson and Finkelstein (1999), Duncan and Mtar (2006), and Straub (2007), the items for measuring synergy realisation are: (1) consolidation of purchases of input to reduce purchase price/cost per unit; (2) consolidation of production to reduce production cost per unit; (3) consolidation of marketing to reduce marketing cost per unit; (4) consolidation of competitor to increase market power; (5) consolidation of administration to reduce administrative overheads per unit; (6) consolidation of possible supplier or customer to reduce transactions costs per unit; (7) consolidation

of R&D resources/capabilities to improve product innovation capability; (8) access to new geographic market(s) through the other firm's local sales organisation; (9) cross-selling the products to increase joint sales; (10) transfer of current know-how between the joining firms to manage their operation/process more effectively; (11) creation of new know-how by joining firms to manage their operation/process more effectively; and (12) other explicit sources of synergy (e.g., financial). Those items capture the major types of synergy associated with M&As (e.g., Chatterjee, 1986; Seth, 1990; Trautwein, 1990; Sudarsanam et al., 1996). Each of the items was coded on a 7-Likert scale from 1(very low), 4(moderate), to 7(very high).

Schoenberg (2006, p.13) states that 'novel measures of synergy realisation may provide avenues for future research'. Such measurement has advantages. It captures 'the multifaceted nature of M&As', 'avoids the problem of event studies capturing only anticipated performance' and avoids the problem of accounting-based measures that are unable to distinguish between performance attributable to the combination and 'ordinary' performance that would have accrued to the bidder and target if they had remained independent (Jemison, 1988). In addition, because combination potential, organisational integration and coordination efforts are the key factors for CBA success, this measurement will bring dependent variable of interest closer to the phenomenon under investigation. Furthermore, since synergy theory is the dominant theory in M&A research and is the most important motive for doing M&As in general (Seth et al., 2000; Bruner, 2002; Alexandridis et al., 2010; Ismail, 2011; Das and Kapil, 2012), warranting its position as one important aspect for acquisition performance assessment. 'Although it is not without difficulties, notably the subjective nature of the operationalisation, we believe synergy realisation more directly captures what goes on in an acquisition than measures of financial performance' (Larsson and Finkelstein, 1999, p.15).

Moreover, the overall performance of the combined firms is assessed as well by using the firm-level performance criteria in terms of innovation, marketing and accounting. These include R&D productivity (R&D output/expenditure), new products development cycle (time to market), improvement of the product pipelines or portfolios, market shares, competitive positioning, sales growth, return on investment (ROI), return on sales (ROS) and cost control, all of which have been widely used in prior research (see e.g., Puranam et al., 2006; Colombo et al., 2007; Reus and Lamont, 2009; Richard et al., 2009; Desyllas and Hughes, 2010). Each item was assessed on a 7-point Likert-type scale, anchored from 1 (greatly declined) to 7 (greatly increased). Meanwhile, the respondents were asked to assign weights to each criterion according to the degree of importance related to their primary

objectives for doing this acquisition. This connected CBA performance assessment with their major motives for doing this focal acquisition, which is reasonable and necessary since different cross-border acquisitions tend to be conducted with different objectives. Such operation also makes the findings more generalizable. As Das and Kapil (2012, p.297) put 'a motive-linked multi-dimensional performance model, combining measures of accounting performance, market performance and other operational characteristics may provide answers to some of the key questions plaguing academic M&A performance research'. Referring to Datta (1991), these importance scores were used to weight the performance scores for each acquisition. In addition, a separate question was designed to reveal the respondents' opinion about the 'overall acquisition performance'. Correlation analysis shows that two scores have high significant correlation ( $r = 0.882$ ) at the 0.01 level, suggesting consistency of response.

In this thesis, I used perceptual performance assessment approach not only because its validity that have been confirmed by many previous studies (e.g., Dess, 1984; Datta, 1991; Schoenberg, 2006; Pakadakis and Thanos, 2010)), but also because most Nordic companies are privately owned with limited performance data available on the Internet. Especially, I required the respondents' perceptual importance of these performance assessment criteria (according to their primary acquisition motives) to calculate the weighted average acquisition performance. Moreover, this measurement approach can overcome the problems the other objective performance measures have. These include, such as, isolating the performance of the acquisition from the performance of other units, shielding the impact of exogenous events, considering different acquisition motives, and capturing realised rather than predicted performance. Besides, secondary data on the performance of acquisitions made in many different countries are not generally available or are non-comparable across countries (Very et al., 1997). Using managerial perceptions of M&A performance is suitable also because their perception of success influences their actions and then the outcomes (Papadakis and Thanos, 2010). Therefore, a perceptual measure by knowledgeable managers is likely to assess performance that better reflects reality (Datta, 1991).

I used 'three years' after closing acquisitions as the time lag to assess CBA performance for the following reasons. First, several researchers argue that three years is a sufficient amount of time for changes to be observed in acquisition performance (Ingham et al., 1992; Lubatkin et al., 2001). Shorter time frames such as two years may not be enough time to capture how acquisitions contribute to an acquiring firm's performance (Saxton and Dollinger, 2004; Cording et al., 2008).

Second, 'successful acquirers tend to capture 70-75 percent of synergies in the first year after the deal' and very few companies need to wait more than three years to finish capturing synergistic benefits (Ficery et al., 2007). Third, this thesis's preliminary exploratory questionnaire confirms this (see Appendix A), because more than 80 percent of respondents expected to achieve their acquisition goals within three years. Fourth, such time lag can also help overcoming the potential effect caused by 2007-2008 financial crisis in the empirical analysis. This is because I asked the respondents to choose one 'most recent' CBA that they have been involved during 2005-2010 to answer the questions, and post-acquisition performance was evaluated three years after the focal acquisition, all sample firms, not part of the sample, will then be influenced by the crisis. The managers' perceptual assessment of acquisition performance, rather than using second-hand or objective data (e.g., financial reports) to evaluate the results further reduce the crisis effect.

Furthermore, the new combined entity is the unit of analysis for examining acquisition performance. Because this thesis focuses on acquisitions where the acquirers receive controlling ownership of the acquired firm, it does not make sense to assess acquisition performance only from the view of the acquiring firm. Further, distinguishing the performance of the acquiring firm from the acquired firm is not possible after the legal combination has taken place (Meglio and Risberg, 2011).

Altogether, measurements of all the variables used in this study are summarised in the following table (see Table 4.1). Reliability and validity of these measurement scales have been preliminarily assured by seeking scholars' and experienced practitioners' opinions. This is confirmed by an empirical test in next chapter. In the process of testing the reliability and validity of these variables, some items were removed to improve reliability and validity. This resulted in the final measurement construction, which is presented in next chapter.



Table 4.1 Latent variables/constructs and reflective indicators

Variable/Construct	Indicators/Items	Scales
<b>Explanatory variables</b>		
Resource Base (2 <sup>nd</sup> order construct, repeated indicators see below)		
Relative firm size (denotes resource quantity)	<p>Relsize_1: The relative size of the acquired firm to the acquiring firm in terms of annual sales (in percentage)</p> <p>Relsize_2: The relative size of the acquired firm to the acquiring firm in terms of number of employees (in percentage)</p> <p>Compared with industry average performance in terms of:</p>	<p>Open question</p> <p>Open question</p>
Pre-acquisition performance of the acquirer (denotes resource quality)	<p>Preperfacq_1: Profitability</p> <p>Preperfacq_2: General management capabilities</p> <p>Preperfacq_3: Marketing capabilities</p> <p>Preperfacq_4: Technical advantage</p> <p>Preperfacq_5: Overall performance</p> <p>Compared with industry average performance in terms of:</p>	<p>1 (much lower)...2...3...4...5...6...7 (much higher)</p> <p>1 ... 7</p> <p>1 ... 7</p> <p>1 ... 7</p> <p>1 ... 7</p>
Pre-acquisition performance of the target firm (denotes resource quality)	<p>Preperftar_1: Profitability</p> <p>Preperftar_2: General management capabilities</p> <p>Preperftar_3: Marketing capabilities</p>	<p>1 (much lower)...2...3...4...5...6...7 (much higher)</p> <p>1 ... 7</p> <p>1 ... 7</p>

Preperftar_4: Technical advantage	1	...	7
Preperftar_5: Overall performance	1	...	7
Indicate the degree of similarity in the following dimensions:			
Ressim_1: Technology/R&D	1 (very low)...2...3...4...5...6...7 (very high)		
Ressim_2: Product/service portfolio	1	...	7
Ressim_3: Production operations (e.g., know-how and process)	1	...	7
Ressim_4: Marketing resource (e.g., sales force, brands, distribution channel)	1	...	7
Ressim_5: Types of customers	1	...	7
Ressim_6: General management skills	1	...	7
Ressim_7: Geographic market Served	1	...	7
Ressim_8: Overall similarity	1	...	7
Indicate the degree of complementarity in the following dimensions:			
Rescom_1: Technology / R&D	1	...	7
Rescom_2: Product/service portfolio	1 (very low)...2...3...4...5...6...7 (very high)		
Rescom_3: Production operations (e.g., know-how and process)	1	...	7
Rescom_4: Marketing resource (e.g., sales force, brands, distribution channel)	1	...	7
Rescom_5: Types of customers	1	...	7
Rescom_6: General management skills	1	...	7
Rescom_7: Geographic market Served	1	...	7

Rescom_8: Overall complementarity Compared with your competitor, your firm's acquisition experience in terms of:	1 ... 7
Acqexp_1: the proven tools used in due diligence	1 (much lower)...2...3...4...5...6...7(much higher)
Acqexp_2: the existence of procedure in use for the target company's integration	1 ... 7
Acqexp_3: the existence of a proven M&A process in use	1 ... 7
Acqexp_4: the number of acquisitions completed by the acquirer five years before this focal acquisition (recoded)	1(0 acquisition) ... 7 (>10 acquisitions)
Hostexp: the number of years the acquiring firm has business operations in the host country prior to this acquisition (recoded)	1(0 year)...2...3...4...5...6...7(>15years)
Value identification	1 (minor)...2...3...4...5...6...7(extensive)
VI_2: Formal discussion about possible post-acquisition impediments	1 ... 7
VI_3: Formal discussion about whether cross-border acquisition is the best strategy over others (e.g., strategic alliance)	1 ... 7
VI_4: The amount of information related to the realistic value of the target firm obtained from due diligence	1 (very low)...2...3...4...5...6...7(very high)
VI_5: The accuracy of the valuation assumptions	1 ... 7
VI_6: The knowledge/experience for identifying potential value of the acquired firm at that time	1 ... 7
Resource reconfiguration (2 <sup>nd</sup> order construct, repeated indicators see below)	
Integration extent	1 (no integration)...2...3...4...5...6...7(complete integration)

	Integext_2: Integration of employee integration	1 ... 7
	Integext_3: Integration of organisational culture	1 ... 7
	Integext_4: Integration of R&D	1 ... 7
	Integext_5: Integration of production operation	1 ... 7
	Integext_6: Integration of marketing	1 ... 7
	Integext_7: Integration of systems (e.g., financial and budget systems)	1 ... 7
	Integext_8: Overall integration	1 ... 7
Coordination efforts	Coor_1: Communication between the acquiring and the acquired firm (take average of three items, i.e., frequency of exchange of information, frequency of face-to-face planning/communication during integration and information provided to the employees that might help them deal with changes, uncertainties and anxiety)	1 (very low)...2...3...4...5...6...7(very high)
	Coor_2: Involvement of the managers from the acquired firm in integration	1 ... 7
	Coor_3: Retention of key employees	1 ... 7
Organisational fit	The similarity between the acquiring firm and the acquired firm in terms of:	1 (very low)...2...3...4...5...6...7(very high)
	Orgfit_1: Business strategy	1 ... 7
	Orgfit_2: Management group's attitude towards risk	1 ... 7
	Orgfit_3: Control and communication patterns	1 ... 7
	Orgfit_4: Decision-making procedures	1 ... 7
	Orgfit_5: Managerial performance assessment	1 ... 7
	Orgfit_6: Manager's autonomy in decision making	1 ... 7
	Orgfit_7: Reward and evaluation systems	1 ... 7
	Orgfit_8: Organisational structure (e.g., hierarchy and	1 ... 7

	bureaucracy or the opposite)		
	Orgfit_9: Values, beliefs and philosophy	1 ... 7	
	Orgfit_10: Overall similarity	1 ... 7	
Competition (single item)	Comp: the number of interested buyers for the acquired firm at the acquisition time (recoded)	1(0 other acquirer)...2...3...4...5...6...7 (>5 acquirers)	
Attitude of the acquired firm (single item)	Atti: the attitude of the acquired firm's top managers towards this focal acquisition initially	1 (very resistant), ..., 4 (neutral attitude), ..., 7 (very friendly)	
<b>Control variables</b>			
Premium	Prem_1: Evaluation of the goodwill in comparison to the enterprise value	1 (very low)...2...3...4...5...6...7 (very high)	
	Prem_2: EBIT (Earnings Before Interests and Tax) multiple paid in comparison to industry EBIT multiple average	1 ... 7	
	Prem_3: Evaluation of acquisition premium	1 ... 7	
Payment method (single item)	Paym: The payment method for this acquisition	1=cash payment; 0=non-cash payment	
Industry type (single item)	Indu: The type of industry your company belonged to at the time of acquisition	1=manufacture; 0=service	
<b>Dependent variables</b>			
Post-acquisition performance (PP): 2 <sup>nd</sup> order construct, repeated indicators see below			
Motive-weighted Post-acquisition Performance of the combined firm (the importance of the measures according to their major motives for doing this focal acquisition works as the weight)	Wperf_1: R&D productivity	1 (greatly decline),...,4(no change),...,7(greatly increase)	
	Wperf_2: New products development cycle	1 ... 7	
	Wperf_3: Improvement of the product pipelines or portfolios	1 ... 7	
	Wperf_4: Market shares	1 ... 7	
	Wperf_5: Competitive positioning	1 ... 7	

Wperf_6: Sales growth	1	...	7
Wperf_7: Return on investment (ROI)	1	...	7
Wperf_8: Return on sales (ROS)	1	...	7
Wperf_9: Cost control	1	...	7
Synergy realisation	1 (very low)	2...3...4...5...6...7 (very high)	
Syn_1: Consolidation of purchases of input to reduce purchase price/cost per unit	1	...	7
Syn_2: Consolidation of production to reduce production cost per unit	1	...	7
Syn_3: Consolidation of marketing to reduce marketing cost per unit	1	...	7
Syn_4: Consolidation of competitor to increase market power	1	...	7
Syn_5: Consolidation of administration to reduce administrative overheads per unit	1	...	7
Syn_6: Consolidation of possible supplier or customer to reduce transactions costs per unit	1	...	7
Syn_7: Consolidation of R&D resources/capabilities to improve product innovation capability	1	...	7
Syn_8: Access to new geographic market(s) through the other firm's local sales organisation	1	...	7
Syn_9: Cross-selling the products to increase joint sales	1	...	7
Syn_10: Transfer of current know-how between the joining firms to manage their operation/process more effectively	1	...	7
Syn_11: Creation of new know-how by joining firms to manage their operation/process more effectively	1	...	7
Syn_12: Other explicit sources of synergy (e.g., financial)	1	...	7

Most of the variables are measured by using multi-item composition and each item is a question asked in the questionnaire. The survey questionnaire is structured into 4 sections: Section 1 provides a general overview of the participating firms' CBA activities. Section 2 identifies the firms' primary motives for conducting CBAs. Section 3 attempts to obtain the information of the predicting variables. Section 4 asks for the TMT's perceptual assessment of their CBA outcomes. Most of the questions are closed and several open-ended questions are designed to get additional or unexpected information.

## **4.2 SURVEY IMPLEMENTATION**

### **4.2.1 SAMPLING FRAME**

Using the area-sampling approach (Forza, 2002), this thesis examines cross-border acquisitions completed by Nordic firms in the period between January 2005 and December 2010. Focusing on CBAs from Nordic countries is because the existing empirical results are mainly based on data from USA, UK or larger countries in Continental Europe, while rare study touch this region (Larimo & Pynnönen, 2008). I selected this period because the construction of performance measures requires financial data three years after deal completion. Also, this study focuses on the acquisitions where the acquirer obtains a major stake of more than 50% of the company's shares, or where the acquirer can obtain controlling ownership of the acquired firm due to this focal acquisition. This allows that aspect of integration as well as combined firms' post-acquisition performance to be measured. Zephyr database is used to identify these transactions. Using the previously mentioned search criteria and after excluding acquirers from the financial industry, I obtained 5,236 cross-border deals conducted by 1,023 companies. Because some of these companies have been acquired by other companies, have gone bankrupt or have insufficient contact information available on the Internet or in the database, the final mailing sample was reduced to 802 companies.

### **4.2.2 TARGET INFORMANTS**

The target informants in this study are primarily top managers (CEO, CFOs, presidents and the owners of the company) or M&A experts. A single informant at the acquiring firm is used for information collection. This is because top managers are more likely to dominate acquisition decision-making and the whole acquisition process and be the most knowledgeable about their companies, competitive environment, the whole acquisition implementation process, the firms' intention, as

well as the outcomes. Besides, there are some practical problems for using multiple informants. It is problematic for a large sample study (like the present study) to identify and obtain responses from multiple knowledgeable respondents. Collecting information from the acquired firms is sometimes unlikely because many firms will have been dissolved, and there is usually high turnover of top managers following acquisitions. The key methodological solution in using a single respondent approach is to find the most appropriate respondent (Anand et al., 2005). Because the data quality was highly dependent on the informant's competence, several questions were designed to test their competence in the survey, i.e., their position, tenure and involvement in acquisition process. Almost all of the informants are CEOs, CFOs, or held equivalent positions. 93 percent of them have been working in the company for five or more years and 75 percent of them have participated in the whole acquisition process from target selection to post-acquisition integration. Both Sharfman (1998) and Kiessling and Harvey (2008) indicate that using single informant at high levels (e.g., CEOs) may actually increase the validity of, or one's confidence in results due to the comprehensive knowledge these informants possess.

Also, strict confidentiality and anonymity were ensured to mitigate respondent's concerns. The fact that there are no right and wrong answers was also emphasised. Furthermore, they are required to reply the questions based on the 'most recent' acquisition completed during 2005-2010, on one hand to reduce the problem of decayed memory, on the other hand to avoid the bias that they may only choose the acquisition with good performance when answering the questionnaire.

#### **4.2.3 DATA COLLECTION PROCESS**

The data collection process proceeded in four phases. First, measurement scales were developed based on the literature review and most of the variables are measured by using multi-item composition as introduced above. Each item is a question presented in the questionnaire. Second, because M&As have a multi-disciplinary feature, a preliminary version of the resulting questionnaire was discussed in detail with scholars from different research fields. Results from this second phase led to revision of the structure and wording to improve its clarity and intelligibility. Third, ten face-to-face interviews were conducted with executives who have been in charge of the acquisition programmes in seven firms. Their role is to check the questions' correctness, clarity and intelligibility and provide the feedback on everything that can affect respondent's answers. Some questions have been reformulated and some items have been deleted or added in this stage, leading to the final versions of the questionnaire. Fourth, the survey was sent to the acquiring companies through our campus online survey system SurveyXact, with Aalborg University identified as the supporter. The surveys were addressed to senior



executives whose functional responsibilities included overseeing acquisitions (i.e., CEOs, CFOs and acquisition specialists). They could provide accurate descriptions regarding the variables of interest, each representing a single cross-border acquisition deal.

Considerable efforts were made to collect as many responses as possible. In order to directly contact the targeted respondents and improve the response rate, at the beginning, I together with one assistant, spent two weeks on searching for the top-managers (CFO, CEO, Managers or M&A project leader)' contacting information, i.e., their name, email-address and telephone number. Finally, we have collected such contacting information for about 85% of the firms. For the firms whose top-managers' email-address that have been obtained, the questionnaire was sent directly to them. For the ones with no top managers' contact information, the questionnaire was sent to the secretary and kindly asked them to forward the email to the right person (named the specific person if his or her name available or their CFO, CEO, top managers, M&A project leader).

The first survey email was sent on 15<sup>th</sup> January 2014 to 802 Nordic firms. This was followed by three reminder emails and a final phone call with a two-week interval in between. After sending out the questionnaire, I received 42 completed questionnaires. After two weeks, a reminder e-mail was sent and another 38 answers were gathered. Two weeks later, I sent another reminder e-mail and stressed the importance of this research. 17 more questionnaires were collected. After the third round of reminder e-mails and follow-up telephone calls, an additional 16 questionnaires were received. Some of the informants wrote to explain why they refused to reply to the questionnaire. The main reasons are a lack of time and company policy of not replying to any questionnaires. In total, I received 113 replies, and ten questionnaires were eliminated due to obvious response patterns, too many missing data or the missing data are on key variables. This left a final sample of 103 acquisitions included in the analysis, representing an effective response rate of 12.8% (103/802). Among them, around 30 respondents also indicate that they are willing to provide me with additional interviews in the future. Such response rate is satisfactory taking into account the challenges faced. These included: (1) this research focuses only on Nordic context where the number of CBA cases will be limited; (2) since most of the Nordic acquirers are privately-owned firms, it is very difficult to get the targeted informants' contacting information for some of them; (3) M&As are usually viewed as sensitive topics. (4) most of the respondents are top managers, who tend to be very busy. Moreover, scholars have reported a decreasing rate of response from executives (Cycyota and Harrison, 2006). They found that various methods suggested to increase response rate in other populations are not effective for executives. (5) The people who have been involved in the acquisitions

have left the company or retired already. (6) The length of the questionnaire is also a challenge since this study develops an integrative model, including a number of contextual and implementation factors which are measured by using multi-items scales (each item is a question). (7) Increasing popularity of survey method nowadays can also be a reason since some respondents say that they sometimes receive several questionnaires a day from scholars, students, vendors etc., and they have to disregard all of them. (8) Time and cost constraints were another practical reason. Confronted with so many challenges, and compared with some other survey research in M&A area (e.g., 11.03% in Straub, 2007; 11% in Ahammad and Glaister, 2011; 11.6% in Zaheer et al., 2013), 12.8% in the present study is thought to be an satisfactory response rate.



# CHAPTER 5 EMPIRICAL ANALYSIS

This chapter presents the empirical analysis of the survey data collected in chapter 4. Before the analysis is conducted, the applied data analysis technique of partial least squares-based structural equation modelling (PLS-SEM) is concisely introduced and the developed input-process-output framework in chapter 2 is transferred into an operational structural equation model for further analysis. In order to comprehensively test the proposed model and associated hypotheses, a step-by-step empirical analysis is employed. This includes testing simple independent cause-effect relations between individual variables and acquisition performance, and examining an integrative model incorporating all the explanatory variables. Finally, a further analysis is conducted to investigate the mediating role of 'value identification' and 'resource reconfiguration'. The detailed analysis procedure and findings are presented in this chapter.

## 5.1 INTRODUCTION OF PLS-SEM

The partial least squares based structural equation modelling (PLS-SEM) algorithm was originally developed by Wold (1975), later extended by Lohmöller (1989) and was recently revitalised by Chin (Chin 1998a, b; Chin et al., 2003). PLS-SEM uses available data to estimate a set of hypothesised path relationships in the model with the objective of maximising the explained variance of the dependent construct(s) ( $R^2$ ). By doing so, it minimises the unexplained variance (Hair et al., 2014, p.14). 'This is contrary to covariance based-SEM' (CB-SEM) objectives of reproducing the theoretical covariance matrix, without focusing on explained variance' (Hair et al., 2011, p.139). Unlike the maximum likelihood (ML) estimation procedure for CB-SEM, the estimation procedure for PLS-SEM is a series of ordinary least squares (OLS) regression-based method. The PLS-SEM algorithm estimates all unknown elements in the PLS path model by means of either partial multiple regression or single regression in an iterative procedures. Another important characteristic of PLS-SEM is that it estimates latent variable scores as exact linear combination of their associated manifest variables. Thus, PLS-SEM avoids the indeterminacy problem (difficulty of estimating stable factor scores) and develops a more precise estimate of factor scores (Fornell and Bookstein, 1982).

Hair et al. (2011) states that PLS-SEM is particularly useful for studies on the sources of competitive advantage and success driver studies. Also, compared to CB-SEM, PLS-SEM has some advantages. These include placing looser assumptions on data distribution, having minimum requirements on sample size and the ability to

handle the construct with formative indicators without estimation problem, etc. In particular, PLS-SEM is the preferred method when the research objective is theory development and/or explanation (prediction) of the variance of target constructs (Hair et al., 2014). These advantages make it an appropriate method for this study. In this thesis, I use Smart PLS 2.0 (Ringle et al., 2005) and follow the analysis procedure (see Figure 5.1) introduced by Hair et al. (2014, p.25) to test this proposed structural model.

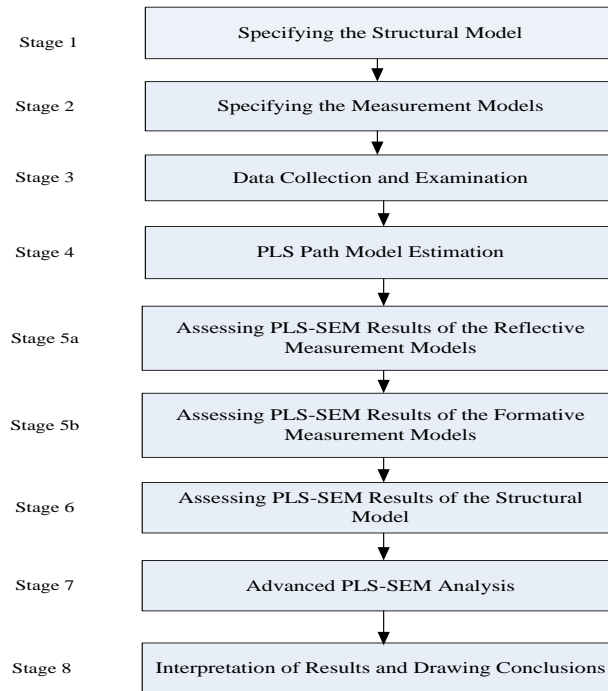


Figure 5.1 A systematic procedure for applying PLS-SEM

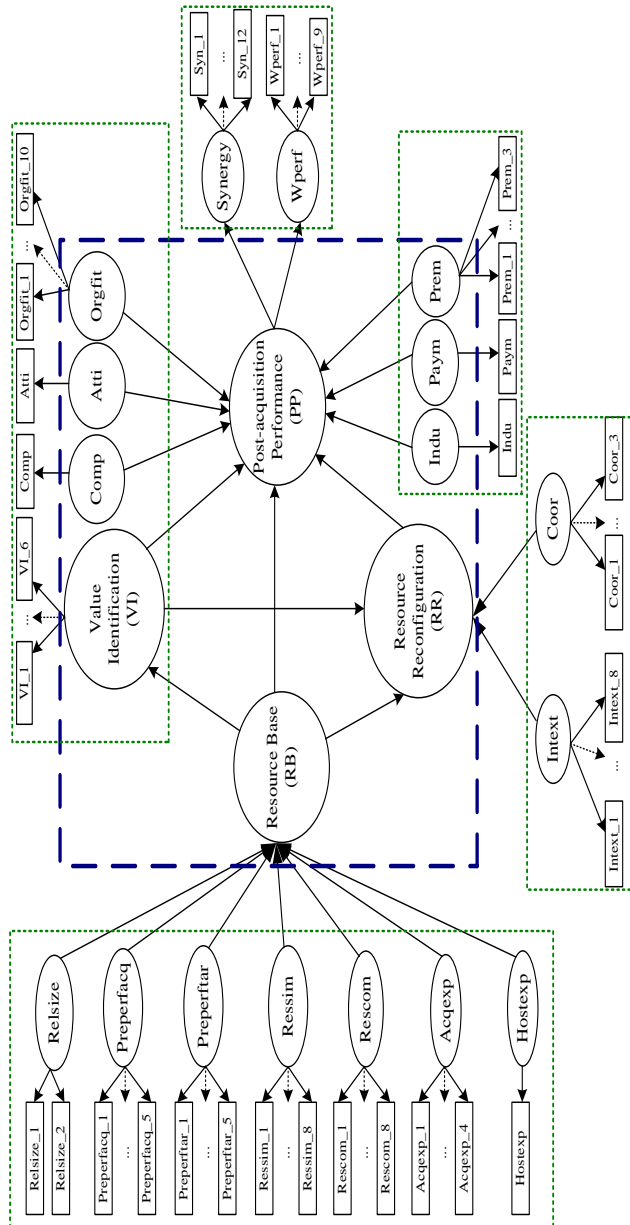
Source: Hair et al., 2014, p.25

I specify the structural model in stage one to prepare a diagram that illustrates the research hypotheses and displays the variable relationships that will be examined (usually referred to as a path model). It includes two elements: (1) the structural model (also called the inner model in PLS-SEM), which describes the relationships between the latent variables (or constructs); (2) the measurement models, which describe the relationships between the latent variables and their measures (or observe indicators). I specify measurement model in stage two to represent the relationships between constructs and their corresponding indicator variables (generally called the outer models in PLS-SEM). The structural and measurement

models in this study were developed based on an extensive literature review on three topics in M&A research fields. These included the motives for doing cross-border acquisitions, performance measurement and the determinants of M&A performance. The measurement models were developed and introduced in chapter 4. The established path model will be introduced in detail in the next section. In accordance with the established conceptual framework, I designed a questionnaire and then discussed it with ten scholars from different research fields before testing it in ten face-to-face interviews with M&A experts from seven companies. Thereafter, I conducted an online survey among 802 international acquirers from Nordic countries to collect the data. These research steps have been illustrated in detail in the previous chapters. This chapter presents my research work in detail from stage 3 (data examination) to stage 8 (interpretation of the results) shown in Figure 5.1.

## **5.2 PLS-SEM MODEL DEVELOPMENT**

Based on the previous literature and insights from the exploratory survey study, I specify the following path model (see Figure 5.2). I introduced this conceptual framework earlier in chapter 2. Now, I illustrate it here for the empirical analysis and present it in the language of PLS-SEM studies. I return to this figure later to discuss the empirical results.



- : Structural model, showing the relationships between the latent variables.
- : Measurement model, describing the relationships between the latent variables and their corresponding measures.
- : Constructs (also called latent variables), which are abstract, complex, and cannot be directly observed concepts.
- : Measurement indicators (also called manifest variables), which are directly measured observations (raw data).

Notes: "Indu", "Paym", and "Prem" are three control variables in this study

Figure 5.2 Research model (Hierarchical Component Model, HCM)

This model (as shown by Figure 5.2) is called a higher-order model or hierarchical component model (HCM) in the context of PLS-SEM studies. It most often involves testing higher (second)-order structures that contain two layers of constructs (e.g., Ringle et al., 2012). These lower (first)-order constructs might form the more abstract higher (second)-order construct. Put another way, the lower-order constructs (LOCs) are summarised into a single multidimensional and more abstract higher-order construct (HOC). There are three main reasons for using HCM in PLS-SEM (Hair et al., 2014): (1) the number of relationships in the structural model can be reduced, making the PLS path model more theoretically parsimonious and easier to grasp; (2) HCMs prove valuable if the constructs are highly correlated as the estimation of the structural model will be biased because of collinearity and discriminant validity may not be established as well; (3) establishing HCMs can also prove valuable if formative indicators exhibit high levels of collinearity. Provided the theory supports this step, researchers can split up the set of indicators and establish separate constructs in a higher-order structure. In the context of PLS-SEM studies, hierarchical latent variable models have shown an increasing popularity in recent years (Jarvis et al., 2003; Johnson et al., 2012; Ringle et al., 2012).

Conceptually, HCMs can be established following a bottom-up or top-down approach (Hair et al., 2014, P.229). In the bottom-up approach, several latent variables' information is combined into a single, more general construct. Alternatively, a HCM can be established top-down in which a general construct is defined that consists of several sub-dimensions. In this study, I apply the bottom up approach. I identified a number of factors that have high possibility impacting acquisition performance/success from three rounds of extensive literature review and an exploratory survey study. These impacting factors are grouped into several general higher order components from perspectives of resource based theory and dynamic capabilities theory as well as the relevant literature. Process perspectives, synergy theory, practical experience and the existing literature offer further guidance to determine the sequence and the relationships of these higher-order constructs (i.e., RB, RR and PP). The sequence and the relationships are displayed from the left to right, with independent (predictor) constructs on the left and dependent (outcome) constructs to the right<sup>10</sup>. Figure 5.2 shows how the research model was established.

As can be seen from Figure 5.2, the structural equation model with latent constructs has two components. The first component is a structural model. This model is

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<sup>10</sup> According to the definitions in the Hair et al., (2014, p.34): 'These constructs that only act as independent variables are generally referred to as exogenous latent variables and are on the extreme left side of the structural model. Constructs considered as dependent in a structural model often are called endogenous latent variables and are on the right side of the structural model. Constructs that operate as both independent and dependent variable are also considered as endogenous.'



typically referred to as the inner model shown inside of the blue dotted line, which describes the relationships/paths between the latent constructs (i.e., RB, VI, RR and PP). The second component is the measurement models, also referred to as outer models in the PLS-SEM context shown inside of the green dotted line. This describes the relationships between the lower-order constructs and their associated observed indicators. Since the lower-order constructs cannot be directly observed (latent variables), each of them needs to be specified with a measurement model (i.e., multi-item vs. single-item measures and reflective vs. formative measures). In this study, all the measurement models are reflective and most of the explanatory variables are measured by multi-items apart from the variables of host-country experience, competition and attitude. The single item was used due to the nature of these variables and to decrease the overall number of items in the questionnaire. By convention, single-item measures are included as reflective in a PLS path model.

Moreover, the relationship between a higher (or second)-order construct (HOC) and lower or first order constructs (LOCs) can be either reflective or formative. If it is reflective, several specific dimensions (i.e., LOCs) that are themselves latent (unobserved) manifest the general concept (i.e., HOC). Hence, HOC explains all the correlations between the LOCs. If the relationship between LOCs and HOC is formative, the LOCs do not share a common cause but rather form a general concept (i.e., HOC), which fully mediates the relationship between the LOCs and their target variables in the PLS path model (Chin, 1998b). Therefore, formative relationships between the LOCs and the corresponding HOC reveal the relative contribution of each LOC in explaining the focal HOC.

According to the introduction of PLS-SEM types in Ringle et al. (2012) and Becker et al. (2012), the entire research model in this study is reflective-formative. This indicates formative relationships between the lower-order constructs (LOCs) and the corresponding higher-order construct (HOC), whereby reflective indicators measure each construct. These reflective indicators can be distinguished from each other but are highly correlated. In the PLS-SEM model of this study, there are three HOCs (see Figure 5.2), i.e., Resource Base (RB), Resource Reconfiguration (RR) and Post-acquisition Performance (PP). RB incorporates seven lower (first)-order constructs that capture the important attributes of the joining firms' resource base for explaining acquisition performance: relative size of the acquired firm to the acquiring firm (i.e., Relsize), pre-acquisition performance of the acquirer (i.e., Preperfacq), pre-acquisition performance of the target firm (i.e., Preperftar), resource similarity between the joining firms (i.e., Ressim), resource complementarity (i.e., Rescom), the acquirer's acquisition experience (i.e., Acqexp) and the acquirer's host-country experience (i.e., Hostexp). RR is composited by two first-order constructs of 'integration extent' (i.e., Integext) and 'coordination efforts'

(i.e., Coord). These lower-order constructs represent strategic key components of the higher-order construct, which the manager may influence to improve the success of cross-border acquisitions. Two aspects reflect post-acquisition performance (i.e., PP). These are the deal level performance assessment - synergy realisation (i.e., synergy) and motive-weighted post-acquisition performance on firm level (i.e., Wperf). All of these lower (first)-order formative/reflective constructs have reflective measurement models indicated by the arrows pointing from the construct to the indicators. Such a reflective-formative model is established based on theories and prior literature as discussed previously. The purpose of this is to reduce the relationship in PLS-path model to make the PLS path model more theoretically parsimonious and generalisable. Reliability and validity of the measurement (outer) model are assessed first before examining and assessing the structural (inner) model, which will be presented in the following sections.

## **5.3 EMPIRICAL STUDY AND SURVEY FINDINGS**

### **5.3.1 DATA PRE-EDITING**

I pre-edited the data before entering it into the software program. Missing data are often a problem when a survey method is used. In line with Hair et al.'s (2014, multivariate data analysis, p.46) suggestion, I deleted the cases with missing data for dependent variable(s) to avoid any artificial increase in relationships with independent variables. Also, following Hair et al.'s (2014, p.51) recommendation, I removed cases from the data file when the amount of missing data on a questionnaire exceeded 15%. Further, the respondents' answers were examined carefully to identify whether response patterns existed. If a respondent makes the same choice for a high proportion of the questions (e.g., select all 4s for a question with a 7-point scale choices), this respondent was also removed from the dataset. Altogether, ten questionnaires were eliminated. This left 103 cases for analysis. Regarding missing values, I took the following advice: 'for reasonable limits (i.e., less than 5% values missing per indicator), missing value treatment options, such as mean replacement, EM (expectation-maximisation algorithm) and nearest neighbour generally result in only slightly different PLS-SEM estimations' (Hair et al., 2014, p.22). Among the retained questionnaires, the indicators only had a few missing values (less than 5%). Thus, I applied the mean value replacement approach.

After dealing with the missing data, the answers to open-ended questions and to the questions with literal choices were recoded into 7-point interval scales. Thereafter, outlier diagnostics by means of boxplots and outlier Labelling Rule/technique (Hoaglin et al., 1986; Hoaglin and Iglewicz, 1987) using IBM SPSS Statistics revealed several outliers. Because the number of outliers is less than 5% of data points, two commonly used techniques, i.e., trimming and winsorising, were not likely to affect the hypothesis testing outcome. Thus, I employed the winsorising

technique to solve this problem. This involved transforming the outliers' original values by assigning the corresponding outlier the next highest or lowest value found in the sample that is not an outlier.

### **5.3.2 SAMPLE SIZE AND DESCRIPTION**

Hair et al. (2014) state that the minimum sample size for PLS path model estimation should meet the 10 times rules (see also Barclay et al., 1995). This indicates that 'the sample size should be equal to the larger of either (1) 10 times the largest number of formative indicators used to measure a single construct, or (2) 10 times the largest number of structural paths directed at a particular construct in the structural model'.

In my research model, the largest number of structural paths is nine (i.e., the maximum number of arrows pointing at a particular latent variable). Thus, according to the 10 times rule, the minimum observations need to be 90. Because sample size recommendations in PLS-SEM essentially build on the properties of OLS regression, alternatively, if following Cohen's (1992) recommendations for multiple OLS regression analyses or running a power analysis using the G\*power program, when the maximum number of arrows pointing to a construct is nine, 88 observations are sufficient to detect  $R^2$  values of around 0.25 at the significance level of 5% and statistical power of 80%. Moreover, compared with CB-SEM, PLS-SEM has higher levels of statistical power in situations with complex models or smaller sizes (Reinartz et al., 2009). Therefore, 103 observations in the sample are satisfied in the application of PLS-SEM.

Descriptively, the acquirers in this study mainly come from Sweden, followed by Denmark and Norway. Finland makes up the smallest portion (see Table 5.1). I checked the whole population and found that, between 2005 and 2010, cross-border acquisitions in Sweden accounted for 47 percent of all Nordic deals, while transactions from Denmark and Norway accounted for 22 percent and 21 percent respectively and Finland accounted for only 10 percent. Therefore, the country composition in the sample represents the population. Regarding the country of target firms, European countries account for 71.5 percent and 98 percent of the acquired firms are from developed countries as shown by Table 5.1. Therefore, we may say that the findings of this study can be extrapolated to the acquisitions conducted between the developed countries rather than the deals involving developing countries. In terms of the legal form of the respondents, 85 percent of them are privately owned companies. The reason for this is that 89 percent of international acquirers in Nordic countries are privately owned. In terms of the industry type, almost half of the respondents are from the high-tech industry and the other half come from the low-tech industry. The same ratio is observed when dividing the firms into manufacturing and service types. Therefore, the results obtained through this sample can be extrapolated to the acquisitions conducted in between different

industries. In the following table, we see that most of transactions were conducted in 2010. This is because the respondents were required to answer the questions based on a recent cross-border acquisition completed during 2005-2010 with the aim of avoiding the problem of decayed memory and the potential bias that they may choose a successful case when replying to the questionnaire. Additionally, most of the Nordic international acquirers prefer horizontal acquisitions.

Table 5.1 Sample description

Acquirer's country	%	Target's country	%	Year of acquisition	%	The acquirer's industry	%	Legal form of the acquired firm	%	Acquisition type	%
Finland	4.9	Nordic countries	49.5	2005	4.9	High-tech	45.6	Public-listed	14.6	Conglomerate acquisition	5.8
Norway	24.3	Other European countries	32.0	2006	6.8	Low-tech	54.4	Privately-owned	85.4	Backward vertical acquisition	8.7
Denmark	29.1	US& Canada	10.7	2007	13.6	Manufacturing	49.5			Forward vertical acquisition	8.7
Sweden	41.7	Australia & Switzerland	5.8	2008	15.5	Service	50.5			Horizontal acquisition	76.7
		Other countries	2.0	2009	13.6						
				2010	45.6						

### 5.3.3 NON-RESPONSE BIAS

The possibility of non-response bias is a drawback of survey studies. This study employed an extrapolation technique discussed by Oppenheim (1966) and Armstrong and Overton (1977) to detect different characteristics in the waves of responses. This technique has also been used by a number of prior researchers (e.g., Datta, 1991; Kiessling and Harvey, 2008; Zaheer et al., 2013). Among the 'early' and 'late' respondents, I compared the selected dimensions that tend to be the reasons for non-response such as relative size of the acquired firm to the acquirer, legal form, industry type, acquisition experience and perceived post-acquisition performance. The assumption behind this test for non-response bias (Oppenheim, 1966) is that the 'late' respondents (those responses received after the third mailing) are very similar to the non-respondents because they would be grouped into that category if a third set of questionnaires had not been mailed. As illustrated in Table 5.2, the t-tests of mean differences were insignificant, which confirms no systematic differences between the 'early' and 'late' respondents across these five aspects. This provides the evidence that there is no non-response bias.

Table 5.2 Non-response bias analysis of 42 early and 33 late respondents

	<b>Identity</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>t</b>	<b>Sig. (2-tailed)</b>
Legal form	Early	42	0.9	0.30	1.054	0.296
	Late	33	0.82	0.39		
Industry type (High- vs. Low- tech )		42	0.6	0.50	0.946	0.347
		33	0.48	0.50		
Industry type (Manufacturing vs. Service)		42	0.43	0.50	-1.530	0.130
		33	0.61	0.50		
Relative size		42	20.29	20.81	1.483	0.142
		33	14.19	12.55		
Acquisition experience		42	4.22	1.51	-1.584	0.117
		33	4.72	1.10		
Perceived performance		42	4.19	1.19	1.655	0.103
		33	3.70	1.33		

### 5.3.4 COMMON METHOD BIASES/VARIANCES (CMB OR CMV)

As with all self-reported data, there is a potential for common method biases (CMB) resulting from multiple sources such as consistency motif and social desirability (Podsakoff and Organ, 1986; Podsakoff et al. 2003). This can have a serious confounding influence on empirical results and yield potentially misleading conclusions (Campbell and Fiske, 1959). Collecting the data from multiple respondents can be a way to reduce such bias. The questionnaire was initially designed to collect the information from at least two respondents for each acquisition. However, I faced several practical challenges. First, it is difficult to know which two people have been involved in one focal acquisition because some acquiring companies have conducted several acquisitions in history. Second, it is difficult to obtain the informants' contact information. This is especially the case when the targeted informants are the top managers (e.g., CEO, CFO, M&A project leaders) and the acquirers are privately owned firms. Third, there are few people that have the sufficient knowledge about the acquisition to complete the survey. Some of the people who were involved in this acquisition may have already left the company. As a result, I was only able to collect the data from a single key informant from each acquiring company.

Although there are some arguments and evidence supporting the notion that CMB does not exist or is overstated (Crampton and Wagner, 1994; Spector and Brannick, 1995), I take on the recommendations from Podsakoff et al. (2003) and Chang et al. (2010) and apply several ex-ante procedural techniques to minimise potential common method biases. First, the questionnaire was prototyped by both discussions with the researchers and field interview with M&A experts. This ensured that these questions/items are formulated as correct as possible and that the respondents can clearly understand their meaning. Second, most of the researched variables are measured using a multi-item approach. I mix items belonging to different measures and use different scale formats and scale anchors at the same time. Response bias decreases as the number of items measuring each construct increases (Harrison et al., 1996). Also, I mix the question order and use different scale endpoints and format for the predictor and criterion measures. Such an operation should reduce method biases caused by commonalities in scale endpoints and anchor effects. Moreover, the value of some variables needed to be recoded or computed for final usage. For instance, the variable of 'coordination efforts' is reflectively measured by three sub-constructs, i.e., 'active communication', 'retention of key employee' and 'the involvement of the managers from the acquired firms'. Questions related to these items are located far from each other and the item of 'active communication' is an average value of three further items, while the value of 'retention of key employees' is a weighted average of 'retention of each type of key employee' and 'the importance of each type of employee', which works as the weights. Therefore, it is less likely the respondents can combine related items to cognitively 'create' the correlation needed to produce a CMV biased pattern of responses. Third, fact-based questionnaire items are less likely to be associated with CMV (Podsakoff et al., 2003). In this study, the information collected is related to acquisition process of a



historical cross-border acquisition that the informants have been involved in. This information is fact-based. Fourth, respondents were assured of the anonymity and confidentiality of the study. It was stressed that 'there is no right or wrong answer and that they should answer as honestly as possible'. Fifth, CMV is more likely to emerge in models that are too simple (Chang et al., 2010). In this study, the research model is quite complex. Not only does it contain two layers of constructs, but it also incorporates two mediators. Moreover, most of the first-order constructs are measured by using multi-item approach. Such a complex relationship is unlikely to be part of the respondents' cognitive maps. All these procedures together should reduce people's evaluation apprehension and make them less likely to edit their responses to be more socially desirable, acquiescent and consistent with how they think the researcher wants them to respond.

In addition, I applied Harman's one-factor test (Podsakoff and Organ, 1986) as the ex-post approach to assess the severity of common method bias. The basic assumption of this technique is that if a substantial amount of common method variance is present, either a single factor will emerge from the factor analysis, or one 'general' factor will account for the majority of the covariance in the independent and criterion variables (Podsakoff and Organ, 1986). This combined factor analysis is conducted on the twelve crucial multi-item measured variables in this thesis, which are the independent variables 'Preperfacq', 'Preperftar', 'Ressim', 'Rescom', 'Acqexp', 'Integext', 'Coord', 'VI', 'Orgfit', 'Prem' and the dependent variables of 'Synergy' and 'Wperf'. Results from this test showed that twelve factors are present and the most covariance explained by one factor is 15.36 percent, indicating that common method biases are not a likely contaminant of this study's results.

### **5.3.5 EMPIRICAL ANALYSIS**

#### **5.3.5.1 Data examination**

PLS-SEM is a nonparametric statistical model and it does not require the data to be normally distributed. Nevertheless, it is important to verify that the data are not too abnormal, because extremely abnormal data are problematic in the assessment of the parameters' significances. Specifically, extremely abnormal data inflate standard errors obtained from bootstrapping and thus decrease the likelihood that some relationships will be assessed as significant (Hair et al., 2014). Normality of the variables has been tested by checking the values of Skewness, Kurtosis, Kolmogorov-Smirnov and Shapiro-Wilk. The results indicate that normality in the distribution is not an issue (See Table 5.3). The kurtosis and skewness values of all the indicators are almost within the acceptable range of -1 to +1. The only exceptions are several indicators in the multi-item constructs of value identification, synergy realisation and weighted post-acquisition performance. Specifically, VI\_4 has a kurtosis of 1.219; Syn\_7 has a kurtosis of -1.257; Wperf\_1 and Wperf\_2 have the kurtosis of -1.459 and -1.287 respectively. Therefore, they exhibit a slight degree

of abnormality. However, because these indicators are just small part of a reflective multi-item composition (i.e., value identification, synergy realisation and weighted post-acquisition performance), this deviation from normality is not considered a problem and these indicators are therefore retained.

Table 5.3 Test of normality distribution

Construct & indicators	Mean	Std. Deviation	Skewness	Kurtosis	Kolmogorov-Smirnov	Sig.	Shapiro-Wilk	Sig.
<b>Relative size</b>								
Relsize_1	17.480	15.498	0.969	-0.200	0.185	0.000	0.855	0.000
Relsize_2	18.000	15.274	0.902	-0.282	0.170	0.000	0.871	0.000
<b>Pre-acquisition performance of the acquirer</b>								
Preperfacq_1	4.730	1.206	-0.039	-0.270	0.174	0.000	0.931	0.000
Preperfacq_2	4.870	1.007	-0.448	-0.416	0.210	0.000	0.889	0.000
Preperfacq_3	4.620	1.095	-0.065	-0.623	0.200	0.000	0.915	0.000
Preperfacq_4	4.910	1.130	-0.283	-0.010	0.181	0.000	0.923	0.000
Preperfacq_5	4.950	1.004	-0.435	-0.293	0.199	0.000	0.893	0.000
<b>Pre-acquisition performance of the target firm</b>								
Preperftar_1	3.790	1.446	-0.014	-0.837	0.180	0.000	0.929	0.000
Preperftar_2	3.620	1.865	0.199	-0.950	0.154	0.000	0.913	0.000
Preperftar_3	3.530	1.312	0.336	-0.278	0.153	0.000	0.935	0.000
Preperftar_4	4.030	1.240	0.007	-0.507	0.170	0.000	0.938	0.000
Preperftar_5	3.840	1.203	0.202	-0.374	0.167	0.000	0.936	0.000
<b>Resource complementarity</b>								
Rescom_1	4.020	1.913	-0.046	-0.126	0.151	0.000	0.921	0.000

Rescom_2	4.390	1.833	-0.321	-0.925	0.147	0.000	0.927	0.000
Rescom_3	3.860	1.800	0.012	-0.988	0.127	0.000	0.938	0.000
Rescom_4	3.820	1.711	-0.132	-0.890	0.131	0.000	0.937	0.000
Rescom_5	4.330	1.882	0.012	-0.988	0.155	0.000	0.918	0.000
Rescom_6	3.610	1.685	0.042	-0.720	0.135	0.000	0.939	0.000
Rescom_7	4.600	2.010	-0.464	-1.030	0.172	0.000	0.893	0.000
Rescom_8	4.36	1.460	-0.369	-0.161	0.176	0.000	0.935	0.000
<b>Resource similarity</b>								
Ressim_1	4.050	1.596	0.128	-0.616	0.136	0.000	0.949	0.001
Ressim_2	4.090	1.778	0.135	-0.952	0.156	0.000	0.934	0.000
Ressim_3	4.220	1.747	-0.112	-1.029	0.168	0.000	0.933	0.000
Ressim_4	3.670	1.588	0.203	-0.608	0.159	0.000	0.947	0.001
Ressim_5	4.540	1.792	-0.340	-0.883	0.178	0.000	0.923	0.000
Ressim_6	3.760	1.518	0.413	-0.297	0.187	0.000	0.936	0.000
Ressim_7	3.540	1.900	0.269	-1.103	0.168	0.000	0.918	0.000
Ressim_8	4.210	1.366	0.095	-0.523	0.164	0.000	0.946	0.000
<b>Acquisition experience</b>								
Acqexp_1	4.610	1.416	-0.633	-0.064	0.168	0.000	0.908	0.000
Acqexp_2	4.420	1.376	-0.493	-0.187	0.179	0.000	0.931	0.000
Acqexp_3	4.530	1.500	-0.511	-0.509	0.175	0.000	0.922	0.000
Acqexp_4	3.280	1.817	0.820	-0.320	0.202	0.000	0.872	0.000
<b>Host-country experience (single indicator)</b>	4.790	1.466	-0.763	0.433	0.179	0.000	0.917	0.000

<b>Value Identification</b>									
VI_1	4.610	1.416	-0.802	0.861	0.210	0.000	0.916	0.000	0.000
VI_2	4.420	1.347	-0.287	0.295	0.165	0.000	0.941	0.000	0.000
VI_3	3.790	2.056	-0.465	-0.845	0.172	0.000	0.918	0.000	0.000
VI_4	4.570	1.063	-0.369	1.219	0.220	0.000	0.889	0.000	0.000
VI_5	4.410	1.232	-0.184	0.152	0.164	0.000	0.939	0.000	0.000
VI_6	4.510	1.119	-0.144	0.560	0.192	0.000	0.923	0.000	0.000
<b>Competition (single indicator)</b>	2.180	1.487	1.100	0.305	0.292	0.000	0.776	0.000	0.000
<b>Organizational fit</b>									
Orgfit_1	4.040	1.274	-0.368	-0.479	0.177	0.000	0.925	0.000	0.000
Orgfit_2	3.620	1.379	0.327	-0.691	0.202	0.000	0.929	0.000	0.000
Orgfit_3	3.510	1.326	0.291	-0.479	0.199	0.000	0.925	0.000	0.000
Orgfit_4	3.260	1.168	0.150	0.098	0.186	0.000	0.926	0.000	0.000
Orgfit_5	3.420	1.246	0.120	-0.470	0.169	0.000	0.933	0.000	0.000
Orgfit_6	3.430	1.375	0.018	-0.949	0.170	0.000	0.927	0.000	0.000
Orgfit_7	3.200	1.227	0.141	-0.623	0.175	0.000	0.927	0.000	0.000
Orgfit_8	3.590	1.424	0.154	-0.760	0.150	0.000	0.928	0.000	0.000
Orgfit_9	3.960	1.469	-0.084	-0.661	0.148	0.000	0.944	0.000	0.000
Orgfit_10	3.710	1.122	-0.294	-0.011	0.201	0.000	0.924	0.000	0.000
<b>Attitude(single indicator)</b>	5.310	1.540	-0.883	0.004	0.265	0.000	0.870	0.000	0.000
<b>Premium</b>									
Prem_1	4.060	1.447	-0.361	-0.229	0.193	0.000	0.937	0.000	0.000

Prem_2	3.910	1.197	-0.004	0.473	0.228	0.000	0.921	0.000
Prem_3	3.950	1.175	-0.089	0.602	0.235	0.000	0.919	0.000
<b>Integration extent</b>								
Intext_1	5.430	1.619	-1.133	0.557	0.231	0.000	0.837	0.000
Intext_2	4.820	1.507	-0.539	-0.200	0.180	0.000	0.930	0.000
Intext_3	4.700	1.520	-0.516	-0.181	0.171	0.000	0.933	0.000
Intext_4	4.350	1.994	-0.277	-1.064	0.136	0.000	0.912	0.000
Intext_5	4.690	1.651	-0.488	-0.593	0.175	0.000	0.922	0.000
Intext_6	4.850	1.511	-0.565	-0.057	0.160	0.000	0.925	0.000
Intext_7	5.130	1.595	-0.595	-0.469	0.184	0.000	0.905	0.000
Intext_8	5.030	1.240	-0.685	0.616	0.228	0.000	0.911	0.000
<b>Coordination efforts</b>								
Coord_1	3.500	1.434	0.519	-0.107	0.188	0.000	0.927	0.000
Coord_2	5.400	1.605	-0.922	-0.121	0.248	0.000	0.852	0.000
Coord_3	3.885	1.138	-0.501	-0.315	0.086	0.066	0.968	0.015
<b>Synergy realization</b>								
Syn_1	4.030	1.755	-0.195	-1.039	0.140	0.000	0.930	0.000
Syn_2	3.850	1.725	-0.076	-1.037	0.137	0.000	0.937	0.000
Syn_3	3.660	1.526	-0.049	-0.863	0.168	0.000	0.936	0.000
Syn_4	4.070	1.707	-0.310	-0.805	0.154	0.000	0.932	0.000
Syn_5	3.880	1.719	-0.115	-0.923	0.153	0.000	0.939	0.000
Syn_6	3.280	1.735	0.208	-1.035	0.170	0.000	0.917	0.000

Syn_7	3.620	1.979	0.169	-1.257	0.153	0.000	0.909	0.000
Syn_8	4.620	1.948	-0.612	-0.742	0.191	0.000	0.885	0.000
Syn_9	4.020	1.809	-0.354	-0.961	0.176	0.000	0.911	0.000
Syn_10	4.370	1.461	-0.511	-0.119	0.207	0.000	0.929	0.000
Syn_11	3.990	1.439	-0.314	-0.367	0.163	0.000	0.941	0.000
Syn_12	4.000	1.137	-0.210	-0.191	0.190	0.000	0.926	0.000
<b>Weighted post-acquisition performance</b>								
Wperf_1	3.440	1.894	-0.020	-1.459	0.172	0.000	0.877	0.000
Wperf_2	3.910	1.908	-0.302	-1.287	0.172	0.000	0.882	0.000
Wperf_3	4.420	1.768	-0.600	-0.584	0.174	0.000	0.901	0.000
Wperf_4	5.490	1.327	-0.853	0.190	0.233	0.000	0.877	0.000
Wperf_5	5.580	1.217	-0.812	0.340	0.217	0.000	0.882	0.000
Wperf_6	5.750	1.220	-0.893	0.257	0.254	0.000	0.845	0.000
Wperf_7	5.660	1.209	-0.978	0.769	0.261	0.000	0.856	0.000
Wperf_8	5.490	1.228	-0.841	0.559	0.245	0.000	0.872	0.000
Wperf_9	5.300	1.277	-0.313	-0.869	0.214	0.000	0.903	0.000

After dealing with missing values and the outliers and testing for normality, I used the data set to estimate the established PLS-SEM path models in Smart PLS 2.0 (Ringle, et al., 2005). The data metric option is first set with a mean value of 0 and standard deviation of 1 to z-standardise the data. A value of 5000 is used for the maximum number of iterations with the stop criterion of  $10^{-5}$  and +1 is used as the initial value for all outer weights during the first iteration. Factor-weighting scheme approach is used to estimate latent variable scores. All the PLS-SEM path models in this study are estimated under these algorithmic options and parameter settings. Before testing the structural paths and relevant research propositions developed in chapter 2, assessment of reliability and validity of the measurement model is first conducted.

#### **5.3.5.2. Assessing the measurement model (reliability and validity)**

In this section, I assess the reliability and validity of the measurement model. In behavioural science, researchers frequently examine theoretical constructs that cannot be observed directly (Byrne, 2001), such as resource similarity and acquisition experience in this study. We therefore need to define the specific variables operationally in the way that reflect or represent these constructs. Further, these variables must be measurable. In this study, there are twelve latent variables that are measured using multi-item scales. Since the nature of multi-item scales is doubtful (Brosius, 2002), it is necessary to determine the degree to which it is reliable and valid. Reliability means that a measure should consistently reflect the construct that it is measuring. In other words, are the items or a set of items consistent with what they are intended to measure? Therefore, analysis of reliability aims to test the quality of the scales and to select the most appropriate items to be retained. Validity can be defined as the extent to which a measure correctly represents the concept of a study (Hair et al., 2006). The emphasis of validity is on what is being measured while reliability stresses how it is measured. Reliability is a necessary condition for validity (Mooi and Sarstedt, 2011).

Three types of validity are considered in this study: (1) content validity, (2) convergent validity and (3) discriminant validity. Content validity is a qualitative type of validity, focusing on the adequacy with which the construct's field is captured by the measure (Churchill, 1999). It deals with the items' representativeness and comprehensiveness when establishing the scale. They are estimated by examining the process through which the scale items are generated (Straub, 1989). Convergent validity verifies 'the extent to which a measure correlates positively with alternative measures of the same construct' (Hair et al., 2014, p.102). In other words, the items/indicators (measures) of a specific construct should converge or share a high proportion of variance. Discriminant validity is the extent to which a construct does not correlate with other constructs from which it needs to differ (Churchill, 1999). In other words, 'discriminant validity implies that a



construct is unique and captures phenomena not represented by other constructs in the model' (Hair et al., 2014, p.104).

In this thesis, I employed several methods to enhance the reliability and validity of the data. First, the initial questionnaire was discussed with scholars and pre-tested through on-site interviews with top managers who have rich acquisition experience. This method tested and improved the content validity and reliability of each question in capturing the information used. Second, I used multiple items to measure a particular construct. Several questions were then crosschecked to determine whether or not they show consistent response. Third, I drew most of the measures used in this study from previous research that had been proven to be reliable. This was to make sure that what was measured is what was intended to be measured.

Statistically, reliability and validity of the measurement model are assessed based on the results of PLS-SEM estimation by means of Smart-PLS2.0 software (Ringle et al., 2005). 'Researchers using PLS-SEM rely on measures indicating the model's predictive capabilities to judge the model's quality' (Hair et al., 2014, p.96). Therefore, the structural model estimates are not examined until the reliability and validity of the constructs have been established. All the measurement models in this study are reflective and the criteria for evaluating reflective measurement model have been summarised in the following table (see Table 5.4).

*Table 5.4 Evaluation of the reflective measurement (outer) model*

<b>Criterion</b>	<b>Rule of Thumb</b>	<b>Suggested References</b>
Composite Reliability (Internal Consistency)	Composite Reliability (for exploratory study) > 0.6 (0.7 or higher for confirmatory study)	Bagozzi and Yi, 1988;
Indicator Reliability	Outer loadings (for exploratory study) > 0.4 (0.7 or higher for confirmatory study)	Hulland, 1999; Hair et al., (2013)
Convergent Validity	Average variance extracted (AVE) > 0.5	Bagozzi and Yi, 1988, Chin, 2010
Discriminant Validity	Fornell - Larcker Criterion: Square Root of AVE of each latent variable should be higher than its highest correlation with any other latent variable	Fornell and Larcker (1981)
	An indicator's outer loading on the associated construct should be greater than all of its loadings on other constructs (i.e., the cross loadings).	Hair et al. (2014, p.105)

Table 5.4 shows that the assessment of reflective measurement models includes composite reliability to evaluate internal consistency, individual indicator reliability and average variance extracted (AVE) to evaluate convergent validity. Moreover, Fornell-Larcker criterion (Fornell and Larcker, 1981) and cross loadings are used to assess discriminant validity.

#### *Internal consistency reliability*

The first criterion to be evaluated is typically internal consistency reliability. Cronbach's Alpha is the traditional criterion, which has been widely used but has some limitations. It assumes that all indicators are equally reliable, but composite reliability in PLS-SEM prioritises the indicators according to their individual reliability. Also, Cronbach's Alpha is sensitive to the number of items in the scale and tends to underestimate internal consistency reliability. The PLS-SEM and SEM literature emphasises using the composite reliability measurement rather than Cronbach's Alpha because it results in a more accurate estimation (Bagozzi and Yi, 1988; Chin, 2010; Hair et al., 2011). However, I included Cronbach's Alpha because it can be used as a conservative measure of internal consistency reliability. The value of composite reliability for exploratory study should be larger than 0.6 (0.7 or higher for confirmatory study) (Bagozzi and Yi, 1988). The closer the composite reliability to 1, the better the items explain the latent construct's variance. However, values above 0.95 are not desirable as it indicates the usage of highly semantic redundant items, which may boost error term correlations (Drolet and Morrison, 2001; Hayduk and Littvay, 2012). Since the results (composite reliability =0.963) in the following table (see Table 5.5) show that two items of 'relative size' are highly homogeneous, it is determined to use one of them as the final measure.

*Table 5.5 Analysis of reliability and convergent validity*

<b>Latent Variable</b>	<b>Indicators</b>	<b>Outer Loadings</b>	<b>Cronbach's Alpha</b>	<b>Composite Reliability</b>	<b>AVE &gt; 0.5</b>
Relative size	Relsize_1	0.974	0.925	0.963	0.929
	Relsize_2	0.954			
Pre-acquisition performance of the acquirer	Preperfacq_1	0.718	0.864	0.904	0.655
	Preperfacq_2	0.896			
	Preperfacq_3	0.793			
	Preperfacq_4	0.705			
	Preperfacq_5	0.910			
Pre-acquisition	Preperftar_1	0.680	0.831	0.877	0.590

performance of the target firm	Preperftar_2	0.784			
	Preperftar_3	0.816			
	Preperftar_4	0.696			
	Preperftar_5	0.849			
Resource complementarity	Rescom_1	0.702	0.848	0.885	0.527
	Rescom_2	0.748			
	Rescom_3	0.674			
	Rescom_4	0.689			
	Rescom_5	0.671			
	Rescom_6	0.673			
	Rescom_8	0.898			
Resource similarity	Ressim_1	0.709	0.857	0.890	0.540
	Ressim_2	0.752			
	Ressim_3	0.779			
	Ressim_4	0.692			
	Ressim_5	0.655			
	Ressim_6	0.660			
	Ressim_8	0.871			
Acquisition experience	Acqexp_1	0.962	0.885	0.919	0.748
	Acqexp_2	0.948			
	Acqexp_3	0.943			
	Acqexp_4	0.527			
Value identification	VI_2	0.740	0.746	0.840	0.567
	VI_4	0.740			
	VI_5	0.782			
	VI_6	0.750			
Integration extent	Intext_2	0.843	0.891	0.916	0.612
	Intext_3	0.836			
	Intext_4	0.738			
	Intext_5	0.662			
	Intext_6	0.703			
	Intext_7	0.684			
	Intext_8	0.966			
	Coordination	Coor_1	0.839	0.691	0.818

efforts	Coor_2	0.614			
	Coor_3	0.857			
Organizational fit	Orgfit_2	0.641	0.911	0.911	0.535
	Orgfit_3	0.671			
	Orgfit_4	0.745			
	Orgfit_5	0.731			
	Orgfit_6	0.852			
	Orgfit_7	0.652			
	Orgfit_8	0.733			
	Orgfit_9	0.617			
	Orgfit_10	0.892			
Premium	Prem_1	0.799	0.785	0.844	0.647
	Prem_2	0.671			
	Prem_3	0.924			
Synergy realisation	Syn_1	0.718	0.876	0.900	0.501
	Syn_2	0.719			
	Syn_3	0.712			
	Syn_5	0.698			
	Syn_6	0.687			
	Syn_7	0.725			
	Syn_10	0.698			
	Syn_11	0.688			
Syn_12	0.723				
Motive-weighted post-acquisition performance	Wperf_3	0.656	0.878	0.907	0.586
	Wperf_4	0.825			
	Wperf_5	0.797			
	Wperf_6	0.832			
	Wperf_7	0.825			
	Wperf_8	0.798			
	Wperf_9	0.587			

According to Nunnally (1978), Alpha values greater than 0.7 are considered indicators of sufficient reliability and the value above 0.8 means strong reliability. As shown in the above table, Cronbach's Alpha for all constructs is above 0.7 and most of them have the values greater than 0.8, indicating strong reliability.

Moreover, values of composite reliability for all the constructs are above 0.8, thus higher than the acceptable minimum for exploratory study, i.e., 0.6.

#### *Convergent validity*

'To establish convergent validity, researchers consider the outer loadings of the indicators, as well as the average variance extracted (AVE)' (Hair et al., 2014, p.102). In general, some indicators have been removed from some constructs to improve the constructs' overall reliability and validity. A single indicator was removed from each of the following constructs: 'resource complementarity', 'resource similarity', 'integration extent' and 'organisational fit'; two indicators were deleted from the constructs of 'value identification' and 'motive-weighted post-acquisition performance' and three items were eliminated from the construct of 'synergy realisation'. The outer loadings (i.e., the relationships between the measured indicator variables and the related construct) of the retained indicators show values above the required thresholds of 0.4 for exploratory research (Hulland, 1999), ranging from 0.587 to 0.974. High outer loadings on a construct indicate that the associated indicators have much in common, which is captured by the construct. Therefore, convergent validity has been confirmed on the indicator level.

On the construct level, average variance extracted (AVE) is a common measure to establish convergent validity. Construct validity is given because the average variance extracted (AVE) values of all constructs are above 0.5.

#### *Discriminant validity*

Two statistical tests were conducted to ensure that the constructs were acting independently. The first test of discriminant validity involved examining the cross loadings of the indicators, which required that an indicator's outer loading on the associated construct should be greater than all of its loadings on other constructs (i.e., the cross loadings). This criterion has been met (see Table 5.6). For any construct in the model, the outer loadings of each of the construct's corresponding indicators are higher than the indicator's loading on the other constructs.

Table 5.6 Discriminant validity analysis - Cross-Loadings

	<b>Relsize</b>	<b>Preperfacq</b>	<b>Preperftar</b>	<b>Rescom</b>	<b>Ressim</b>	<b>Acqexp</b>	<b>VI</b>	<b>Coor</b>	<b>Intext</b>	<b>Orgfit</b>	<b>Prem</b>	<b>Syn</b>	<b>Wperf</b>
Relsize_1	0.974	-0.208	0.015	0.200	0.166	-0.126	0.134	0.149	0.181	0.170	0.029	0.260	0.185
Relsize_2	0.954	-0.231	-0.023	0.155	0.159	-0.091	0.118	0.130	0.170	0.175	-0.024	0.181	0.137
Preperfacq_1	-0.154	0.718	0.121	-0.055	0.251	0.080	0.099	0.131	-0.057	0.026	0.031	0.098	0.166
Preperfacq_2	-0.105	0.896	0.098	0.096	0.172	0.189	0.228	0.245	0.089	0.045	0.034	0.179	0.280
Preperfacq_3	-0.273	0.793	0.048	0.011	0.171	0.160	0.112	0.108	-0.046	0.059	0.072	0.183	0.166
Preperfacq_4	-0.206	0.705	0.129	0.128	0.104	0.024	0.173	0.118	0.119	0.144	0.049	0.345	0.259
Preperfacq_5	-0.201	0.910	0.081	0.047	0.192	0.048	0.086	0.173	0.001	0.089	-0.028	0.234	0.224
Preperftar_1	-0.056	-0.054	0.680	0.135	0.106	0.098	0.138	0.117	-0.029	0.153	0.036	-0.055	-0.021
Preperftar_2	0.104	-0.017	0.784	0.097	0.077	0.142	0.176	0.240	-0.116	0.418	0.023	-0.115	0.023
Preperftar_3	0.006	0.113	0.816	0.339	0.129	0.037	0.125	0.175	-0.124	0.411	0.018	-0.021	0.084
Preperftar_4	-0.013	0.204	0.696	0.256	0.097	0.157	0.260	0.236	-0.081	0.262	-0.007	0.159	0.188
Preperftar_5	-0.054	0.099	0.849	0.184	0.065	0.072	0.113	0.137	-0.312	0.272	0.108	-0.139	0.029
Rescom_1	0.103	0.090	0.241	0.702	0.017	0.081	0.170	0.084	0.115	0.177	0.066	0.263	0.083
Rescom_2	0.069	0.149	0.127	0.748	0.022	0.079	0.328	0.258	0.099	0.167	0.102	0.324	0.239
Rescom_3	0.173	0.041	0.219	0.674	-0.002	0.197	0.105	0.067	-0.069	0.078	0.138	0.194	-0.034
Rescom_4	0.069	0.042	0.172	0.689	0.011	0.194	0.112	0.057	0.021	0.205	0.067	0.186	0.070
Rescom_5	0.163	-0.103	0.216	0.671	0.040	-0.071	0.194	0.213	0.120	0.175	-0.024	0.256	0.181
Rescom_6	0.097	0.061	0.273	0.673	0.129	0.236	0.153	0.165	-0.033	0.357	-0.063	0.196	0.068
Rescom_8	0.280	0.008	0.233	0.898	0.118	0.073	0.232	0.165	0.068	0.285	0.051	0.292	0.137
Ressim_1	0.141	0.024	-0.045	0.025	0.709	0.034	0.124	0.155	0.160	0.239	-0.067	0.227	0.173

Ressim_2	0.070	0.186	0.078	-0.032	0.752	-0.124	0.087	0.031	-0.004	0.286	-0.047	0.108	0.071
Ressim_3	0.190	0.165	0.132	0.084	0.779	-0.172	0.178	0.155	0.199	0.365	0.014	0.245	0.191
Ressim_4	-0.076	0.197	0.034	-0.025	0.692	-0.056	0.166	0.149	0.144	0.188	0.090	0.156	0.095
Ressim_5	0.183	0.045	0.066	-0.023	0.655	0.080	0.219	-0.005	0.160	0.154	0.000	0.167	0.092
Ressim_6	0.167	0.187	0.194	0.054	0.660	-0.068	0.182	0.272	0.067	0.447	0.051	0.112	0.135
Ressim_8	0.148	0.243	0.131	0.164	0.871	0.021	0.404	0.253	0.176	0.357	-0.036	0.340	0.297
Acqexp_1	-0.117	0.111	0.138	0.191	-0.079	0.962	0.236	0.037	-0.031	0.045	0.107	-0.020	-0.034
Acqexp_2	-0.039	0.134	0.107	0.150	0.000	0.948	0.291	0.110	-0.026	0.037	0.077	0.011	-0.020
Acqexp_3	-0.125	0.112	0.144	0.065	-0.111	0.943	0.233	0.006	-0.015	0.046	0.091	-0.063	-0.060
Acqexp_4	-0.319	0.079	0.111	0.091	0.049	0.527	0.072	-0.099	-0.057	0.027	0.077	-0.186	-0.104
VL_2	0.006	0.146	0.152	0.162	0.277	0.243	0.740	0.356	0.339	0.105	0.087	0.292	0.245
VL_4	0.075	0.150	0.191	0.172	0.149	0.166	0.740	0.336	0.194	0.232	-0.005	0.255	0.428
VL_5	0.113	0.077	0.220	0.149	0.206	0.165	0.782	0.392	0.116	0.191	-0.134	0.236	0.455
VL_6	0.197	0.163	0.127	0.312	0.239	0.213	0.750	0.289	0.221	0.205	0.080	0.332	0.403
Coor_1	0.118	0.186	0.137	0.151	0.219	0.117	0.493	0.839	0.333	0.107	-0.099	0.296	0.364
Coor_2	-0.008	0.030	0.355	0.168	0.019	0.155	0.245	0.614	-0.161	0.256	-0.042	-0.053	0.160
Coor_3	0.168	0.187	0.204	0.189	0.196	-0.085	0.288	0.857	0.300	0.251	-0.131	0.369	0.550
Intext_2	0.111	-0.039	-0.133	-0.012	0.157	-0.071	0.243	0.279	0.843	-0.007	-0.189	0.301	0.324
Intext_3	0.235	0.015	-0.078	0.060	0.232	-0.008	0.327	0.297	0.836	0.109	-0.116	0.381	0.408
Intext_4	0.071	0.009	-0.107	0.121	-0.004	-0.016	0.117	0.105	0.738	0.028	-0.061	0.423	0.200
Intext_5	0.168	0.060	-0.141	-0.043	-0.012	0.055	-0.005	0.111	0.662	-0.035	-0.121	0.373	0.243
Intext_6	0.166	-0.001	-0.124	0.075	0.147	0.030	0.266	0.210	0.703	0.062	-0.106	0.381	0.232

Intext_7	0.079	0.069	-0.157	0.106	0.240	-0.086	0.270	0.241	0.684	-0.025	0.027	0.286	0.318
Intext_8	0.156	0.079	-0.179	0.071	0.170	-0.039	0.286	0.291	0.966	0.040	-0.117	0.509	0.379
Orgfit_2	0.155	-0.068	0.303	0.262	0.243	0.125	0.216	0.201	-0.024	0.641	0.208	0.037	0.071
Orgfit_3	0.148	-0.007	0.266	0.157	0.370	0.077	0.085	0.052	-0.010	0.671	0.228	0.091	-0.092
Orgfit_4	0.121	0.011	0.148	0.075	0.305	0.022	-0.036	0.051	0.026	0.745	0.190	0.157	-0.034
Orgfit_5	0.184	0.044	0.317	0.241	0.262	0.074	-0.026	0.107	-0.047	0.731	0.256	0.127	-0.109
Orgfit_6	0.105	0.127	0.293	0.192	0.316	0.014	0.226	0.150	0.056	0.852	-0.071	0.375	0.310
Orgfit_7	0.087	0.053	0.269	0.205	0.211	0.075	0.035	0.147	-0.032	0.652	0.017	0.118	-0.009
Orgfit_8	0.167	0.029	0.310	0.229	0.322	0.005	0.134	0.072	0.021	0.733	0.182	0.197	0.073
Orgfit_9	0.077	0.058	0.349	0.252	0.265	0.125	0.170	0.320	-0.074	0.617	0.225	0.153	-0.052
Orgfit_10	0.207	0.079	0.435	0.331	0.416	0.032	0.295	0.327	0.058	0.892	0.093	0.289	0.204
Prem_1	0.056	0.031	0.007	0.001	-0.001	0.017	0.002	-0.079	-0.025	0.043	0.799	-0.046	-0.163
Prem_2	0.033	-0.026	-0.056	0.104	-0.103	0.099	-0.001	-0.094	-0.118	0.048	0.671	0.008	-0.094
Prem_3	-0.026	0.045	0.063	0.072	0.022	0.114	0.022	-0.127	-0.148	0.096	0.924	-0.118	-0.294
Syn_1	0.177	0.221	0.007	0.299	0.241	-0.117	0.230	0.272	0.339	0.226	-0.095	0.718	0.254
Syn_2	0.144	0.288	0.018	0.266	0.139	-0.055	0.217	0.189	0.353	0.180	-0.175	0.719	0.299
Syn_3	0.163	0.158	-0.061	0.215	0.192	0.027	0.291	0.210	0.405	0.124	-0.018	0.712	0.255
Syn_5	0.209	0.154	0.002	0.237	0.459	0.054	0.359	0.212	0.451	0.384	0.105	0.698	0.303
Syn_6	0.106	0.189	-0.062	0.205	0.131	-0.194	0.225	0.047	0.205	0.225	-0.109	0.687	0.215
Syn_7	0.159	0.126	-0.071	0.231	0.036	-0.131	0.199	0.197	0.424	0.227	-0.107	0.725	0.298
Syn_10	0.149	0.328	0.109	0.193	0.296	-0.013	0.379	0.419	0.352	0.270	-0.108	0.698	0.529
Syn_11	0.249	0.094	-0.075	0.243	0.033	0.094	0.214	0.249	0.287	0.123	-0.158	0.688	0.421



Syn_12	0.126	0.072	0.023	0.308	0.262	0.082	0.240	0.254	0.256	0.317	0.069	0.723	0.297
Wperf_3	0.167	0.111	0.031	0.162	0.062	-0.053	0.355	0.304	0.291	0.184	-0.154	0.428	0.656
Wperf_4	0.208	0.185	0.130	0.201	0.225	-0.026	0.436	0.433	0.426	0.246	-0.259	0.310	0.825
Wperf_5	0.163	0.293	0.174	0.105	0.200	-0.010	0.364	0.374	0.388	0.148	-0.325	0.309	0.797
Wperf_6	0.103	0.229	0.164	0.161	0.074	-0.052	0.362	0.494	0.265	0.196	-0.285	0.275	0.832
Wperf_7	0.061	0.222	0.026	0.054	0.186	-0.031	0.435	0.350	0.181	0.129	-0.177	0.382	0.825
Wperf_8	0.091	0.220	0.058	0.140	0.180	-0.092	0.457	0.424	0.192	0.127	-0.111	0.362	0.798
Wperf_9	0.123	0.220	-0.037	0.030	0.291	0.037	0.273	0.298	0.384	0.058	-0.133	0.404	0.587

'Fornell-Larcker criterion is a second and more conservative approach to assessing discriminant validity' (Hair et al., 2014, p.105). According to Fornell and Larcker (1981), discriminant validity is confirmed if the square root of AVE extracted from each construct is greater than its highest correlation with any other constructs in the research. It should be at least larger than 0.5. The idea behind this method is that a construct shares more variance with its associated indicators than with any other construct. Overall, the square root of each AVE (seen in the diagonal in Table 5.7) for all reflective constructs is greater than the correlations of these construct with the other latent variables in the path model (seen in the diagonal in Table 5.7). This indicates adequate discriminant validity for all of the reflective constructs.

Table 5.7 Discriminant validity analysis – Fornell - Larcker criterion

	Acqexp	Atti	Comp	Coor	Hostexp	Indu	Intext	Orgfit	Paym	Preem	Preperfacq	Preperftar	Relsize	Rescom	Reszin	Syn	VI	Wperf	
Acqexp	0.865																		
Atti	0.182	Single item																	
Comp	-0.049	0.021	Single item																
Coor	0.050	0.285	0.053	0.778															

	Hostexp	0.178	0.079	0.192	0.206	Single item		Single item		Single item		Single item		Single item		Single item		Single item
<b>Indu</b>	0.179	-0.036	0.111	0.016	0.292	0.016	0.292	0.016	0.292	0.016	0.292	0.016	0.292	0.016	0.292	0.016	0.292	0.016
<b>Intext</b>	-0.029	-0.135	0.098	0.293	0.064	-0.017	0.783	-0.017	0.783	-0.017	0.783	-0.017	0.783	-0.017	0.783	-0.017	0.783	-0.017
<b>Orgft</b>	0.045	0.081	0.098	0.236	0.042	-0.310	0.038	0.732	-0.310	0.038	0.732	-0.310	0.038	0.732	-0.310	0.038	0.732	-0.310
<b>Paym</b>	0.086	0.077	0.149	0.083	0.153	0.079	0.019	-0.055	0.079	0.019	-0.055	0.079	0.019	-0.055	0.079	0.019	-0.055	0.079
<b>Prem</b>	0.098	-0.021	0.062	0.127	0.032	0.062	-0.126	0.087	0.035	0.805	0.087	0.035	0.805	0.087	0.035	0.805	0.087	0.035
<b>Preperfacq</b>	0.127	0.090	-0.010	0.198	0.218	-0.014	0.035	0.090	0.097	0.038	0.809	0.097	0.038	0.809	0.097	0.038	0.809	0.097
<b>Preperflur</b>	0.137	0.274	0.023	0.248	0.093	-0.173	-0.166	0.406	0.062	0.038	0.768	0.062	0.038	0.768	0.062	0.038	0.768	0.062
<b>Rehize</b>	-0.115	-0.114	0.027	0.146	-0.141	-0.068	0.183	0.178	-0.271	0.006	-0.226	-0.271	0.006	-0.226	-0.271	0.006	-0.226	-0.271
<b>Rescom</b>	0.149	0.103	-0.097	0.218	0.095	-0.017	0.058	0.071	0.292	0.064	0.064	0.292	0.064	0.064	0.292	0.064	0.064	0.292
<b>Resinn</b>	-0.053	-0.014	-0.097	0.218	0.095	-0.226	0.185	0.410	0.041	0.000	0.216	0.041	0.000	0.216	0.041	0.000	0.216	0.041
<b>Syn</b>	-0.035	-0.203	0.251	0.331	0.118	0.029	0.484	0.327	-0.078	0.096	0.259	-0.078	0.096	0.259	-0.078	0.096	0.259	-0.078
<b>VI</b>	0.264	0.082	0.037	0.454	0.191	-0.099	0.293	0.241	0.222	0.015	0.180	0.222	0.015	0.180	0.222	0.015	0.180	0.222
<b>Wperf</b>	-0.044	0.007	0.111	0.502	0.123	-0.197	0.394	0.205	0.089	0.270	0.277	0.089	0.270	0.277	0.089	0.270	0.277	0.089

*Notes: values on the diagonal are square root of AVE of the corresponding construct.*

Overall, cross-loadings and the Fornell-Larcker criterion provide strong evidence for the utilised constructs' discriminant validity.

Table 5.5, Table 5.6 and Table 5.7 indicate that all criteria for evaluating the measurement model have been met. Thus, this supports the reliability and validity of all multi-scale constructs utilised in this research.

### 5.3.5.3 Assessing structural model

#### *Evaluation of quality criteria*

Once the reliability and validity of the construct measures have been confirmed, the next step is to assess the structural models set up in this research. The criteria for assessing the structural model are summarised in Table 5.8.

*Table 5.8 Evaluation of the structural model*

<b>Criterion</b>	<b>Rule of Thumb</b>	<b>Suggested Reference</b>
Multicollinearity	Tolerance >0.2/ VIF<5	Henseler et al., 2009; Hair et al., 2011;
Path coefficients	Using bootstrapping to assess its significance ( i.e., t-values , p-values); provide confidence intervals	Hair et al.,2014; Streukens et al., 2010; Henseler et al., 2009
Coefficient of determination (R <sup>2</sup> )	R <sup>2</sup> values of 0.67, 0.33 and 0.19 are substantial, moderate and weak respectively	Chin, 1998b, p.323
f <sup>2</sup> effect sizes	f <sup>2</sup> values of 0.02, 0.15 and 0.35, respectively represent small, medium and large effects	Cohen, 1988
Predictive relevance (Q <sup>2</sup> )	Q <sup>2</sup> > 0 is indicative of predictive relevance	Chin, 1998b; Henseler et al., 2009
q <sup>2</sup> effect sizes	q <sup>2</sup> values of 0.02, 0.15 and 0.35 respectively represent small, medium and large predictive relevance for a certain endogenous construct	Chin, 1998b; Henseler et al., 2009

Before analysing the structural model, collinearity needs to be examined because the estimation of path coefficients in the structural model is based on OLS regressions of each endogenous latent variable on its corresponding predecessor constructs. Collinearity of each set of predictors in the structural models is examined by using SPSS 22. And the values of VIFs range from 1.057 to 1.769, much less than the ceiling value of 5, indicating collinearity is not a problem.

The goal of PLS-SEM is to identify not only significant path coefficients in the structural model but significant and relevant effects. The key criteria for assessing the structural model in PLS-SEM are the significance of the path coefficients, the level of R<sup>2</sup> values, the f<sup>2</sup> effect size, the predictive relevance Q<sup>2</sup> and the q<sup>2</sup> effect size. Path coefficient represents the hypothesised relationships among the constructs, which has standardised values between -1 and +1. The closer the path coefficient value to +1 (and vice versa for negative values), the stronger the positive relationship between the constructs (Hair et al., 2014). Nonparametric bootstrap

procedure is used to test the significance of path coefficients (no sign changes algorithmic option is used with 5000 samples). The coefficient of determination ( $R^2$  value) is a measure of the model's predictive accuracy and it represents the exogenous latent variables' combined effects on the endogenous latent variable. There is no rule of thumb for acceptable  $R^2$  as it depends on the model complexity and the research discipline. Generally, the literature suggests that  $R^2$  values of 0.67, 0.33 and 0.19 are substantial, moderate and weak respectively (Chin, 1998b, p.323). Moreover, ' $R^2$  values of 0.2 are considered high in success driver studies' (Hair et al., 2014, p.175). The value of  $f^2$  effect size is to measure the impact of a specified exogenous construct by calculating the change of  $R^2$  when it is omitted from the model and the values of 0.02, 0.15 and 0.35 represent small, medium and large effects respectively (Cohen, 1988). In addition to measuring the model's predictive accuracy by using the magnitude of  $R^2$  value, the model's predictive relevance, i.e., Stone-Geisser's  $Q^2$  value (Geisser, 1974; Stone, 1974) is also assessed. It represents a measure of how well the path model can predict the originally observed values.  $Q^2$  values larger than zero for a certain reflective endogenous latent variable indicate the path model's predictive relevance for this particular construct. Similar to  $f^2$  effect size for assessing  $R^2$  values, the relative impact of predictive relevance can be assessed by comparing the value of  $q^2$  effect size. And the values of 0.02, 0.15 and 0.35 indicate that an exogenous construct has a small, medium and large predictive relevance for a certain endogenous construct.

Based on the above criteria, I analysed the established structural models and the associated theoretical hypotheses. I engaged in a step-by-step analysis of the structural model to provide a detailed picture of the results and to test Hypotheses 1 to 10 comprehensively. Furthermore, such step-by-step analysis increases the statistical information and should help to determine the impact of these factors on post-acquisition performance. For testing the research propositions, the independent direct effect of a firm's resource base (RB), value identification (VI), resource reconfiguration (RR) and deal setting related variables (DSV, including competition, attitude and organisational fit), are examined first by using model 1 to 6, which only includes the relevant variable. The objective in this step was to ascertain the preliminary evidence for the hypothesised relationships between the different determinants and CBA performance (Hypothesis 1-3 & 8-10). However, the final conclusions regarding all these hypotheses were not only based on these results, since the total effect of a variable is the sum of its direct effects and indirect ones (i.e., its intervening or mediation effects). Exclusion of other, important variables could possibly lead to spurious effects. Also, there may still be some other variables that could be correlated with both the explanatory and dependent variables and that could thus be the real explanation for the significant effect. Although computing pure direct effect fails to provide evidence for final conclusion, it is a representative

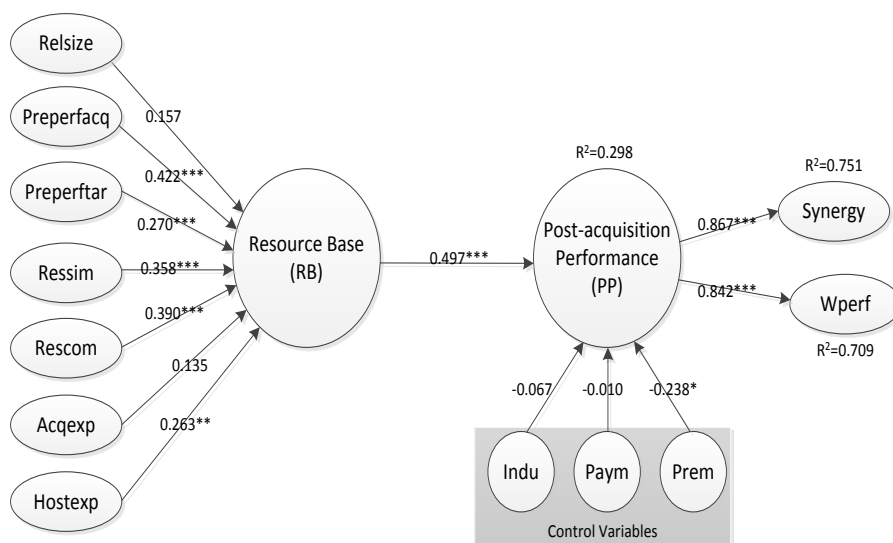
(if not the most representative) relationship in the common models. It can thus be regarded as the starting point for the examination. Later in the analysis, I incorporate the researched constructs/variables into an overall model that considers the interactions between them. This is a more reliable estimate of their total effect (the direct effect plus the indirect effect) and can be obtained to reach final conclusions (Hypothesis 0-3 & 8-10). The last step is analysing the anticipated mediation effect of VI and RR based on Model 8-11 (Hypotheses 4-7) and cross-test the other hypotheses at the same time.

I used the partial least squares (PLS) approach to examine the proposed relationships in the software of Smart-PLS2.0 (Ringle et al., 2005). To test the proposed hypotheses, I assessed the sign and magnitude of path coefficients and tested their significance through nonparametric bootstrapping (with a number of 5000 bootstrap samples and 103 bootstrap cases; using no sign changes) and calculated their effect sizes and total effects (see Hair et al., 2014, p.130). The step-by-step empirical analysis is presented as follows.

#### *Test of the independent direct effect of RB*

The following structural model (Model 1 see Figure 5.3) is used to test the independent direct effect of 'resource base' and three control variables (i.e., premium, payment method and industry type). I use the path coefficients and their significance values obtained from bootstrapping to test the derived hypotheses. Taking the advice of Streukens et al. (2010), I also check the confidence interval for each model to confirm the statistical significance. If there are no sign changes within the confidence interval, further support can be provided for the significance of the corresponding path coefficient. The results shown in structural diagram (Figure 5.3) and Table 5.9 provide strong preliminary evidence for Hypothesis 1, which proposes a positive association between the firm's resource base and post-acquisition performance/success (path coefficient = 0.497;  $P < 0.001$ ). The  $R^2$  value (the coefficient of determination) of 29.8% of the dependent construct (i.e., PP) indicates around 30% of the variance in post-acquisition performance can be explained by the firms' resource base and the size of its effect is of moderate to strong strength ( $f^2 = 0.349$ ). Also, after running the blindfolding procedure with an omission distance  $D=7$ , I obtained the  $Q^2$  (Geisser, 1974; Stone, 1974) value (0.113) of the focal endogenous construct CBA performance, which is well above zero, indicating predictive relevance of this PLS path model. The empirical data reconstructs the theoretical model in a substantive way. Following the rule of thumb in Table 5.8, the  $q^2$  of 0.106 suggests small to medium prediction relevance of resource base.

With respect to the lower-order constructs of RB, apart from the variables of 'relative size' (Relsize) and 'acquisition experience' (Acqexp), the other constructs contribute significantly to RB for explaining post-acquisition performance. Moreover, the construct of PP has a strong relationship with its LOCs, (i.e., synergy (0.867) and Wperf (0.842)). Synergy and Wperf are sufficiently highly correlated for the HOC (PP) to explain more than 50% of each LOCs' variance (i.e., 75.1% and 70.9% respectively). This indicates the nomological validity of post-acquisition performance measures. Regarding the control variables, only the variable of 'premium' shows a negative association with CBA performance at the significance level of 10%.



Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

Figure 5.3 Independent direct effect of RB (Model 1)

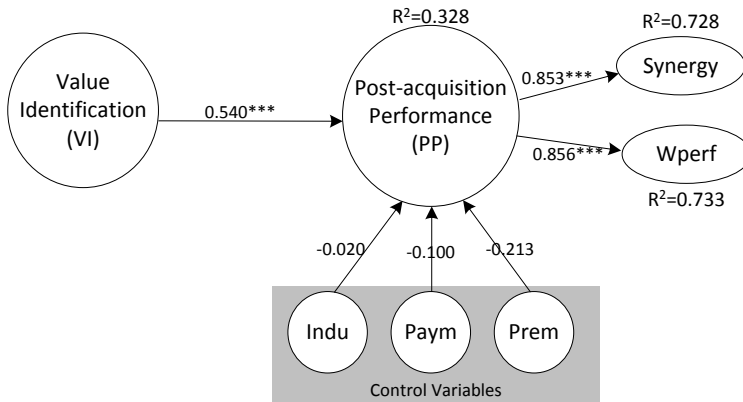
Table 5.9 Structural model assessment of Model 1

Endogenous constructs	R <sup>2</sup>	Q <sup>2</sup>	
pp	0.298	0.113	
Paths	Path coefficient	P value	Confidence interval at 95%
Relsize -> RB	0.157	0.413	(-0.22; 0.53)
Preperfacq -> RB	0.422	0.000	(0.24; 0.61)
Preperftar -> RB	0.270	0.000	(0.14; 0.40)
Rescom -> RB	0.390	0.000	(0.21; 0.57)

Ressim -> RB	0.358	0.000	(0.21; 0.51)
Acqexp -> RB	0.138	0.159	(-0.05; 0.33)
Hostexp -> RB	0.263	0.035	(0.02; 0.50)
RB -> PP	0.497	0.002	(0.18; 0.81)
Indu -> PP	-0.067	0.478	(-0.25; 0.12)
Paym -> PP	0.010	0.902	(-0.15; 0.17)
Prem -> PP	-0.238	0.096	(-0.51; 0.04)
PP -> Synergy	0.867	0.000	(0.80; 0.93)
PP -> Wperf	0.842	0.000	(0.78; 0.90)

*Test of the independent direct effect of VI*

The following structural model (see Figure 5.4 and Table 5.10) presents the estimations obtained from the PLS analysis of independent effect of value identification (VI). The data shows clear preliminary evidence for H2, which suggests a positive relationship between 'value identification' and 'post-acquisition performance' (path coefficient=0.540,  $P<0.001$ ). The  $R^2$  value of 0.328 of the endogenous construct (PP) indicates a considerable amount of variance explained by this path model and the effect size ( $f^2$ ) of VI is strong the value of 0.409. The predictive relevance of this model has been confirmed given the  $Q^2$  value of 0.125. The value of  $q^2$  (0.121) reveals a medium prediction relevance of VI.



Notes: \* $P<0.1$ ; \*\* $P<0.05$ ; \*\*\* $P<0.01$

*Figure 5.4 Independent direct effect of VI (Model 2)*

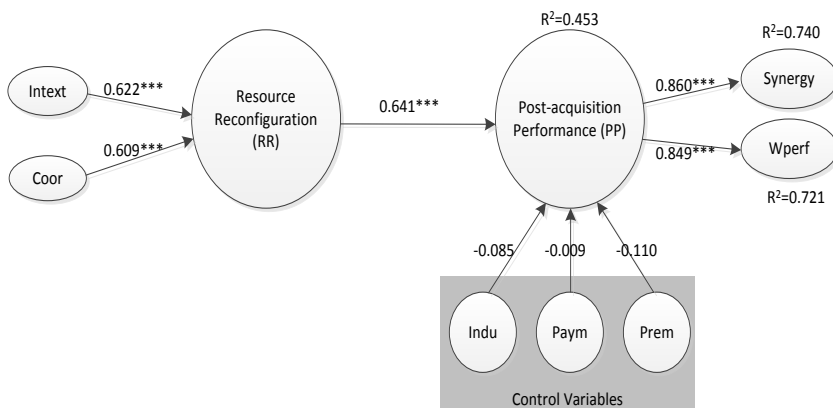
Table 5.10 Structural model assessment of Model 2

<b>Endogenous constructs</b>	<b>R<sup>2</sup></b>	<b>Q<sup>2</sup></b>	
pp	0.328	0.125	
<b>Paths</b>	<b>Path coefficient</b>	<b>P value</b>	<b>Confidence interval at 95%</b>
VI -> PP	0.540	0.000	(0.41; 0.67)
Indu -> PP	-0.020	0.831	(-0.20; 0.16)
Paym -> PP	-0.100	0.197	(-0.25; 0.05)
Prem -> PP	-0.213	0.156	(-0.50; 0.08)
PP -> Syn	0.853	0.000	(0.78; 0.93)
PP -> Wperf	0.856	0.000	(0.80; 0.91)

*Test of the independent direct effect of RR*

The model for testing the independent effect of 'resource reconfiguration' (RR) is illustrated in Figure 5.5, in which RR is formatively constituted by two lower constructs, 'integration extent' and 'coordination efforts'. The proposed relationship between 'resource reconfiguration' and 'post-acquisition performance' finds strong support in the empirical data. The path for H3 is very strong with a value of 0.641\*\*\* and both the  $f^2$  effect size and the  $q^2$  effect size are large with the value of 0.731 and 0.341 respectively. The value of  $Q^2$  also suggests the predictive relevance of RR (see Table 5.11). From this, we can conclude that resource reconfiguration positively impacts the post-acquisition performance to a large extent. The percent of variance explained ( $R^2$ ) with respect to acquisition performance is 45.3%, which is quite high. Furthermore, the results reveal that both 'integration extent' and 'coordination efforts' are very important strategic aspects of 'resource reconfiguration' in determining the success of cross-border acquisitions.





Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

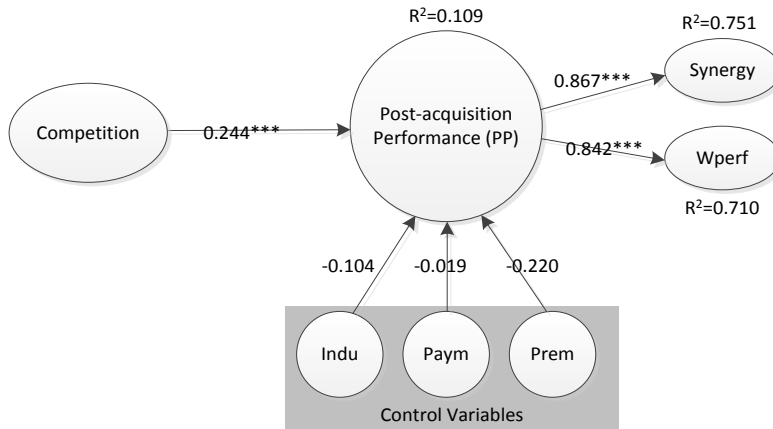
Figure 5.5 Independent direct effect of RR (Model 3)

Table 5.11 Structural model assessment of Model 3

Endogenous constructs	$R^2$	$Q^2$	
pp	0.453	0.277	
Paths	Path coefficient	P value	Confidence interval at 95%
Intext -> RR	0.622	0.000	(0.53; 0.72)
Coor -> RR	0.609	0.000	(0.51; 0.70)
RR -> PP	0.641	0.000	(0.49; 0.79)
Indu -> PP	-0.086	0.266	(-0.24; 0.06)
Paym -> PP	-0.009	0.900	(-0.15; 0.13)
Prem -> PP	-0.111	0.322	(-0.33; 0.11)
PP -> Syn	0.860	0.000	(0.79; 0.93)
PP -> Wperf	0.849	0.000	(0.79; 0.91)

#### Test of independent direct effect of competition

Regarding the deal setting variables, it is interesting that competition among the acquirers tends to drive up the performance of CBAs as illustrated in the following structural model (see Figure 5.6 and Table 5.12). In contrast to my expectation, a significant positive relationship (path coefficient =0.244,  $P < 0.05$ ) was found between competition and post-acquisition performance (H8). This path model can explain 11% of the variance in post-acquisition performance.  $Q^2$  value of 0.04 tells the predictive relevance of this variable, but its effect size is weak ( $f^2=0.063$ ,  $q^2=0.022$ ).



Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

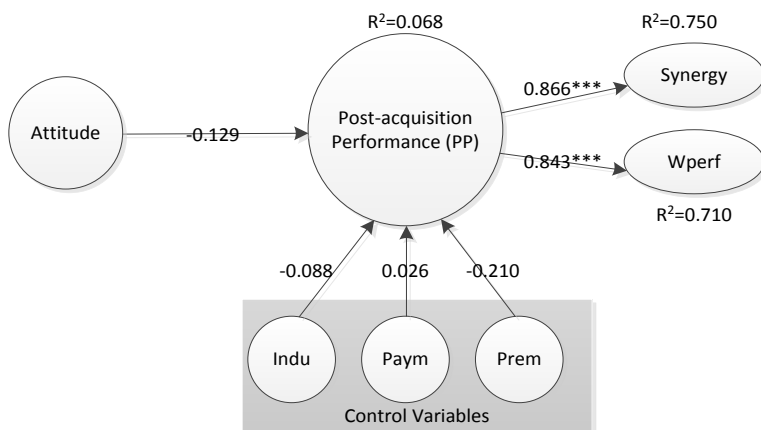
Figure 5.6 Independent direct effect of competition (Model 4)

Table 5.12 Structural model assessment of Model 4

Endogenous constructs	R <sup>2</sup>	Q <sup>2</sup>	
pp	0.109	0.041	
Paths	Path coefficient	P value	Confidence interval at 95%
Comp -> PP	0.244	0.011	(0.06; 0.43)
Indu -> PP	-0.104	0.302	(-0.30; 0.09)
Paym -> PP	-0.019	0.831	(-0.19; 0.15)
Prem -> PP	-0.220	0.206	(-0.56; 0.12)
PP -> Syn	0.867	0.000	(0.80; 0.93)
PP -> Wperf	0.842	0.000	(0.78; 0.90)

*Test of the independent direct effect of acquisition attitude*

The structural model for testing the independent effect of the target firm’s acquisition attitude is shown in Figure 5.7. The empirical results are presented in both Figure 5.7 and Table 5.13. The results do not show the expected positive impact of friendly attitude on post-acquisition performance (H9). Rather, the path coefficient of -0.129 to some extent indicates a possible negative association between them. However, such relationship is not significant. The percent of variance explained (R<sup>2</sup>) with respect to CBA performance is 6.8%. Q<sup>2</sup> is above 0, suggesting its predictive relevance. Both f<sup>2</sup> effect size and q<sup>2</sup> effect size are quite weak with values of 0.016 and 0.005 respectively.



Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

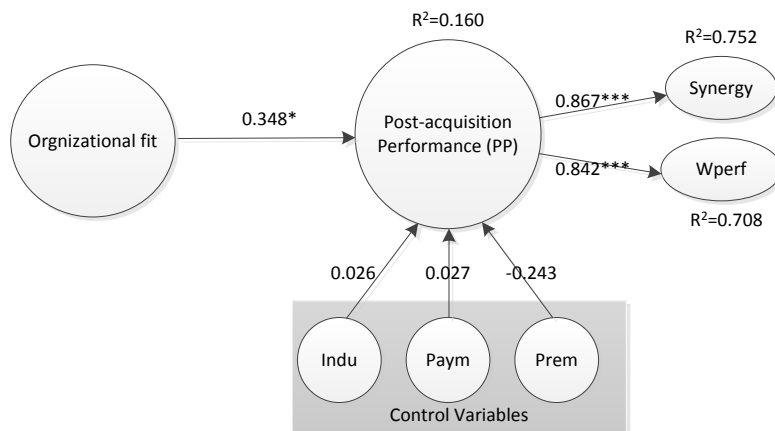
Figure 5.7 Independent direct effect of attitude (Model 5)

Table 5.13 Structural model assessment of Model 5

Endogenous constructs	R <sup>2</sup>	Q <sup>2</sup>	
pp	0.068	0.024	
Paths	Path coefficient	P value	Confidence interval at 95%
Atti -> PP	-0.129	0.222	(-0.34; 0.08)
Indu -> PP	-0.088	0.406	(-0.29; 0.12)
Paym -> PP	0.027	0.765	(-0.15; 0.20)
Prem -> PP	-0.210	0.208	(-0.53; 0.12)
PP -> Syn	0.866	0.000	(0.80; 0.94)
PP -> Wperf	0.843	0.000	(0.78; 0.90)

*Test of the independent direct effect of organisational fit*

The outcome shown in Figure 5.8 and Table 5.14 reveals a positive relationship between organisational fit and CBA performance (path coefficient = 0.348), but only at the significant level of 10% (H10). Its impact on post-acquisition performance is from small to medium, which is indicated by the  $f^2$  effect size with a value of 0.127. The percent of variance explained ( $R^2$ ) with respect to CBA performance is 16%.  $Q^2$  of 0.13 denotes its predictive relevance, but the predictive relevance is small ( $q^2 = 0.045$ ).



Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

Figure 5.8 Independent direct effect of organisational fit (Model 6)

Table 5.14 Structural model assessment of Model 6

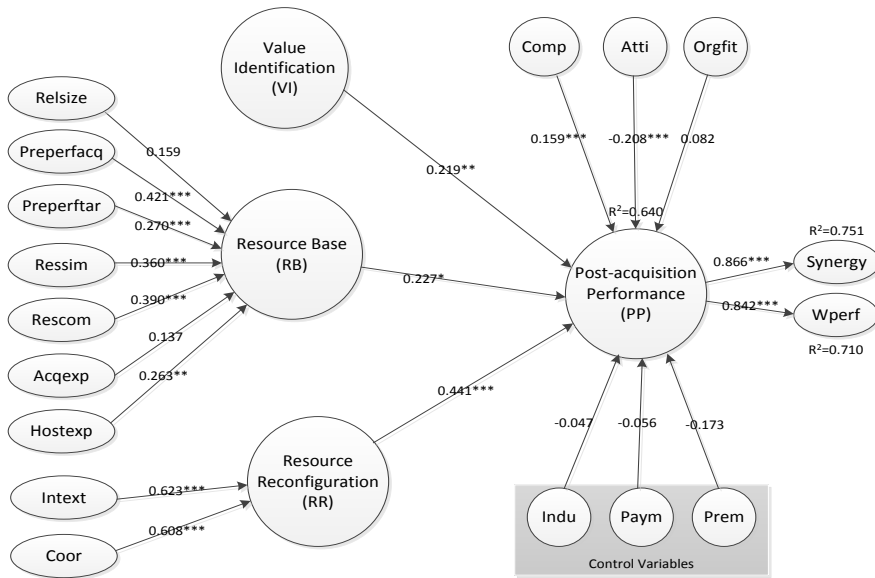
Endogenous constructs	R <sup>2</sup>	Q <sup>2</sup>	
pp	0.160	0.062	
Paths	Path coefficient	P value	Confidence interval at 95%
Orgfit -> PP	0.348	0.081	(-0.04; 0.74)
Indu -> PP	0.026	0.813	(-0.19; 0.24)
Paym -> PP	0.027	0.759	(-0.14; 0.20)
Prem -> PP	-0.243	0.127	(-0.55; 0.07)
PP -> Syn	0.867	0.000	(0.80; 0.93)
PP -> Wperf	0.842	0.000	(0.78; 0.90)

To sum up, three constructs, 'resource base (RB)', 'value identification (VI)' and 'Resource reconfiguration (RR)' indicate significantly positive effects on CBA performance/success. They provide preliminary evidence for H1, H2 and H3. The construct 'resource reconfiguration' as a whole exhibits the highest effect on CBA performance, followed by 'value identification' and 'resource base'. Regarding the deal setting variables, the empirical results only support a positive impact for 'organisational fit' (i.e., H10) but only at the significant level of 10%. Concerning the 'competition' effect, the opposite findings were present. This suggests that the more competition among the acquirers for the target firms at the beginning, the higher the winning acquirer's performance. On the basis of these results, empirical analysis of an overall model including all these constructs is continued.

### *An overall model of interaction analysis*

Because previous simple direct cause-effect models do not capture the interactions among these researched constructs, I build an overall model (see Figure 5.9) including all of them to provide a more reliable estimate of every determinant's total effect (the direct as well as indirect effect) on CBA performance. The purpose of this section is to verify the need for a comprehensive model including these factors (H0). The main Hypothesis of the comprehensive model is that CBA performance is best explained by a model that incorporates all of the factors that appear along acquisition process, including both contextual and implementation factors.

The results displayed in Figure 5.9 and Table 5.15 is almost in line with the findings from prior models. The constructs of RB, VI and RR still show their significant positive associations with PP as evident by their path coefficients, further supporting Hypotheses 1-3. However, their effects all diminish. In particular, the positive relationship between RB and PP is only significant at the 10% level. Regarding the underlying lower-order constructs of RB, the importance of 'Preperfacq', 'Preperftar', 'Ressim', 'Rescom' and 'Hostexp' for explaining CBA success/performance is supported again by the empirical evidence, whereas 'Relsize' and 'Acqexp' are not relevant. Moreover, it is verified again that the LOCs of 'integration extent' (Intext) and 'coordination efforts' (Coor) are both important contributors to the effect of 'resource reconfiguration (RR)' in determining the performance of cross-border acquisitions. In terms of the three deal setting factors, the model confirms again the proved positive effect of 'competition' (rejecting H8). The negative impact of 'attitude' indicated previously is now confirmed at a significance level of 1% (rejecting H9). However, the significant positive effect of 'organisational fit' obtained previously turns out to be not significant in this model. Thus, there is no support for H10. In terms of the control variables, neither of them have an impact on PP. Together, these variables explain 64% of the variance ( $R^2$ ) in CBA performance, which is quite high. The  $Q^2$  value is above zero, which suggests the predictive relevance of this structural model. Table 5.16 summarises the  $f^2$  and  $q^2$  effect size for all of these exogenous constructs. Their effect size individually in this overall model is small, apart from the large  $f^2$  effect size for the construct of RR. The causes for change in these constructs/variables' effects can be traced to the interaction between them. Consequently, it does not make sense to analyse single variables independently, which provides support for the leading Hypothesis 0.



Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

Figure 5.9 An overall model (Model 7)

Table 5.15 Structural model assessment of Model 7

Endogenous constructs	R <sup>2</sup>	Q <sup>2</sup>	
pp	0.640	0.246	
Paths	Path coefficient	P value	Confidence interval at 95%
Relsize -> RB	0.159	0.683	(-0.22; 0.54)
Preperfacq -> RB	0.421	0.000	(0.23; 0.61)
Preperftar -> RB	0.270	0.000	(0.13; 0.41)
Rescom -> RB	0.390	0.001	(0.20; 0.58)
Ressim -> RB	0.360	0.001	(0.20; 0.52)
Acqexp -> RB	0.137	0.327	(-0.05; 0.32)
Hostexp -> RB	0.263	0.001	(0.02; 0.50)
RB -> PP	0.227	0.090	(-0.03; 0.48)
VI -> PP	0.219	0.016	(0.04; 0.40)
RR -> PP	0.441	0.000	(0.27; 0.62)
Atti -> PP	-0.208	0.000	(-0.34; -0.07)
Comp -> PP	0.159	0.001	(0.04; 0.28)

Orgfit -> PP	0.082	0.000	(-0.17; 0.34)
Intext -> RR	0.623	0.030	(0.52; 0.72)
Coor -> RR	0.608	0.020	(0.51; 0.70)
Indu -> PP	-0.047	0.411	(-0.18; 0.09)
Paym -> PP	-0.056	0.301	(-0.18; 0.06)
Prem -> PP	-0.173	0.147	(-0.37; 0.02)
PP -> Syn	0.866	0.000	(0.79; 0.94)
PP -> Wperf	0.842	0.000	(0.78; 0.91)

Table 5.16 A summary of the effect size

Exogenous Constructs	f <sup>2</sup> effect size	q <sup>2</sup> effect size
RB	0.089	0.018
VI	0.083	0.017
RR	0.406	0.078
Comp	0.064	0.017
Atti	0.114	0.026
Orgfit	0.014	0.003

#### *Test of mediating effects of VI and RR*

Although the above overall model has taken account of the inter-correlation between these constructs, we are still not clear about the causal relationship between them. According to the literature on M&As and the theoretical perspectives of RBV, dynamic capabilities and process, the constructs 'value identification' and 'resource reconfiguration' are supposed to mediate the relationship between the firms' resource base and its post-acquisition performance. Hence, I conducted a further analysis to test these propositions. To comprehensively test their mediation effects, I employed a step-by-step analysis again. In the first step, I only focused on the relationships between the resource base and CBA performance without incorporating two mediators. Subsequently, I introduced the mediator of VI and RR separately, testing their individual mediating effect (Hypotheses 4&5). In the third step, I estimated the full PLS-path model including both indicators to assess their joint mediating role in the relationship of RB and PP (Hypotheses 4&5). At the same time, the mediating role of VI between RB and RR (H6), as well as the mediating role of RR between VI and PP (H7), were also investigated.

A mediating effect is created when a third variable or construct intervenes between two other related constructs. According to Baron and Kenny (1986), a variable functions as a mediator when it meets three conditions. Taking the mediating effect of VI as an example (see Figure 5.10): (1) the independent variable must significantly affect the mediator (i.e., path a); (2) the mediator must significantly impact the dependent variable (i.e., path b); (3) when the effect between RB and VI (i.e., path a), as well as the effect between VI and PP (i.e., path b), are controlled (i.e., path c), a previously significant relation between the independent (RB) and dependent variables (PP) (i.e., path c) changes its value significantly. Therefore, the empirical test must answer the following questions (see Hair et al., 2014, p.223): (1) is the direct effect (i.e., path c) significant when the mediating variable (i.e., VI) is excluded from this PLS path model? (2) Is the indirect effect (i.e., path a \* path b) via VI significant after this variable has been included in the model? (3) How much of the direct effect (i.e., path c) does the indirect effect (i.e., path a \* path b) absorb? Is there full or partial mediation?

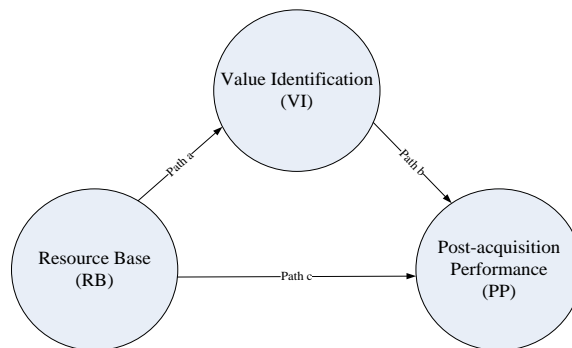


Figure 5.10 An illustration of mediation analysis

The Sobel (1982) Test is a commonly used approach to evaluate the significance of mediating effects, but it relies on the distributional assumptions, which usually do not hold for the indirect effect path a \* path b. Moreover, 'the Sobel Test requires unstandardised path coefficients as input for the test statistic and lacks statistical power, especially when applied to small sample sizes' (Hair et al., 2014, p.223). The proposed non-parametric Bootstrapping approach (Preacher and Hayes, 2004, 2008) is thought to be favourable in comparison to the Sobel Test for PLS path models, since it works for simple and multiple mediator models, makes no distributional assumptions and can be applied to small sample size with more confidence (Hair et al., 2014). Hence, I conducted a mediation analysis by using the Bootstrapping approach. In order to analyse the mediation effect of VI and RR, I followed the analysis procedure (see Figure 5.11) introduced by Hair et al. (2014, p.224).



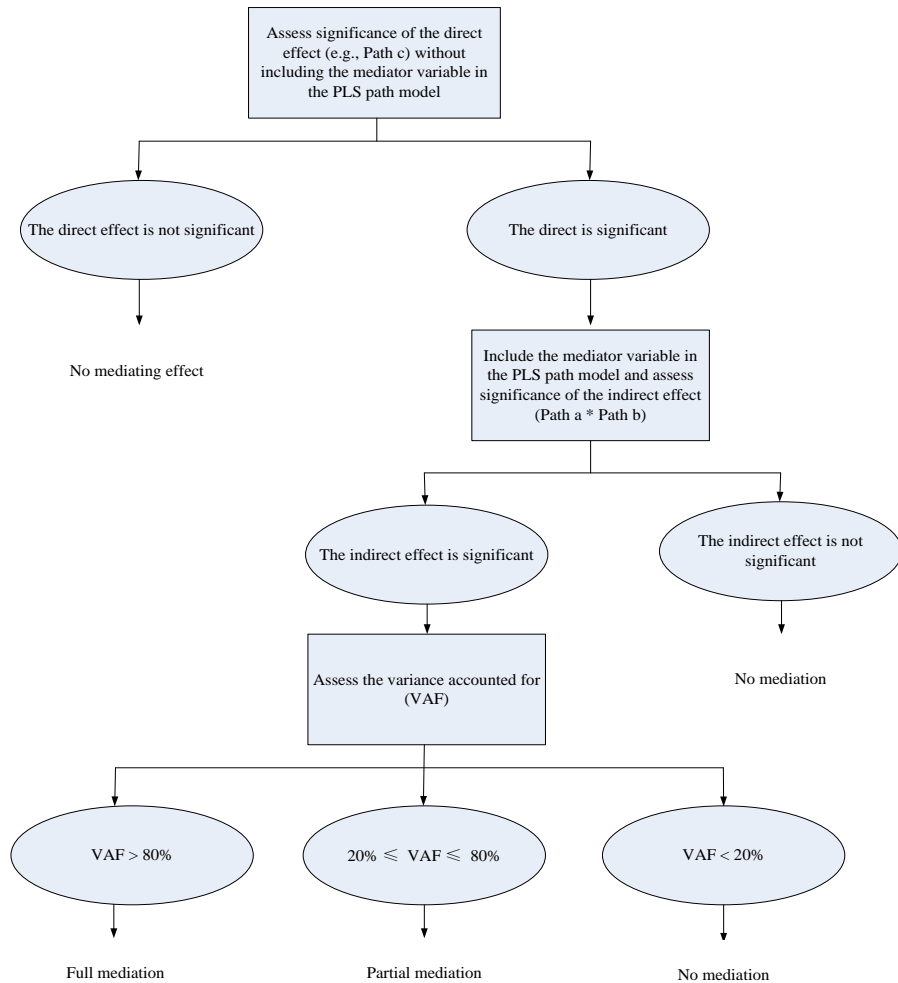
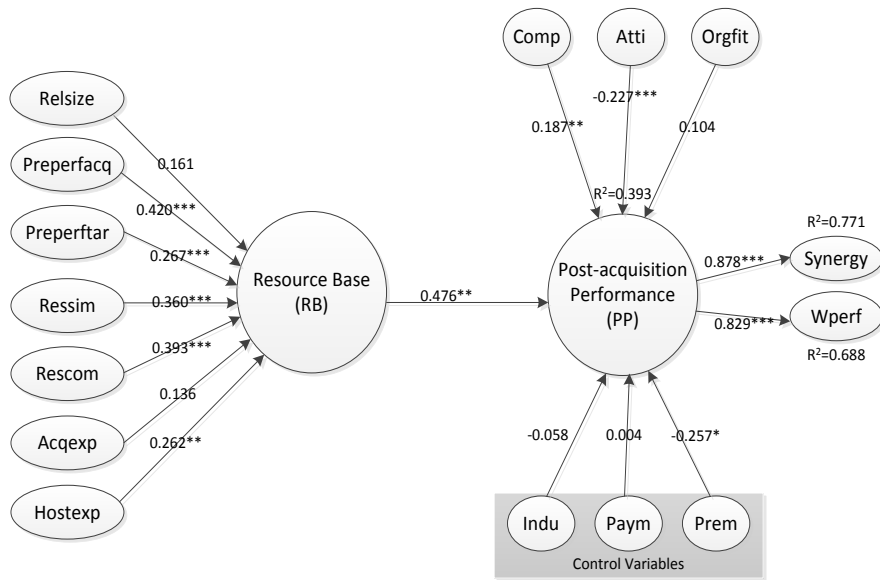


Figure 5.11 Mediator analysis procedure (Hair et al., 2014, p.224)

*Step 1: Test of the direct effect of RB*

To begin the test of the mediation effect of VI & RR, I first examined the relationship between RB and PP without the two mediators. The results displayed in the following structural diagram (Figure 5.12 and Table 5.17) again confirm the significant positive impact of RB on PP with a path coefficient of 0.476\*\*\* (H1). Furthermore, consistent with the prior findings, the path coefficients between HOC (RB) and its LOCs again indicate that 'Preperfacq', 'Preperftar', 'Ressim', 'Rescom' and 'Hostexp' are important facets of 'resource base' that positively impact

acquisition performance/success. The coefficient of determination ( $R^2$ ) has a value of 0.393 for CBA performance, substantiating the model's predictive validity. This finding is also supported by the  $Q^2$  value (0.147). Moreover,  $f^2$  effect size of 0.282 and  $q^2$  effect size of 0.072 suggest the considerable effect and predictive relevance of RB in this model. Overall, the first condition of the mediating role of VI and RR has been met (i.e., RB has significant direct effect on PP).



Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

Figure 5.12 Direct effect of RB (Model 8)

Table 5.17 Structural model assessment of Model 8

Endogenous constructs	$R^2$	$Q^2$
PP	0.393	0.147

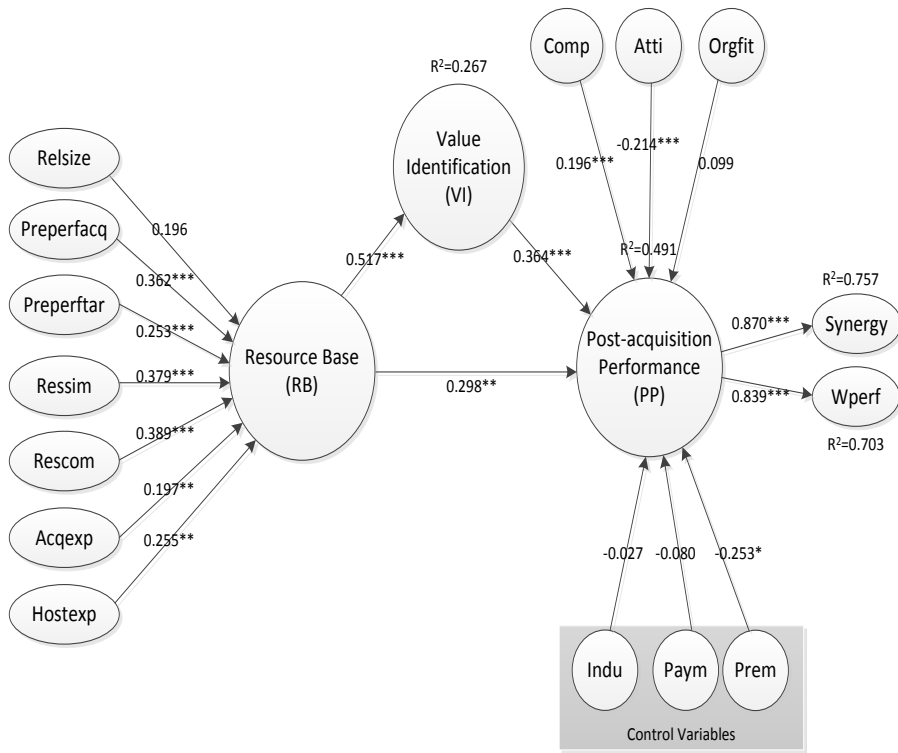
  

Paths	Path coefficient	P value	Confidence interval at 95%
Relsize -> RB	0.161	0.688	(-0.22; 0.54)
Preperfacq -> RB	0.420	0.000	(0.24; 0.60)
Preperftar -> RB	0.267	0.010	(0.13; 0.40)
Rescom -> RB	0.393	0.001	(0.21; 0.58)
Ressim -> RB	0.360	0.000	(0.21; 0.51)
Acqexp -> RB	0.136	0.378	(-0.05; 0.33)
Hostexp -> RB	0.262	0.001	(0.02; 0.50)

RB -> PP	0.476	0.046	(0.13; 0.82)
Atti -> PP	-0.227	0.003	(-0.40; -0.06)
Comp -> PP	0.187	0.202	(0.03; 0.35)
Orgfit -> PP	0.104	0.003	(-0.23; 0.44)
Indu -> PP	-0.058	0.661	(-0.24; 0.12)
Paym -> PP	0.004	0.713	(-0.15; 0.16)
Prem -> PP	-0.257	0.145	(-0.52; 0.00)
PP -> Syn	0.878	0.000	(0.81; 0.94)
PP -> Wperf	0.829	0.000	(0.76; 0.90)

*Step 2: Test of the separate mediation effect of VI and RR*

Next, in step 2 of mediation analysis, I separately assessed the roles of value identification (VI) and resource reconfiguration (RR) as mediators of resource base's direct effects on the focal construct - post-acquisition performance (H4 & 5). In Model 9, the mediator of VI is included in Figure 5.13. The results are depicted in Figure 5.13 and Table 5.18. After introducing the mediator of VI, the value of the positive relationship between RB and PP in Model 8 significantly decreased to 0.298\*\* with a difference of 0.178. The size of RB's effect becomes smaller ( $f^2 = 0.11$ ). In addition, the firms' resource bases have high and significant effects (0.517\*\*\*) on value identification, which in turn has a strong and significant relationship with post-acquisition performance (0.364\*\*\*). The indirect effect of RB through the mediator construct - 'VI' is significant (i.e., 0.188\*\*\*) (see Table 5.19). Moreover, after running bootstrapping (103 cases, 5000 samples, no sign change option), I obtained the mediation strength (Variance Accounted For, VAF) of 0.387, indicating that 38.7% of RB's total effect is explained via the VI mediator. Because the path relationship between RB and PP is still significant and the VAF is larger than 20% but smaller than 80%, it is concluded that VI partially mediates the relationship between RB and PP. This confirms H4. In addition, this structural model explains 49.1% of the variance of PP. The  $Q^2$  value of 0.151 is well above zero, suggesting the model's predictive relevance.



Notes: \*P<0.1; \*\*P<0.05; \*\*\*P<0.01

Figure 5.13 Mediation effect of VI (Model 9)

Table 5.18 Structural model assessment of Model 9

Endogenous constructs	R <sup>2</sup>	Q <sup>2</sup>
VI	0.267	0.151
pp	0.491	0.186

Paths	Path coefficient	P value	Confidence interval at 95%
Relsize -> RB	0.196	0.159	(-0.07; 0.47)
Preperfacq -> RB	0.362	0.000	(0.17; 0.55)
Preperftar -> RB	0.253	0.000	(0.12; 0.38)
Rescom -> RB	0.389	0.000	(0.20; 0.58)
Ressim -> RB	0.379	0.000	(0.24; 0.52)
Acqexp -> RB	0.197	0.028	(0.02; 0.37)
Hostexp -> RB	0.255	0.014	(0.05; 0.46)
RB -> PP	0.298	0.044	(0.01; 0.59)

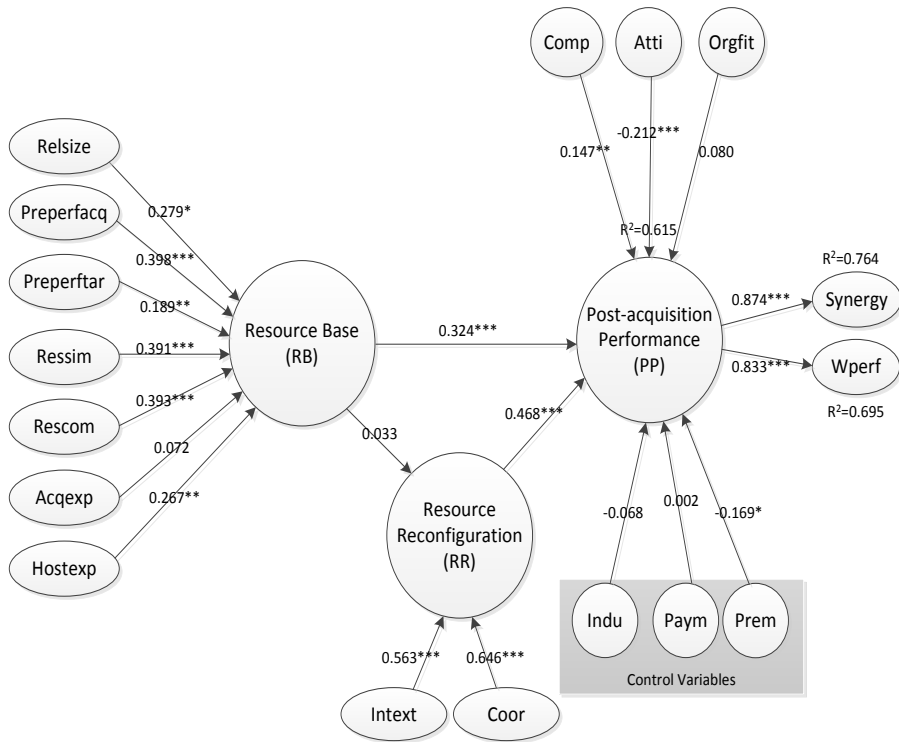
RB -> VI	0.517	0.000	(0.35; 0.68)
VI -> PP	0.364	0.001	(0.16; 0.57)
Atti -> PP	-0.214	0.006	(-0.36; -0.06)
Comp -> PP	0.196	0.008	(0.05; 0.34)
Orgfit -> PP	0.099	0.469	(-0.17; 0.37)
Indu -> PP	-0.028	0.721	(-0.18; 0.12)
Paym -> PP	-0.080	0.267	(-0.22; 0.06)
Prem -> PP	-0.253	0.045	(-0.498; -0.009)
PP -> Syn	0.870	0.000	(0.802 Syn.00
PP -> Wperf	0.839	0.000	(0.774aym ->

Table 5.19 Analysis of mediating effect of VI

Source construct	Target construct: PP			
	Direct effect	Indirect effect	Total effect	VAF
VI	0.298**	0.188***	0.486***	38.7% (Partial mediation)

The mediating role of RR between RB and PP is illustrated in Figure 5.14. Because RR, as a higher-order construct, works as the endogenous variable, a mixture of repeated indicator approach and two-stage approach recommended by Ringle et al. (2012) is applied. In the first stage, the repeated indicator approach is used to obtain the latent variable scores for the lower-order constructs (LOCs, e.g., integext & coor), which in the second stage, serve as manifest variables of the higher-order construct (HOC, e.g., RR). Figure 5.14 shows the estimates from 1<sup>st</sup> stage analysis. Consistent with previous results, the strength and significance of path coefficients between the LOCs and HOCs suggest 'Preperfacq', 'Preperftar', 'Rescom', 'Ressim' and 'Hostexp' are the main contributors of RB's effect on CBA success. The indicator 'Relsize' also plays a role, whereas 'Acqexp' has no effect. Meanwhile, with the same results as the previous analysis, I determined that 'Intext' and 'Coor' are still important factors of RR for enhancing CBA performance. Regarding the relationships in the inner structural model, the results from the second-stage analysis should be interpreted. Because repeated indicator approach is used in the first stage, almost all of the HOC variance is explained by its LOCs and then the path relationship between any additional construct as a predecessor and the endogenous HOC (i.e., RR) is always approximately zero and non-significant. Figure 5.14 indicates that the path coefficient between RB and RR is 0.025 and non-significant.

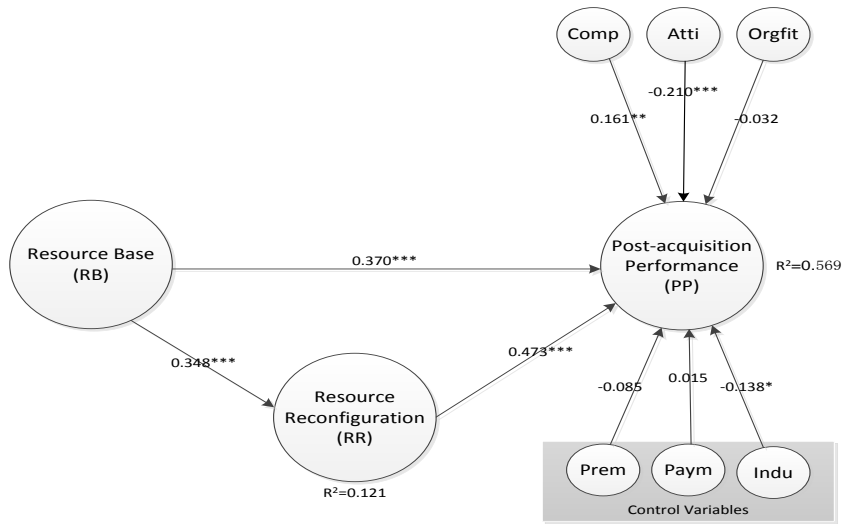
Thus, I continue the second-stage analysis, to examine the mediating effect of RR shown in structural (inner) model.



Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

Figure 5.14 Mediation effect of RR– 1st stage analysis (Model 10)

Figure 5.15 and Table 5.20 show the results of mediation analysis of RR in the second. In this model (Model 10), the previous positive relationship (Figure 5.12), path coefficient of 0.476,  $P < 0.05$  in Model 8) between RB and PP is still significant but decreased to 0.370. Also, the indirect effect via this mediator is significant (i.e., 0.165,  $p < 0.01$ ). The VAF value of 0.308 (see Table 5.21) confirms its partial mediation effect. H5 is thus supported. Further, this path model explains 56.9% of variance in PP.  $Q^2$  value of 0.364 clearly indicates this model's predictive relevance. The effect size is of moderate to strong strength ( $f^2 = 0.205$ ).



Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

Figure 5.15 Mediation effect of RR – 2nd stage analysis (Model 10)

Table 5.20 Structural model assessment of Model 10

Endogenous constructs	R <sup>2</sup>	Q <sup>2</sup>
RR	0.121	0.075
PP	0.569	0.364

Paths	Path coefficient	P value	Confidence interval at 95%
RB -> PP	0.370	0.000	(0.19; 0.55)
RB -> RR	0.348	0.000	(0.19; 0.51)
RR -> PP	0.473	0.000	(0.31; 0.64)
Atti -> PP	-0.210	0.007	(-0.36; -0.06)
Comp -> PP	0.161	0.018	(0.03; 0.29)
Orgfit -> PP	-0.032	0.723	(-0.21; 0.14)
Indu -> PP	-0.085	0.284	(-0.24; 0.07)
Paym -> PP	0.015	0.820	(-0.11; 0.14)
Prem -> PP	-0.138	0.081	(-0.29; 0.02)

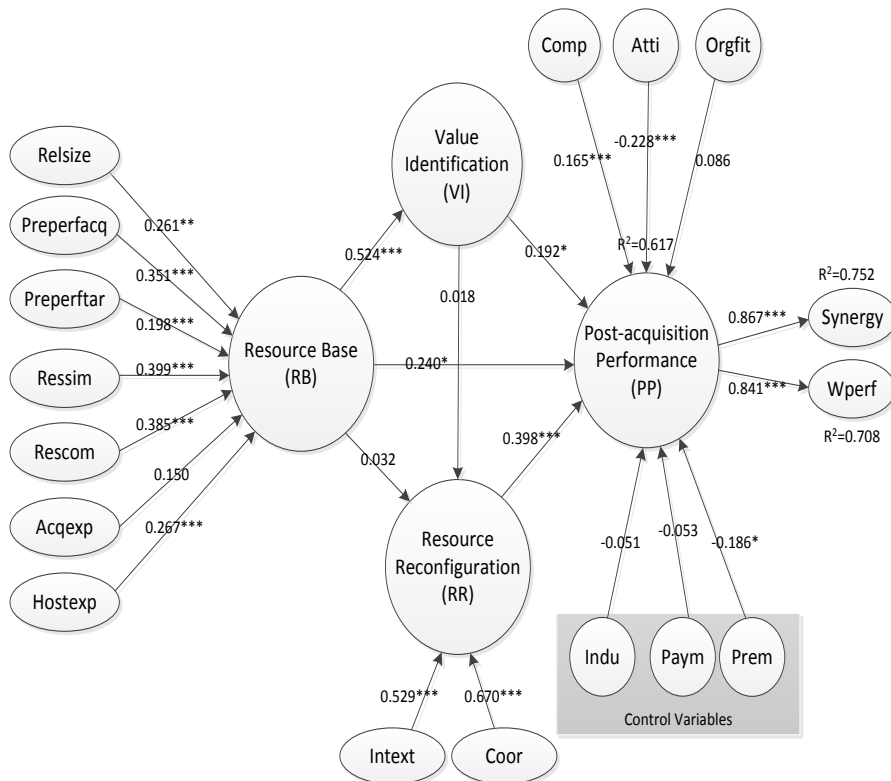
Table 5.21 Analysis of mediating effect of RR

Source construct	Target construct: PP
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	Direct effect	Indirect effect	Total effect	VAF
RR	0.370***	0.165***	0.486***	30.8% (Partial mediation)

*Step3: Test of the joining mediation effect of VI and RR (Model 11)*

In the last step, both mediators were included in the model and the results from the 1<sup>st</sup> stage analysis are shown in Figure 5.16. In this model, apart from the significant impact of 'Preperfacq', 'Preperftar', 'Rescom', 'Ressim' and 'Hostexp' on CBA performance, which has been repeatedly confirmed in the previous models, 'Relsize' in this model also shows a positive effect (path coefficient of 0.261\*\*), whereas Acqexp" still exerts no impact. With regards to the higher-order construct of 'resource reconfiguration', 'integration extent' and 'coordination efforts' are confirmed again as the key determinants of CBA success.

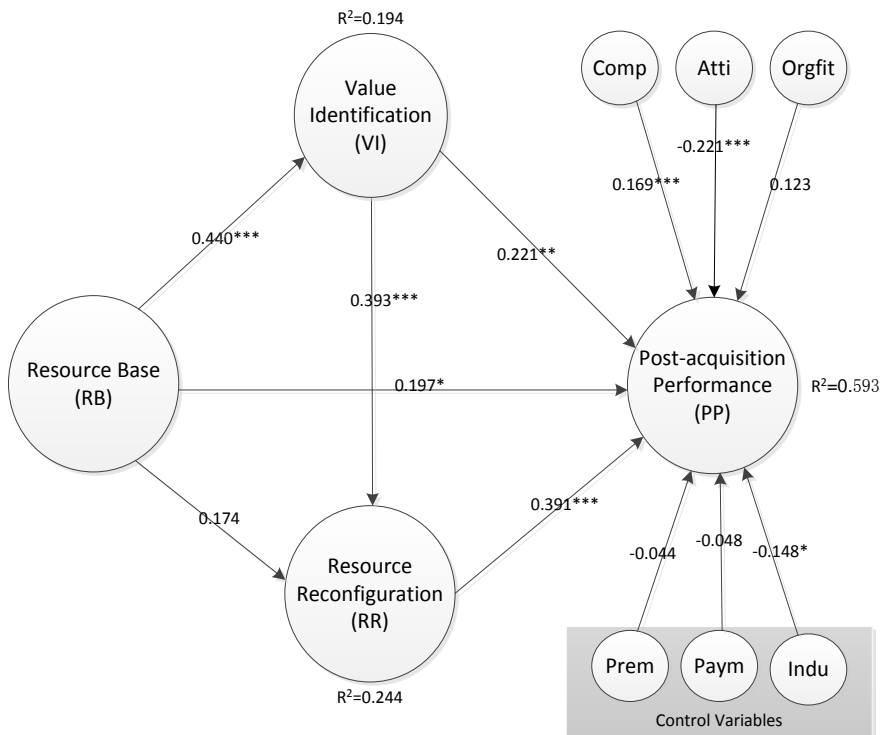


Notes: \*P<0.1; \*\*P<0.05; \*\*\*P<0.01

Figure 5.16 Joining mediation effect of VI & RR – 1st stage analysis (Model 11)



Figure 5.17 and Table 5.22 illustrate the estimates from the second stage analysis of the full path model incorporating both mediators. When assessing the joint role of VI and RR as mediators of RB's direct effects on the focal construct PP (Model 11), I compare the results with the PLS path model estimates without the two mediator constructs (Model 8) as shown in Figure 5.12. In comparison with the impact of RB on PP in Model 8 (0.475,  $P < 0.05$ ), the effect of RB in this Model (Figure 5.17) drops down to 0.190 ( $p < 0.1$ ). Moreover, the results show that RB's indirect effect via VI and RR are significant (0.233,  $P < 0.01$ ) and the joining mediation effect strength of VI and RR is substantial (VAF=0.542, see Table 5.23). These findings further substantiate the mediation effect of VI and RR in the relationship between RB and PP (H4&5). The coefficient of determination  $R^2$  has a high value of 0.593 for the key target construct of this study (i.e., post-acquisition performance), substantiating the model's predictive validity.  $Q^2$  value of 0.392 further supports the model's predictive relevance. Figure 5.17 shows all structural relationships and their significance levels.



Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

Figure 5.17 Joining mediation effect of VI and RR – 2nd stage analysis (Model 11)

Table 5.22 Structural model assessment of Model 11

<b>Endogenous constructs</b>	<b>R<sup>2</sup></b>	<b>Q<sup>2</sup></b>
VI	0.194	0.196
RR	0.244	0.150
PP	0.593	0.392

<b>Paths</b>	<b>Path coefficient</b>	<b>P value</b>	<b>Confidence interval at 95%</b>
RB -> PP	0.197	0.055	(0.00; 0.40)
RB -> RR	0.174	0.165	(-0.07; 0.42)
VI -> RR	0.393	0.002	(0.15; 0.64)
RR -> PP	0.391	0.000	(0.20; 0.58)
RB -> VI	0.440	0.000	(0.28; 0.60)
VI -> PP	0.222	0.021	(0.04; 0.41)
Atti -> PP	-0.221	0.001	(-0.35; -0.09)
Comp -> PP	0.169	0.010	(0.04; 0.29)
Orgfit -> PP	0.123	0.162	(-0.05; 0.29)
Indu -> PP	-0.044	0.545	(-0.19; 0.10)
Paym -> PP	-0.048	0.463	(-0.18; 0.08)
Prem -> PP	-0.148	0.084	(-0.31; 0.02)

Table 5.23 Analysis of joining mediating effect of VI & RR

Source construct	Target construct : RR			Target construct : PP		
	Direct effect	Indirect effect	Total effect	Direct effect	Indirect effect	Total effect
RB	0.174	0.173***	0.347***	0.197*	0.233***	0.430***
VI	0.393***			0.221**	0.154**	0.375***
			100% (Full mediation)			54.2% (Partial mediation)
						41.1% (Partial mediation)

Notes: \* $P < 0.1$ ; \*\* $P < 0.05$ ; \*\*\* $P < 0.01$

In the following analysis (see Table 5.24), I focus on the mediating effects of VI in the presence of the mediator of RR. Therefore, one mediator was excluded from the model, while the other remained (Models 9 and 10, see Figure 5.13 and Figure 5.15). The results from model 9&10 were then compared to those of the model with both mediators in Model 11(Figure 5.17). Because the significant positive relationship between RB and RR in Model 10 (0.348\*\*\*) turns out to be insignificant, it is therefore concluded that VI fully mediates the relationship between RB and RR. This provides evidence for H6. The subsequent step specifically analysed the mediating effects of RR in the presence of VI. The original positive relationship between VI and PP in Model 9 (0.364\*\*\*) significantly declines to 0.221\*\*. This indicates that RR also partially mediates the relationships between VI and PP. H7 is thus verified.

In summary, this joint mediation analysis confirms the previous findings regarding the separate analysis of each mediator and, thereby, provides further evidence to support Hypotheses 4 and 5. Meanwhile, the mediating role of VI between RB and RR, as well as the mediating role of RR between VI and PP is also identified. This provides support for Hypotheses 6 and 7. Additionally, the empirical evidence does not support the predicted negative impact of competition and positive impact of friendly attitude and organisational fit on acquisition performance (thus, rejecting H8-10).

Table 5.24 Mediation of VI or RR

<b>Exclusion of Value Identification (VI)</b>						
Source construct	Target construct : RR			Target construct : PP		
	Model 10	Model 11	Difference	Model 10	Model 11	Difference
RB	0.348***	0.174	0.174*** (Full mediation)	0.370***	0.197*	0.173
VI	n/a	0.393***	n/a	n/a	0.221**	n/a
RR				0.473***	0.391***	
<b>Exclusion of Resource Reconfiguration (RR)</b>						
Source construct	Target construct : VI			Target construct: PP		
	Model 9	Model 11	Difference	Model 9	Model 11	Difference
RB	517***	0.440***	0.077	0.298**	0.197*	0.111
VI				0.364***	0.221**	0.143*** (Partial mediation)
RR				n/a	0.391***	n/a

### 5.3.5.4 A summary

In this chapter, a step-by-step analysis is employed to provide a detailed comprehensive picture about these factors' impact on CBA performance. I conduct a simple cause-effect analysis of each determinant's impact on CBA performance first. Then, I establish an overall model that incorporates all the investigated variables. In the last step, I conduct a further analysis to investigate the mediating role of VI and RR. All the empirical results towards the proposed hypotheses are summarised in the following table (Table 5.25).

Table 5.25 Hypotheses/model testing: conclusion

Relations	Model of independent effect analysis (Model 1-6)	Overall model without mediation (Model 7)	Structural model without mediator VI&RR (Model 8)	Model with single mediator - VI (Model 9)	Model with single mediator - RR (Model 10)	Final model with joining mediation (Model 11)
H1: RB -> PP	0.497*** (S)	0.227* (S)	0.475** (S)	0.298** (S)	0.370*** (S)	0.197* (S)
H1a: Relsize -> RB	0.157(NS)	0.159(NS)	0.161 (NS)	0.196 (NS)	0.279* (S)	0.261** (S)
H1b: Preperfacq -> RB	0.422*** (S)	0.421*** (S)	0.420*** (S)	0.362*** (S)	0.398*** (S)	0.351*** (S)
H1c: Preperftar -> RB	0.270*** (S)	0.270*** (S)	0.267*** (S)	0.253*** (S)	0.189** (S)	0.198*** (S)
H1d: Ressim -> RB	0.358*** (S)	0.360*** (S)	0.360*** (S)	0.379*** (S)	0.391*** (S)	0.399*** (S)
H1e: Rescom -> RB	0.390*** (S)	0.390*** (S)	0.393*** (S)	0.389*** (S)	0.393*** (S)	0.385*** (S)
H1f: Acqexp -> RB	0.135 (NS)	0.137 (NS)	0.136 (NS)	0.197 ** (S)	0.072 (NS)	0.150 (NS)
H1g: Hostexp -> RB	0.263*** (S)	0.263*** (S)	0.262** (S)	0.255*** (S)	0.267** (S)	0.267*** (S)
H2: VI -> PP	0.540*** (S)	0.219** (S)	n/a	0.364*** (S)	n/a	0.221** (S)
H3: RR -> PP	0.641*** (S)	0.441*** (S)	n/a	n/a	0.473*** (S)	0.391*** (S)
H3a: Intext -> RR	0.625*** (S)	0.623*** (S)	n/a	n/a	0.563*** (S)	0.529*** (S)
H3b: Coor -> RR	0.573*** (S)	0.608*** (S)	n/a	n/a	0.646*** (S)	0.670*** (S)

H4: Competition -> PP	0.244*** (NS)	0.159*** (NS)	0.187** (NS)	0.196*** (NS)	n/a	0.165*** (NS)
H5: Attitude -> PP	-0.129 (NS)	-0.208*** (NS)	-0.227*** (NS)	-0.214*** (NS)	n/a	-0.228*** (NS)
H6: Orgfit -> PP	0.348* (S)	0.082 (NS)	0.104	0.099 (NS)	n/a	0.086 (NS)

**Mediation Analysis**

**Model of individual mediator analysis (Model 9 & 10)**

Path	Total effect	Direct effect	Indirect effect	VAF	Supported or not
H7: RB -> VI -> PP	0.486***	0.298**	0.188***	39% (Partial mediation)	S
H8: RB -> RR -> PP	0.535***	0.370***	0.165***	31% (Partial mediation)	S

**Model of joining mediation analysis (Model 11)**

Path	Total effect	Direct effect	Indirect effect	VAF	Supported or not
H7 & H8: RB -> VI & RR -> PP	0.430***	0.197*	0.233***	54% (Partial mediation)	S
H9: RB -> VI -> RR	0.347***	0.174	0.173***	100% (Full mediation)	S
H10: VI -> RR -> PP	0.375***	0.221**	0.154**	41% (Partial mediation)	S

Notes: NS (not supported); S (supported)

On average, the results in the simple cause-effect analysis showed higher impact than that those from the more complex model analysis (see Table 5.25). This reveals that the strong direct effect on performance could be biased through correlations between the various variables. Consequently, the outcomes across all the models strongly support the leading hypothesis of this study that RB, VI, RR and DSV jointly explain CBA performance/success. Specifically, RB, VI and RR all have a significantly positive relationship with the performance of cross-border acquisitions. This means the stronger the combining firms' resource base, the higher the value identification efficiency and the more resource reconfiguration, then the higher the CBA performance. Hypotheses 1-3 are thus supported. Regarding the deal setting variables (DSV), their predicted effects are not supported from the empirical results across almost all the models, rejecting hypotheses 8-10. 'Organisational fit' has a direct positive effect, but this is only at a significance level of 10% in a single cause-effect analysis (Model 6, see Figure 5.8). This suggests its influence is not stable. Contrary to my expectations, it is interesting to find that higher competition can lead to higher CBA performance, while the friendly attitude of the acquired firm's management can dampen the results.

From the mediation analysis, it is found that 'value identification' and 'resource reconfiguration' are both important mediators of the relationship between 'resource base' and 'post-acquisition performance'. Hypotheses 4 and 5 are thus supported. Furthermore, a sequential mediation process is identified, i.e., the path of RB → VI → RR → PP, among which, VI is found to play a full mediating role between RB and RR. RR partially mediates the impact of VI on PP, providing strong support for Hypothesis 6 and 7. To conclude, these findings suggest that it is not appropriate to analyse these variables separately. It is also not appropriate researching M&A performance/success by stages. A process perspective is necessary due to the linkage of these variables along the acquisition process in determining the success of cross-border acquisitions.

In addition, the PLS-SEM estimates also reveal how the lower-order constructs (LOCs) contribute to the corresponding higher-order construct (HOC) and consequently impact the performance of cross-border acquisitions. A number of variables have been repeatedly confirmed as relevant and significant. Regarding the exogenous construct - RB, 'Preperfacq', 'Preperftar', 'Ressim', 'Rescom' and 'Hostexp' on the LOC level had a significant positive influence on the higher-order construct (RB) and hence lead to high post-acquisition performance. However, 'Acqexp' are not relevant. 'Relsize' only exerted its positive impact in Model 10 and 11. Moreover, 'integration extent' and 'coordination efforts are found to be two critical facets of 'resource reconfiguration' that determine the success of cross-border acquisition. In terms of the key endogenous construct of this study, post-acquisition performance

(PP), it seems to be well represented by two manifest constructs (i.e., deal-level synergy realisation and motive-weighted firm-level performance) as these two constructs show high path coefficients with PP across all the models (above 0.8) and these two manifest constructs themselves are sufficient to explain more than 50% of each LOC's variance consistently.

### **5.3.6 CBA MOTIVES AND POST-ACQUISITION PERFORMANCE**

In this section, additional analysis is conducted to investigate the relationship between CBA motives and the performance. The acquirers have different objectives for doing cross-border acquisitions and tend to target at different resources and capabilities, focus their attention on different aspects when evaluating the target firms and then take different subsequent actions for implementing CBA strategy that may lead to different results. During this time, the determinants of acquisition performance may play different roles when the acquisitions are performed with different motives. Initially, this study was designed to examine the determinants and explore value creation mechanism in cross-border acquisitions under different acquisition motives by testing these hypotheses using the data of motive-related groups. Unfortunately, group analysis is impossible due to the small size of the sample. Future studies are invited to improve this. However, this study did take CBA motives into consideration and connected them with performance assessment by using the motive-based importance attached to different measures as the weights. Therefore, findings are more generalisable. Also, using available data, this study is conducting a preliminary analysis of the relationship between CBA motives and the subsequent performance as shown in the following table (Table 5.26).



*Table 5.26 CBA motives and post-acquisition performance*

<b>CBA motives</b>	<b>Percentage</b>	<b>Innovation performance</b>	<b>Market performance</b>	<b>Accounting performance</b>	<b>Overall weighted average performance</b>	<b>Synergy realisation</b>
Market expansion	72.82%	2.78	4.35	3.58	3.56	3.87
	To strengthen our marketing capability (e.g., aim for brands, sales force)					
	To access new markets					
	To enter new industry					
	To increase our market shares					
Efficiency enhancement	40.78%	2.87	3.88	3.59	3.45	3.96
	To enhance our management capability					
	To improve our overall efficiency (e.g., aim for economies of scale/scope, low cost of production/service)					
	To get better control over our whole value chain					
	To gain better control over the supply of natural resources					
Strategic intentions	27.18%	2.84	4.14	3.57	3.51	4.23
	To reduce the competitor (aim for market power)					

	To build a platform for potential follow-on investment opportunities								
	To prevent a possible takeover made by other companies								
Innovation improvement	To improve our product innovation capability (e.g., aim for patents, technology, new products)	21.36%	3.64	4.32	3.76	3.91	4.35		
Financial consideration	To obtain direct financial benefits (e.g. Target at free cash, borrowing capacity, tax benefits)	17.48%	2.81	4.27	4.20	3.83	4.01		
	To invest our firm's excess free cash								
	To acquire the company which was undervalued/cheap								
Acquirers with multiple motives		62.14%	3.02	4.27	3.68	3.66	4.13		
Acquirers with single Motives		37.86%	2.57	4.06	3.58	3.38	3.56		

The typology of M&A motives can be more specific (such as 20 M&A motives developed in Walter et al.'s study, 1990) or more general (for example, three M&A motivation categories, efficiency-based, market-based and learning-based motives, are summarised by Saxton and Dollinger, 2004). For investigating motive-performance relationship, I recoded the detailed motive data into five more general categories that are often discussed in the studies of M&A motives (e.g., Dunning, 1993; Brouthers et al., 1998; Child et al., 2001; Saxton and Dollinger, 2004). These are: (1) market expansion, including the objectives to strengthen their marketing capability, to access new markets, to enter new industry, and to increase our market shares; (2) efficiency enhancement, including the objectives to enhance the firm's management capability, its overall efficiency, and to get better control over its entire value chain and the supply of natural resource; (3) strategic intention, including the objectives to reduce the competitor, to build a platform for potential follow-on investment opportunities and to prevent a possible takeover made by other companies; (4) innovation improvement, pointing to the objectives for improving its product innovation capability (e.g., aim for patents, technology, new products); (5) financial considerations, including the objectives to obtain direct financial benefits (e.g., target at free cash, borrowing capacity, tax benefits) to invest the firm's excess free cash and to acquire the company which was undervalued/cheap. As the previous table indicates, market expansion is the main reason for Nordic companies to perform cross-border acquisitions. This is followed by the efficiency enhancement as the second most important reason. Meanwhile, around 30% of cross-border acquisitions are adopted out of long-term strategic consideration, while a small percentage of cross-border acquisitions (around 20%) are carried out to improve their innovation performance or obtain financial benefits.

By comparing the average performance score of the acquirers with different motives, it is found that the acquirers performed relatively better in the measures related to their motives than the other acquirers. Specifically, when acquisition outcome is evaluated in terms of the innovation performance, the acquirers that aim to improve their innovation capability via CBAs performed better in terms of innovation performance than the acquirers with other objectives. Also, the acquirers that wanted to expand their market performed slightly better than the others in terms of market performance. In addition, the acquisitions conducted for financial reasons achieved higher accounting performance compared with the acquisitions performed for other reasons. Consistent with what previous scholars have suggested, the result reveals the necessity of associating performance evaluation with the firm's primary motives for conducting M&As. Nevertheless, the acquirers aim to enhance the firms' efficiency are supposed to experience more synergy (e.g., operational and managerial synergy) between the two firms. However, they fail to achieve this, which is actually consistent with in the findings from my previous exploratory

survey study that 'synergy evaluation and realisation' are described by most of the practitioners as the biggest challenge in cross-border acquisitions.

Two further findings are worth mentioning. First, the results show that half of the acquirers have multiple motives for doing cross-border acquisitions. Their performance across all the measures was consistently better than the acquirers with a single motive. Further analysing the importance attached to these performance measures (see Table 5.27), I found that acquirers with innovation motive, compared with the acquirers with other motives, attached higher importance to the measures of innovation performance. The measures of market performance and accounting performance received almost the same degree of attention from the acquirers with different motives. Such result makes sense because the firms that are not innovation-oriented are unlikely to make evaluation of their acquisition outcomes in terms of innovation, while for all for-profit businesses, no matter how different the direct and detailed acquisition motives they had, they wanted to achieve higher market and financial performance in the end. These findings also indicate the consistency of the respondents' answers.

*Table 5.27 CBA Motives and the importance attached to performance measures*

<b>CBA motives</b>	<b>Average importance attached to innovation performance measures</b>	<b>Average importance attached to market performance measures</b>	<b>Average importance attached to accounting performance measures</b>
Market expansion	4.00	5.77	5.47
Efficiency enhancement	4.08	5.38	5.44
Strategic intentions	3.97	5.76	5.56
Innovation improvement	4.95	5.79	5.48
Financial consideration	3.94	5.60	5.70

Overall, these findings call for more research attention to acquisition motives when explaining post-acquisition performance, and highlight the importance and necessity of connecting performance measurement with the primary motives for doing cross-border acquisitions.

# CHAPTER 6 DISCUSSION AND CONCLUSIONS

This chapter outlines the main findings from the step-by-step empirical analysis in chapter 5 together with the contributions of this thesis. First, the major findings are summarised and discussed by revisiting the research questions proposed in chapter 1 and the derived hypotheses in chapter 2. Thereafter, research contributions of this study and implications for future research are presented. Finally, before coming to the conclusions, the limitations of the study are explained and future research directions and opportunities are suggested at the same time.

## 6.1 DISCUSSION OF THE MAJOR FINDINGS

This thesis attempted to fill the identified research gaps presented in chapters 1 and 2 and addressed the general and ongoing question in M&A research: why do firms aggressively conduct M&As when the empirical evidence relating to post-acquisition performance is consistently disappointing? Specifically, this thesis answered three research questions: What are the motives for doing cross-border acquisitions? What are the determinants of cross-border acquisition performance? What is the value creation mechanism in cross-border acquisitions? It is worth mentioning that this study was initially designed to do some further fine-gained analysis to examine the effect of the impacting factors and investigate value creation mechanism (the last two research questions) under different primary CBA motives, i.e., testing the model using the group data divided based on different primary CBA motives. As Bower (2001) argues M&As with different strategic intentions are confronted with different challenges. Unfortunately, due to the limited sample size, this study is unable to perform such motive-related group analysis. However, performance assessment in this study has been adjusted with different CBA motives and the findings are therefore more generalizable. However, using available data, I have done some preliminary analysis about the relationship between CBA motives and perceived performance as discussed in the following sections.

### 6.1.1 CBA MOTIVES AND THE PERFORMANCE

My analysis has produced five widely accepted general categories of merger motives. These are market expansion, efficiency enhancement, strategic intentions, innovation improvement and financial considerations. The first two represent the most popular motives for Nordic acquirers to perform cross-border acquisitions,

followed by strategic intention, innovation improvement, and financial considerations. Moreover, more than half of the respondents indicated that their cross-border acquisitions were driven by multiple equally important motives. The findings also show that the acquirers with multiple motives performed better consistently across all the measures (i.e., innovation, marketing, accounting performance and synergy realisation) compared with single-motive driven acquisitions.

Multiple motives for conducting the acquisition may imply more value creation opportunities or higher strategic match between the two organisations, which can be the precondition for higher acquisition performance. A further analysis reveals that some international acquirers just have single primary motive of accessing new markets in new countries, while for some acquirers, their primary motives are to use the acquisition not only to assess the new markets, but also to improve their innovation and marketing capability, as well as build a platform for following-on investment. This implies that target firms bring varieties of benefits to their acquirers. It is possible the targets in the multiple-motives driven acquisitions have greater access to wider heterogeneous resources, which can provide the acquirers with greater potential for capability enhancement and financial performance. Anand et al. (2005) argue that simply acquiring a foreign target has less influence on post-acquisition performance, it is the benefits arises from accessing a wide scope of heterogeneous resources provided by the target firm that have more important influence. Because of the importance of such acquisitions with many potential benefits, it is possible that acquirers with multiple CBA motives are more careful and put more efforts in implementing the acquisition. This is reflected, for example, in their capacity and willingness to conduct high-quality due-diligence, and to make systematic acquisition planning. To examine this reasoning, I went back to my data and found some preliminary supporting evidence. Both the average planning score (4.56 vs. 4.01) and average score of due diligence quality (4.33 vs. 3.92) are higher for the group with multiple-acquisition motives compared with the single-motive driven group. As Kitching emphasized in his early study (Kitching, 1973), the clarity of acquisition strategy was more likely to correlate positively with success than would unclear, opportunistic buying.

The preliminary analysis of the motive-performance relationship in this study also justifies the necessity of connecting performance measurement with acquisition motives. It is not only because the acquirers differ in their motives for doing CBAs, and these motives range from obtaining instant financial benefits to gaining long-term strategic development opportunities, but also because my analysis show the acquirers perform better than the others in the measures that are related to their motives. For instance, the acquirers who aimed at achieving market expansion

performed better in the market performance (measured using three criteria of market shares, competitive positioning, and sales growth) than the others. Meanwhile, the acquirers who targeted at innovation improvement perform higher in this regards than all the others. Such results thus further prove the shortcomings of popularly-used performance assessment methods, i.e., using second-hand data of financial ratios or stock value to assess M&A performance, it is possible that managers perceive cross-border acquisition as being successful (or failed), while researchers from outside using such methods show disappointing (or satisfactory) results. The reason is that managers are measuring the success against a predetermined set of criteria/objectives that they set at the outset of the acquisition. Such point is further confirmed by the fact that the acquirers attach higher importance to the performance measures that are related to their motives. It is apparent that innovation-oriented acquirers tend to pay more attention on innovation aspect when assessing the acquisition results. It is also apparent the studies who attempt to measure acquisition performance/success by examining single financial indicators of performance (most commonly profitability, or ROA, or share price) tend to undervalue the achievement of other goals and may fail to provide an accurate picture of the acquisition outcomes.

The above evidence suggests the importance of acquisition motives for both the practitioners and the researcher. It further indicates it is appropriate and prudent that this study conceptualises CBA performance as multi-level and multi-faceted structure, evaluate it using the managers' perceptual assessment based on multiple financial and non-financial indicators, and adjust it by different CBA motives. It is just a pity that I was unable to use this motive information to further examine the determinants and investigate value creation mechanism in different motive-driven groups due to sample size limitations. Future research with larger sample is invited toward this point.

### **6.1.2 THE DETERMINANTS OF CBA PERFORMANCE AND VALUE CREATION MECHANISM**

In response to the call for an integrative model, I developed an input-process-output conceptual framework based on an extensive literature review and a preliminary survey study (see Appendix A) with which to understand the origins of CBA performance better and investigate the value creation mechanism in CBAs. Drawing heavily on the theoretical perspectives of the resource based view, dynamic capabilities, process and synergy theory, this integrative framework took into account both contextual and implementation explanatory factors that are present along the whole acquisition process. It also combined the critical impacting factors



emphasised in different disciplines. I assumed that these impacting factors are all necessary, but none is sufficient to explain CBA performance alone and thus made the general leading Hypothesis (H0). Ten hypotheses were further specified in accordance with the conceptual framework. Once the integrative framework was established, a structured questionnaire was used to collect the data due to the abstract nature of investigated concepts and unavailability of data. In the end, a sample of 103 cross-border acquisitions conducted by Nordic firms was used to test the hypotheses and answering the research questions.

In order to test the proposed model and hypotheses related to the impacting factors, I conducted a step-by-step empirical analysis and applied PLS-SEM approach in the software of Smart PLS 2.0 (Ringle et al., 2005). The independent direct effects of these variables were examined first by using model 1 to 6 with the objective of ascertaining the first evidence of the hypothesised relationships between the different determinants and CBA performance (Hypothesis 1-3 and 8-10). However, the final conclusions regarding all of these hypotheses were not based solely on these results. Later in the analysis, I included all of the researched constructs/variables in an overall model and considered the interactions among them. A more reliable estimate of their total effect thus can be obtained in arriving at conclusions about Hypothesis 0-3 and 8-10. The last step was to analyse the anticipated mediation effect of VI and RR based on Model 8-10 (Hypotheses 4-7) and cross-test previous results as well. Table 5.28 summarises the derived hypotheses and relevant findings from the empirical analysis. Most of the hypotheses have received consistent supporting evidence across different relevant models except H1a, H1f, H8, H9 and H10. In the following sections, I present and discuss the findings along with these hypotheses.

*Table 5.28 A summary of hypotheses and findings*

<b>Hypotheses</b>	<b>Supported or Not</b>	<b>Supporting Model No.</b>
H0: Post-acquisition performance is jointly determined by the combining firms' resource base, the acquirer's value identification capability, resource reconfiguration capability and deal-setting factors.	YES	1-11
H1: Two firms' resource bases influence post-acquisition performance of the combined firm such that:	YES	1 & 7-11
(a) relative firm size positively influences post-acquisition performance	NO	-
(b) superior pre-acquisition performance of the acquirer positively influences post-acquisition performance	YES	1 & 7-11

(c) superior pre-acquisition performance of the target positively influences post-acquisition performance	YES	1 & 7-11
(d) resource similarity positively influences post-acquisition performance	YES	1 & 7-11
(e) resource complementarity positively influences post-acquisition performance	YES	1 & 7-11
(f) acquisition experience positively influences post-acquisition performance	NO	-
(g) host-country experience positively influences post-acquisition performance.	YES	1 & 7-11
H2: Value identification capability positively impacts post-acquisition performance of the combined firm	YES	2, 7, 9, 11
H3: Resource reconfiguration capability influences post-acquisition performance of the combined firm such that:	YES	3, 7, 9, 11
(a) integration extent positively influences post-acquisition performance	YES	3, 7, 9, 11
(b) coordination efforts positively influences post-acquisition performance.	YES	3, 7, 9, 11
H4: Value identification mediates the relationship between the joining firms' resource base and post-acquisition performance of the combined firm.	YES	9 & 11
H5: Resource reconfiguration mediates the relationship between the joining firms' resource base and post-acquisition performance of the combined firm.	YES	10 & 11
H6: Value identification mediates the relationship between resource base and resource reconfiguration.	YES	11
H7: Resource reconfiguration mediates the relationship between value identification and post-acquisition performance.	YES	11
H8: Competition among the acquirers negatively impacts post-acquisition performance of the combined firm.	NO	-
H9: Friendly attitude of the target firm's management positively impacts post-acquisition performance of the combined firm.	NO	-
H10: Organisational fit positively impacts the post-acquisition performance of the combined firm	NO	-

In general, the findings strongly support the established integrative model and the associated hypotheses. Overall, the general leading proposition (H0) was supported and it was proven that CBA's performance/success is determined by the joint effect of the combining firms' resource base, the acquirer's value identification capability

and resource reconfiguration capability, as well as the deal setting factors (e.g., attitude of the target's management and competition). These findings are in accordance with Reus et al.'s (2012) theoretical argument that both contextual factors (e.g., resource relatedness) that represent characteristics of M&A at the time of announcement and process factors (e.g., structural integration) that characterise M&A implementation actions are both critical for explaining acquisition outcomes and that these factors interact to influence acquisition performance. Contextual factors influence the process (i.e., value identification and resource reconfiguration) through which the strategic benefits reflected in the contextual factors can be realised.

Regarding the individual explanatory constructs, 'resource base', 'value identification' and 'resource reconfiguration' have been consistently confirmed across all the relevant models to be positively and significantly associated with acquisition performance (H1-3), which means that international acquirers can achieve higher performance when the joining firms' resource bases are stronger and more related, when more value is correctly identified, and when resource reconfiguration is more extensive and efficient.

#### *H1: Resource base and CBA performance*

'Resource base' exerts significant direct positive effect on post-acquisition performance as can be seen from the analyses of Model 1 to Model 11. This is not surprising given that firms' resources are always the prerequisites for implementing any strategy, and strategy implementation is also constrained by the resources possessed by the firms. Resource-based theory asserts that possessing the VRIN resources explains why some firms tend to gain sustainable competitive advantages and superior performance. Synergy theory also indicates various synergies arise from combining and reconfiguring different types of resources. However, to gain a better insight into the contribution of resources to CBA success in this study, we need to pay attention to various sub-dimensions of the 'resource base' construct. These include high resource quality, resource similarity, resource complementarity, and strategic resource of host-country experience. I discuss them one by one in the following sections.

The results provide clear evidence that possessing high-quality resources (reflected in the two firms' superior pre-acquisition performance in terms of profitability, management capabilities, marketing capabilities and technical advantages), can help the acquirer achieve good CBA performance. Therefore, these findings support the positive theoretical perspective that superior pre-acquisition performance is an indicator of managerial talent/ability (see Valentino, 1992; Zajac and Westphal,

1995), and reject the negative theoretical perspective that organisational success breeds the acquirer's overconfidence or hubris which leads to under-performing acquisitions (see Harford, 1999; Heaton, 2002). Well-organized healthy acquirers not only have the capacity but also the energy and resources to carry out CBAs, they therefore are more likely to be successful than the reverse. One could imagine if the acquirers themselves were experiencing poor performance when they were implementing cross-border acquisitions, (which is such a complex activity filled with many uncertainties and threats), how difficult it will be for them to manage the implementation activity. As reported by Carr et al. (2004), 'got caught up in bidding process', and 'lost focus on base businesses' are listed by the executives as two of the root causes of disappointing deal. These challenges would be compounded for acquirers who themselves are in trouble.

In addition, the results suggest acquiring successfully performing firms positively affects CBA success. This finding may appear to be obvious. But an alternative logic could support a different conclusion. Presumably, the higher quality resource or superior performance the target firm has, the more visible the target will be and the more reluctant will be to sell the firm, and finally the higher the premium or price will be associated with it. Moreover, it is frequently argued that acquiring an under-performed target can bring benefits like 'picking up the low-hanging fruit'. The acquirers may buy the target at quite low price and increase its value by replacing the inefficient managers or through restructuring the firm (Chatterjee, 1992). However, the findings here suggest that paying for high-quality resources may indeed be worthwhile, at least where managers' perceptions are concerned. As strategic intangible assets, these high-quality resources, e.g., management capabilities, technical advantages, may be difficult to value for competing buyers especially when they offer some unique potential synergistic gains for the informed buyers. Even if we assume that the value of high-quality resources has been recognized and counted into the price paid, but this payment also raises expectations of post-acquisition payoffs, it may still be worth paying the price for a better target.

Regarding the impact of resource similarity and resource complementarity, I found their concurrent presence, and the strong empirical evidence obtained across all the models in this study consistently prove both 'economies of sameness' (from resource similarity) and 'economies of fitness' (from resource complementarity) foster value creation in cross-border acquisitions. Such result is in accordance with Larsson and Finkelstein's (1999) findings. As Zaheer et al. (2013) put it, 'a target offering both complementarity and similarity would appear to have greater value than a target offering either one alone'. They also argue the managers are likely to prioritize creating value from resource similarity because the benefits of similarity are more obvious and easier to be realized. This is not the focus of the present study, but the

empirical results from the study suggest the two dimensions offer significant and almost equal contribution to CBA success. This is perhaps attributed to a number of benefits that both can bring. Previous literature has identified a wide array of benefits from acquiring similar resources, such as economies of scale and/or scope, greater opportunities for sharing relevant resources, greater absorptive capacity for improvement and enhanced market power, etc. (see e.g., Larsson and Finkelstein, 1996; Capron, 1999; Capron et al., 2001). However, acquiring similar resources may also bring some redundancy. Moreover, compared with complementary resources, the value of similar resource is easier to be identified by the acquirer and this is particularly helpful when acquiring a firm in a foreign market. But it is also easy for competitors and the target itself to recognize such a value, thus may lead to break-even price paid for the target. On the contrary, complementarity enables a firm to create value that is not possible to create without such a combination, through for instance, extending the firms' business opportunities and providing various sources of synergy. Such a value creation possibilities may be buyer-specific and therefore difficult for the target and other competing buyers to take advantage of. Nevertheless, compared with similarity, reaping the benefits from complementary resources may require more complex and previously non-existent combinations (Zaheer et al., 2013). However, 'no pains no gains', it is clear even though there are numerous benefits embedded in resource similarity and complementarity, they will not automatically turn into the firm's profits without the firms' efforts. Moreover, it is common we usually see an object has its pros and cons, whereas we also see its pros far outweigh its cons. In sum, it is evident that there are varieties of mechanisms through which both resource similarity and complementarity can be beneficial in CBAs. The current study has confirmed their positive impact on the acquisition result.

Furthermore, the contribution of 'host-country experience' to acquisition performance is also supported by the data. These results are consistent with the findings from Slangen's (2006) study using the sample of cross-border acquisitions by Dutch firms. The process of cross-border acquisitions is frequently performed in a context filled with high levels of uncertainty and confusion. As thoroughly discussed in chapter 2 when developing the related hypothesis (H1g), prior knowledge accumulated by an acquirer about a targeted country, can facilitate the acquirer's acquisition implementation in the foreign market by mitigating information asymmetry and enabling them to better understand and deal with the target and local idiosyncrasies, such as cultural, regulatory and economic differences. Especially, if the acquirers have already established subsidiary or operation there, the local staff can provide great assistance through the whole acquisition process, from targeting to integration. It tends to be easier for the acquirer with local

experience to develop capabilities to be effective in the new environment and overcome competitive difficulties.

Nevertheless, it is surprising that the empirical evidence fails to support the view that 'acquisition experience' helps improve CBA performance. Although previous studies also have come out with no consistent findings about its impact on acquisition performance, I am still of the view that measurement is one of the challenges in undertaking this kind of study. As I have argued earlier in chapter 2, the popularly used count of historical M&As done before the focal acquisition cannot fully reflect the acquirer's true acquisition experience/knowledge. I have therefore introduced additional measures in the present study – i.e. measuring the acquirer's acquisition experience by assessing their accumulated experience/knowledge related to the main implementation processes, including the proven tools used in due diligence, the existence of procedure in use for the target company's integration, and the existence of a proven M&A process in use. I am however surprised that such knowledge does not appear to help improve the performance at all. One reason could be that the acquirers think they have proven tools or proven procedures to effectively implement CBAs, whereas the so-called tools and procedures are actually not that well-developed, which means their experience/knowledge is in fact not that rich and strong. From the other side, this also suggests some acquirers may be somewhat too confident. This may further lead to another problem that they over-rely on their previous experience and lose the prudence that they should have during implementation process. Billet and Qian (2005) and Ismail (2008) provide some evidence that reinforces this observation. Another reason could be the negative 'transfer effect' due to two main barriers to learning: low frequency of occurrence and high heterogeneity of the task (Singh and Zollo, 1998; Finkelstein and Halebian, 2002). It is said that when routines and practices established from prior cases are transferred to new ones, the transfer effect is influenced by similarity of industrial environments (Finkelstein and Halebian, 2002), cultural region (Barkema et al., 1996), host country characteristics (Barkema and Schijven, 2008), and even the size of the target (Ellis et al., 2011). In sum, over-confidence arising from experience, over-relying on the experience, mis-application or negative transfer of prior experience could be the reasons explaining the present finding.

Relative size of the acquired firm to the acquiring firm is found to only play a positive role when 'resource reconfiguration' is included as a mediator. In line with previous arguments (Seth, 1990; Sudarsanam, 2010; Capron and Shen, 2007), this finding may suggest that larger-sized targets provide greater potential for recombination and are more likely to generate different types of synergies. However,

its influence on acquisition performance is indirect and highly dependent upon whether these potential synergies can be reaped through resource reconfiguration.

### *H2-3: Value identification, resource reconfiguration and CBA performance*

According to Very and Schweiger's (2001) study, 'collecting reliable information' and 'integration' are described by the practitioners as two primary challenges but the most important factors determining acquisition success. The present study provides strong evidence in support of this assertion. The constructs of 'value identification' and 'resource reconfiguration' are developed from the perspective of acquisition-based dynamic capabilities. In general, value identification capability is defined by including the elements of extensive due diligence, planning, and accurate valuation, while resource reconfiguration capability is reflected by integration extent and coordination efforts.

With respect to the impact of 'value identification capability', its significant and strong positive impact on acquisition performance was repeatedly confirmed across the relevant models. The acquirers who have strong value identification capability are likely to avoid three popular mistakes that may result in a dismay acquisition: paying the wrong price, buying the wrong company, or making the deal at the wrong time. These mistakes might be easier to make when acquiring a firm in a foreign market because of higher information asymmetry, different business, accounting, legal and social system, as well as possible compounded problems brought by language differences, political influence, and regulatory hurdles.

According to the logic of widely used DCF model, valuation of the targets is based on a stream of forecasted cash flows discounted on the target's weighted average cost of capital. For the acquirer to create value from the acquisitions, the price paid for a target has to accurately reflect the discounted forecasted cash flows. The lower the purchase price than valuation, the more the value is created for the acquirer. Therefore, the acquirers must, in the first place, collect adequate and reliable information, not just related to the target firm's financial aspects, but also related to its culture and human resources. This enables them to identify the true value of the target, to ensure that there is no 'black hole', and to judge whether this is the right target, whether this acquisition can really benefit the firm, whether it is the good time to implement it, and whether these benefits can be realized and how difficult it will likely be. Then, the gap between valuation and purchase price can be positively widened if the acquirers can have private information (not known by the other potential buyers and the target) concerning unique synergistic cash flow that exists between the two firms. High-quality due-diligence is hence extremely important for the acquirers to achieve positive returns. Moreover, value identification contributes

to CBA success also because it is important for post-acquisition phase to have sufficient information related to sources of value creation and potential cultural and human issues. Meanwhile, in order to efficiently and successfully accomplish post-acquisition combination and eventually make the predicted value creation opportunities come to true, it is also helpful to have an early systematic plan on resources requirement, a time schedule of actions, and preparation for the possible challenges. It even says it is impossible to make a thorough due diligence and a fair price without making post-acquisition planning.

Regarding the construct of 'resource reconfiguration', the empirical analysis shows its strongest positive impact on CBA performance among all the explanatory constructs (i.e., resource base, value identification, three deal-setting variables) across all the relevant models (see Table 5.25). Thus, this finding confirms the decisive position of 'resource reconfiguration' in determining CBA success and suggests the synergistic gains from extensive resource reconfiguration cover the implementation costs discussed in the literature (e.g., Teerikangas and Very, 2006; Cording et al., 2008; Zollo, 2009). However, attention needs to be paid to the fact that both 'high level of integration' and 'coordination efforts' are working together as two critical mechanisms of 'resource reconfiguration' that help achieve high acquisition performance. High integration pays off probably not only because a number of benefits it can bring, but also because assistance of these coordination efforts. Extensive integration enlarge the chance and scope of reaping different types of potential synergies, but it may also bring about a number of human behaviour problems (e.g., Slangen, 2006; Meyer, 2008; Weber, Belkin and Tarba, 2011). For example, conflicts between two sides' managers and among employees, low trust, feelings of stress and anxiety, resistance to change, reduced job performance, increased absenteeism and high turnover. It is common that people has such negative feelings especially when the organizational changes brought by CBAs is so extensive, significant and usually rapid. This situation has been described as "merger syndrome" (Marks and Mirvis, 1985; Marks, 1997).

These coordination efforts (e.g. open and timely communication between two sides, getting the acquired managers involved in the integration process, and making efforts to retain the key employees, under this circumstance), are vital to overcome these challenges and make the integration effective and efficient. Appropriate communication can help alleviate or remove such negative feelings, bridge the differences in culture, and exchange the useful information that enables cross learning. Relevant research also confirms this by supporting the view that communication is among the most important tools to invert the negative atmosphere among personnel (Jimmieson et al., 2004), to gain the employees' trust (Stahl et al., 2011) and commitment (Schweiger and DeNisi, 1991), to induce team spirit through



a common vision (Smith and Hershman, 1998), and generally to end up in a smooth and successful implementation process (Hubbard, 2001; Appelbaum et al., 2000; Stahl et al., 2011). Meanwhile, the involvement of the acquired managers in the integration can further facilitate communication, and may help the acquirers gain more benefits and enhance integration efficiency since they usually possess important information about the acquired firm, understand their employee better and tend to have more closed relationship with them. Graebner (2004) showed that acquired managers play a key role, not only in assisting the acquirer achieve the expected value, but also helping them obtain the serendipitous value. Getting the acquired managers involved is even more important when acquiring the firm across borders with no local experience/knowledge since the new environment is usually filled with high information asymmetry, language barrier, and the difference in culture, law, and socioeconomic conditions. Moreover, if we accept the prevailing view that employees are the most valuable resources of a company, especially the important employees, e.g., technical experts in a technology-based acquisition, their loss might undermine the firm's competitiveness and long-term viability (see Ulrich, 1998; Ranft and Lord, 2002). As Carr et al. (2004, p.162) note 'integration is tough, but executed thoughtfully; it can greatly magnify a deal's chances of success. Handled poorly, it is the leading cause of deal failure'.

#### *H4-7: Mediation effect of 'resource reconfiguration' and 'value identification'*

Further mediation analysis revealed that more than half of the total effect of 'resource base' on acquisition performance is indirect, which is caused by the mediation effect of 'value identification' and 'resource reconfiguration'. Both implementation processes were found to be important mediators in the relationship of resource base and acquisition performance in the proposed input-process-output model (H4&5). To elaborate, the findings show that these investigated attributes of the joining firms' resource base (i.e., resource quality denoted by pre-acquisition performance, resource similarity, resource complementarity, strategic resource of host-country experience) will affect both 'value identification' and 'resource reconfiguration'. For example, resource similarity can facilitate value identification, because acquiring similar resources makes it easier for the acquirers to identify synergistic opportunities and hidden problems. Resource similarity also requires a high level of resource reconfiguration to realise synergies associated with similar resources. Two processes, in turn, help extract the maximum value from these high-quality, related and strategic resources possessed by two firms, and turn them into performance gains. The present research findings confirm the view presented in the extant literature that possessing critical resources is necessary for superior CBA performance. However, the findings also assert that the acquirers cannot fully gain the benefits from owning these high-quality, related and strategic resources unless

they have strong value identification and resource reconfiguration capabilities. Value identification capability contributes to CBA performance from identifying more value-creation opportunities and reducing the cost and risks for implementing this strategy through collecting adequate and reliable information and systematical planning/preparation (see e.g., Goold and Campbell, 1998; Marks and Mirvis, 2001; Angwin, 2001; Carr et al., 2004). Resource reconfiguration capability adds the value to CBA result by finally unlocking and reaping a variety of expected and unexpected synergistic benefits using extensive resource integration and coordination efforts (see e.g., Haspeslagh and Jemison, 1991; Capron and Mitchell, 1998; Graebner; 2004).

Most importantly, the results from the mediation analysis revealed a complex sequential mediating path from inputs (two firm's resources) to outputs (acquisition outcomes). Specifically, 'value identification' fully mediates the impact of 'resource base' on 'resource reconfiguration' and 'resource reconfiguration' partially mediates the impact of 'value identification' on acquisition performance (*H6&7*). These results indicate the central position of 'value identification'. This is not only because it has a direct and positive impact on acquisition performance, but also because whether the combined resources can be efficiently utilised to produce synergistic gains largely depends on whether these synergy potentials, their realizability and the obstacles can be sufficiently identified in the pre-acquisition stage through value identification capability. Several studies are very helpful in addressing this point (Goold and Campbell, 1998; Marks and Mirvis, 2001; Carr et al., 2004). Goold and Campbell (1998, p.137) emphasize the first and most important thing for executives to seize synergy is to 'strive to be as precise as possible about both the type of synergy being sought and its ultimate payoff for the company' at the beginning. Based on a survey of 250 global executives, Carr et al., (2004) conclude that 'companies frequently don't think seriously about integration until well after a deal is announced or even closed'. This results in 'ignoring integration challenges' and 'overestimating synergies' listed as the top two reasons for disappointing deals. Drawing on their experience of over 70 M&As, Marks and Mirvis (2001) highlight that the more efforts put on strategic (i.e., clarifying the sources of synergy and test the possibility of its realisation) and psychological preparations (i.e., helping the people deal with stresses and conflicts), the more prepared people are able to take on the challenges of integration and contribute to mining the strategic synergies in a combination.

Moreover, this empirical evidence strongly supports the vital role played by 'resource reconfiguration' for determining acquisition success, because it not only exerts a significant direct positive impact on acquisition performance itself, but also carries on the effects of 'resource base' and 'value identification'. Only via effective and efficient 'resource reconfiguration' can the potential synergistic effect that is

embedded in the resource base and identified via value identification be realised. This may explain why the construct of 'resource reconfiguration' play the most important role (path coefficient=0.391\*\*\* in the final model) in determining CBA performance. Such result is in line with what Haspeslagh and Jemison' (1991, p.105) argue 'not until the two firms come together and begin to work toward the acquisition's purpose can value be created'.

Using the language in resource-based research (see e.g., Makadok, 2001), the findings related to the mediation effect of 'value identification' and 'resource reconfiguration' suggest three mechanisms, i.e., resource possession (i.e., the joining firm's resource base), resource picking (i.e., value identification), and resource utilisation (i.e., resource reconfiguration), play a joint and sequential role in value creation in CBAs. Under resource possession mechanism, the joining firms have to possess high-quality, related and strategic resources to ensures the existence of synergistic and value creation opportunities. As King et al. (2008, p.334) put, 'although the potential for value creation is unlocked in the process of integration, an acquisition's potential value may be limited from the start by acquirer and target firm resource profiles'. Further, in order to reap the benefits and realise these potential synergy embedded in the combined resources, resource picking mechanism then come into play, under which the acquirers gather adequate and reliable information and analyse the true value of the target, the potential synergy or value creation opportunities, and the possibility of its realisation as well as the implementation costs. According to Barney (1986), the acquirers need to outsmart the resource market in picking resources. This means the acquirers have to have superior information and make more accurate expectations than the other resource market participants about how valuable the resource is when used in combination with its stock of other resources. Hereafter, after acquiring the resources, resource utilisation mechanism come onto the stage, which means an efficient and extensive resource reconfiguration (including integration extent and coordination efforts) must be implemented to unlock and capture these identified synergistic benefits and make the performance gains come true. From this, we see an important distinction among these mechanisms is about their timing. Under resource possession and resource-picking mechanism, value is actually created before acquiring the resources, while value generated via resource utilisation mechanism is after the resources are acquired.

#### *H8-10: Deal setting variables and CBA performance*

In terms of the deal setting variables, only competition and attitude consistently proved significant in relation with CBA performance, but in the opposite directions compared to my prediction. The results show that competition among the acquirers

results in higher performance for the winners, which is contrary to the documented 'winner's curse' (*H8*). The explanation for this finding could be that higher competition among the acquirers implies higher potential synergy or value creation opportunities embedded in the target firm. From this, the acquirers with higher 'value identification' and 'resource reconfiguration' capabilities can realise them and achieve higher performance. According to Laamanen' (2007) study, It could also be the winners in the competition possessed some favorable asymmetric information regarding the unique and private synergistic gains from combined resources that cannot be recognized both by the target and by the other acquirers in the market. As Laamanen (2007, p.1361) puts, 'when an acquirers has a unique fit and can do better than an average acquirer can whose effect the market easily anticipates in the form of a 'hidden premium', the acquirer can obtain positive returns from this acquisition'. Additionally, since in the research sample, most of the acquired firms are privately-owned, which are typically more difficult to value than public-listed firms due to limited information in the public and few references, and it is possible that the winning acquirers are more careful in their acquisition processes.

Also, contrary to my expectation but consistent with the findings of some prior studies (Loughran and Vijh, 1997; Sudarsanam and Mahate, 2006), friendly acquisition performed worse than hostile acquisitions (rejecting *H9*). This may be due to the "lemon" problem arising from unfavourable information asymmetry (Akelof, 1970). The target firm has more and better information about the true value of its assets and capabilities than the acquirers, particularly for the private firms. The sellers may be dressed up for sale (Sudarsanam, 2010). Based on the inference from Gomez-Mejia and his colleagues' research (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2010; Gomez-Mejia et al., 2011), because of high desire to maintain ownership-bounded socioemotional wealth, the private firms may only be willing to give up the ownership and sell their companies when they have exhausted the growth opportunities or being confronted with deteriorating performance. In this case, such firms tend to bring fewer benefits but more problems to the acquirers. Furthermore, friendly acquisitions may have high indirect costs for the acquirer from the retention of inefficient incumbent management (Sudarsanam and Mahate, 2006). In addition, hostile acquisitions are said to create value through the disciplinary mechanism (Cosh and Guest, 2001), whereas friendly acquisitions create value based on synergistic potential (Morck et al. 1988). It is more likely that replacing inefficient managers is easier than reaping the synergy from combination.

Regarding 'organisational fit', I only found its direct positive impact on acquisition performance at a low significance level of 10% in the individual cause-effect model. It lost its significant effect when the other constructs were included (rejecting *H10*). The causes of this effect can be traced to its correlations with the other variables.

This may also imply that as long as the acquirers have strong acquisition capabilities, the apparently unfavourable deal setting turns out to be not a problem. On the contrary, even under a favourable deal setting, if the implementation is inefficient and imprudent, the result tends to be negative.

Consequently, these findings indicate that it does not make sense to analyse single variables independently. Rather, these findings collectively support an integrative perspective of resource based theory, dynamic capabilities, process and synergy theory for explaining CBA performance. This perspective holds that the extent to which synergies are realised depends largely on resource possession (i.e., resource base), the ability of resource picking (i.e., value identification), and the ability of resource utilisation (i.e., resource reconfiguration). Value creation mechanism in cross-border acquisitions can be summarised as a chain of relations between resource possession, resource picking and resource utilisation.

## **6.2 THEORETICAL CONTRIBUTIONS**

This thesis contributes to M&A research by theoretically developing and empirically testing an integrative 'input-process-output' structural model from four theoretical perspectives of resource base view, dynamic capabilities, process, and synergy theory for explaining the performance of cross-border acquisitions. This model and most of the associated hypotheses have been empirically supported. In response to the call for an integrative model on this topic (e.g., Haleblian et al., 2009; Reus et al., 2012; Gomes et al., 2013), the results indicate the necessity of using such an integrative theoretical perspective for explaining acquisition performance. Other highlights of the model include the incorporation of both contextual and implementation factors and both pre- and post-acquisition factors that have been emphasised in different disciplines. These features constitute improvements in previous models that have been criticised in the M&A literature as lacking multi-disciplinary and process considerations (see Weber, 2012).

Second, the findings of this thesis contribute to M&A research by revealing that resource possession (i.e., the joining firms' resource base), resource picking (i.e., value identification) and resource utilisation (i.e., resource reconfiguration) are three important value creation mechanisms for realising synergy and achieving the success of cross-border acquisitions. All of them are necessary but none of them is sufficient, and they play a joint and sequential role in determining CBA success. Meanwhile, this study highlights the necessity of research on the acquisition process for explaining acquisition performance. The process examined here can help enhance our understanding of how value is created from the joining resources. At the same time, the process perspective taken in this study suggests an interesting

development direction to investigate the role of acquisition-based dynamic capabilities.

Third, the present study contributes to both resource-based view and dynamic capability theory. With respect to RBV, I applied it to strategy implementation, an area that has received little attention in the empirical resource-based literature (Cording et al., 2008). It has also been said that empirical studies in the RBV research area have rarely considered both resource possession and resource utilisation (Newbert, 2007; Andersén, 2011). Based on a meta-analysis, Crook et al. (2008, p.1150) come to the conclusion that 'few of the studies investigate the processes through which strategic resources yield performance gains'. This thesis is an initial attempt to fill this void by disentangling the causal relationships between the joining resource base and CBA performance, and explaining how resource possession affects the resource picking and resource utilisation, and how these resource picking and resource utilisation actions extract the maximum value from these critical resources and transform them into performance gains.

The study contributes to the research area of dynamic capabilities by further specifying and testing the concept of acquisition-based dynamic capabilities. It is argued that the empirical study of dynamic capabilities is still in its infancy (Newbert, 2007) and empirical support of this concept is limited (Ambrosini and Bowman, 2009). This thesis perhaps represents one of the first steps, not only in developing and testing this concept in the context of CBAs, but also seeing them as the sequential mediators. This approach is a marked contrast to previous M&A research that usually specifies them on the parallel level with the other contextual variables (except some work e.g., Cording et al., 2008 and Bauer and Matzler, 2014). Specifically, this thesis disentangles acquisition-based capabilities by operationally developing two conceptual constructs, i.e., 'value identification' in the pre-acquisition stage and 'resource reconfiguration' in the post-acquisition stage. It conceptualises them as the mediators between the relationship of 'resource base' and 'CBA performance' in an input-process-output model. The empirical findings strongly support their mediation effect. More importantly, a sequential mediating path has been identified, in which the effect of resource-base on CBA performance is mediated, first, by value identification, and second, by resource reconfiguration. In other words, the creation, evolution and utilisation of acquisition-based dynamic capabilities (i.e., value identification and resource reconfiguration) are largely influenced by the firms' historical resource base (e.g., resource relatedness, host-country experience). Further, these two capabilities (or sub-processes) are critical causal mechanisms explaining how the joined resources impact post acquisition performance. That is, only after the potential synergistic benefits and implementation costs have been fully identified through the value identification

capability, can an efficient and effective subsequent resource reconfiguration be performed to achieve superior acquisition performance. The more potential synergetic benefits and possible threats identified in the value identification process, the more extensive and efficient post-acquisition resource reconfiguration, and then the higher the performance of cross-border acquisitions. As such, the empirical results extend prior research on M&As by: (1) highlighting the procedural and dynamic character of the determinants for explaining CBA performance, and (2) demonstrating the important mediating role of value identification and resource reconfiguration.

Further, the empirical results from this study confirm the decisive function of 'resource reconfiguration'. Findings from previous studies still place doubt on this variable's function, because higher levels of integration can result in the hazards of process complexity, organisational disruptions and higher potential costs relative to the time and managerial attention dedicated to the implementation of integration (Pablo, 1994; Weber, 1996; Teerikangas and Very, 2006; Roy and Roy, 2004). However, without a high degree of resource reconfiguration, benefits from the joining firms' resources cannot be fully obtained. Coordination efforts, such as active communication, retention of key employees and getting the managers from the acquired firm involved in integration process, are equally important in determining acquisition success when a high degree of integration is performed. The results indicate high level of integration pays off, and this may not only attributed to a number benefits the high integration can bring but also owe to the coordination efforts.

Additionally, M&A motives have not been fully considered in the existing research when assessing M&A performance and investigating the impacting factors. This study takes the initial attempt to address this knowledge gap. First of all, in the importance-weighted performance, I took into account the fact that acquirers differ in their primary motives for doing cross-border acquisitions. Also, the preliminary analysis of motive-performance relationship in this study suggests that the acquirers with different motives focus on different aspects when making evaluation of the acquisition result. They perform better than the others in the metrics related to their primary acquisition motives. These findings further highlight the importance of considering acquisition motives and justify effectiveness of this study's performance assessment approach. Meanwhile the firms with multiple-motives are found to perform better than the firms with single motive. However, due to the limitation of small sample, this study is unable to perform a pre-designed group analysis to check whether the investigated factors play different roles when acquisitions are conducted for different reasons. I invite other scholars to conduct more research in this area.

Finally, as discussed in chapters 1 and 2, cross-border acquisitions are understudied compared to domestic acquisitions. There are also few studies that analyse acquisitions conducted by Nordic firms. In this regard, it is justifiable to say that this study contributes to M&A research by expanding the research context.

Referring to M&A research gaps identified in chapters 1 and 2, this thesis's main contributions to M&A research are summarised in the following table (Table 5.29). Besides, apart from these contributions, this study also contributes research on RBV and dynamic capabilities as discussed before.



*Table 5.29 Gaps in M&A research and contributions of this study*

<b>Gaps in M&amp;A research</b>	<b>Contributions of this study</b>
A neglect of multiple M&A motives	Performance measurement of CBAs has been distinguished according to different motives. Moreover, this study was initially designed to test the promoted model and investigate the determinants of acquisition performance in the groups divided according to different acquisition motives. It fails to do so due to limited sample size. However, because measurement of acquisition performance has been adjusted by CBA motives, the findings are thought to be more generalizable. Also, a preliminary analysis of motive-performance relationship has been conducted.
A lack of conclusive findings and integrative model	An integrative 'input-process-output' model has been developed and empirically supported, considering both contextual and implementation factors, both pre- and post-acquisitions issues, as well as their interactions.
A lack of M&A process research	Taking a process perspective, two critical implementation factors (i.e., value identification and resource reconfiguration) in the pre- and post-acquisition stages respectively have been conceptualised as mediators in the model. Their mediation effect has been strongly supported. Most importantly, a complex and sequential mediation path has been identified, suggesting the procedural and dynamic character of the determinants for explaining CBA performance.
A lack of multi-disciplinary perspectives	The impacting factors incorporated in the proposed model are the central elements emphasised in different disciplines, which can be seen in Table 2.4. The empirical results confirm the necessity of using such an integrative perspective for explaining acquisition performance.
(Mis) measurement of M&A performance	CBA performance is conceptualized as a high-order construct, measured by deal-level 'synergy realisation' and firm-level motive-weighted performance in terms of innovation, marketing, and accounting. Such design with both financial and non-financial indicators included attempts to fully capture multi-level and multi-faceted nature of acquisition performance, and reflect the real performance better.
A lack of studies on cross-border acquisitions and on Nordic acquirers	This study contributes in this area by researching on the cross-border acquisitions performed by the Nordic firms.

## 6.3 MANAGERIAL IMPLICATIONS

In general, both my exploratory survey and explanatory survey show that the performance of Nordic international acquirers is overall not satisfactory. For example, according to the explanatory survey of the Nordic firms, the average score of their overall goal attainment for the whole sample is only 2.4 against up to 7 ratings (1 represents much lower goal attainment, 4 means the outcomes of this acquisition just meet the firm's expectation, 7 indicates much higher goal attainment). Around 70% of the respondents give the score regarding this question that is below the middle point. The empirical results from this study indicate that the relatively low performance of Nordic CBAs is due to the fact that the acquiring firm could either have selected the wrong target in terms of its resource base, failed to identify the true value of this acquisition, the target firm could have been poorly integrated, or a combination of all the above. Many of the findings from this research offer tactical implications for international acquirers about how to avoid or reduce these mistakes.

The first general insight arises from the integrative process perspective of this research. Findings from this study highlight the importance of connecting pre- and post-acquisition issues and considering the interdependencies of these phases and the characteristics of the whole acquisition process. The investigation reported in this thesis suggests that the failure of cross-border acquisitions is less likely if the practitioners pay attention to the factors and their inter-relations incorporated in this proposed 'input-process-output' framework.

Second, this research suggests that picking up the right target is a necessary but not sufficient precondition. The results show that acquiring the target with superior pre-acquisition performance, similar and/or complementary resource base contributes to the success of cross-border acquisitions. The targets with these attributes tend to provide more synergy and value creation potential. From the other side, this also means it is not advisable to buy problematic firms just because they are cheap. Managers should also be very careful when targeting at this type of firms, and remind themselves not to be too confident about their capacity and believe they can get the benefits by restructuring them. Meanwhile, the results also imply buying unrelated business or the ones with both low similarity and complementarity may not be beneficial. Also, host-country experience was found to be very helpful, implying that it is better to buy a target the market and environment of which you know very well. However, managers need to be careful when the attitudes of the

target firms are very friendly, especially when they initiatively come to sell their firms. Results of this study suggest friendly acquisitions actually end up with negative performance. These firms may be dressed up for sale, or they have had some invisible troubles. Further, even though I did not find consistent empirical evidence for the relationship between 'organisational fit' and acquisition success, managers should be aware of this issue. 'Cultural difference' and 'different management styles' have been cited by many researchers, practitioners and consultants as critical factors that cause M&A failure (Datta, 1991; Chatterjee et al., 1992; Morosini, 1998; Morosini and Singh, 1994; Nahavandi and Malekzadeh, 1988; Weber et al., 1996; Angwin and Savill, 1997; Larsson and Finkelstein, 1999; Schoenberg, 2004; Ahammad and Glaister, 2011).

Third, managers should not think that acquisition experience/knowledge is a panacea, even if they have developed some routines and tools. The accumulated knowledge/experience regarding acquisition implementation may have very low value or may not always be effective, since the implementation is so complex with many uncertainties and most of the impediments and problems are case-specific. It can be very dangerous if managers over-rely on their previous knowledge and routines while under-estimate the unique problems. However, completely disregarding previous experience or knowledge is also not advisable. Rather, it is more appropriate and helpful to learn the lessons from past cases and apply the experience/knowledge cautiously.

Fourth, evidence from this study reveals value identification as an essential factor for both subsequent efficient resource reconfiguration and for achieving the final acquisition success. When choosing a target, it is worthwhile to conduct an extensive due diligence (collecting information not only related to financial aspects but also cultural and human issues), to seriously discuss whether a CBA is the best strategy for achieving the objective, and to make a plan for the future. This not only helps identify the true value of the target and pay the right price, but also makes post-acquisition implementation easier and more successful as confirmed in the mediation analysis in current study. However, both my exploratory and explanatory survey found some acquirers had no plans in the early stage and did not spend much effort on value identification.

Another crucial insight that is supported by the data is that a considerable proportion of CBA success can be explained by the ability to reconfigure the combined resources. The findings suggest that benefits gained from a high level of integration

might be greater than the costs inherent to the integration process (e.g., operating routine disruptions, conflicts arise and increased implementation complexity). To extract more synergy and create more value from the combined firms, it is necessary for managers to strive for extensive resource reconfiguration. However, managers should recognise that when material integration is high, they need to spend efforts on these coordination activities as well, such as open and timely communication with the managers and employees from the acquired firm, pay attention to retain those key employees and getting managers from the acquired firm involved in the integration process. These efforts have been proved very important for the final success.

The final insight is obtained from the mediation analysis. The identified sequential mediation path suggests that value creation in cross-border acquisitions is a chain of relations between resource possession, resource picking and resource utilisation. Acquisition practitioners should recognise that in order to achieve good performance or obtain the expected outcomes, they need to in the first place possess some high quality (e.g., superior financial performance) and strategic resources (e.g., home country experience/knowledge). This suggests it is not good time to perform cross-border acquisitions when the firm is under poor performance. They are easy to get the backfire and further destroy the performance due to high complexity and high risk of this strategy. Then, they are required to have high value identification capability so that they are able to pick up the right resources, make accurate estimation of its true value, predict possible obstacles and implementation costs, and then make sufficient preparations. Thereafter, extensive and efficient resource reconfiguration must be in the place to make predicted value creation opportunities or synergistic benefits come into realisation.

## **6.4 LIMITATIONS AND FUTURE RESEARCH**

Although I have made efforts to reduce bias and overcome the limitations, as with any other research, this study still has several limitations. Meanwhile, the study also opens up some further interesting avenues for future research from the limitations and research findings.

First, the response rate was acceptable considered a number of challenges discussed in chapter 4 and compared with some other studies, yet the sample used was not large enough. One reason for this is because this study focused on Nordic cross-border acquisitions. As such, the number of the international acquirers was limited.

Because this study relied on data from Nordic countries, characteristically private small and medium sized firms, generalisation of the findings to other geographic contexts (e.g., China in which most of the firms have significant government ownership) should be done with care. This can be viewed as the main limitation to the generalizability of the findings of this thesis. However, using this area for sampling was useful because cross-border acquisitions in this area have not been investigated much in previous studies. Furthermore, I wanted to control for the influence of high geographic variability. Pragmatic considerations based on time and cost constraints were another reason. Moreover, as mentioned in chapter 3, generalisation of the findings from survey study is also constrained by the sample used and should be interpreted in the definition of the variables. Although the findings from this study can be generalized to both manufacturing and service firms since I have controlled such industry effect in the model, the sample excluded the banking, financial and investment firms, these findings therefore do not apply to the CBAs where such types of firms are involved. This conceptual model also does not apply to the acquisitions conducted by, e.g., private-equity firms, whose purpose is to buy the target firm at a lower price and then sell it. Rather, this model is more applicable to the cases motivated by value creation or synergy realisation.

Another retrospective survey-inherent problem is that informants tend to make more positive assessments (Golden, 1992) especially when assessing their performance. However, I find empirical evidence in my data that shows that the success rates are as low as they are regularly reported. For example, the average score of their goal attainment for the whole sample is very low. It is only 2.4 between 1-7 scales (1 represents much lower goal attainment, 4 means the outcomes of this acquisition just meet the firm's expectation, 7 indicates much higher goal attainment), and around 70% of the respondents give the score that is below 4. I also tried to control such bias by asking them to answer the questionnaire using the most recent deal that they have been involved in 2005-2010. This helps reduce the bias that they may only choose successful cases to answer the questions.

Although compared with previous empirical research, this study has developed and tested a more comprehensive and theoretically-rich model for explaining CBA performance, the model probably still fails to capture reality in its entire complexity. For instance, according to contingency theory, these deal setting variables may work as the moderators between the relationship of resource base and implementation factors. Alternatively, the impacts of these deal-setting variables on post-acquisition performance are mediated by the implementation factors, especially organizational

fit and attitude of the acquired management team may affect resource reconfiguration process. Future research may wish to explore these relationships. However, since the effects of these variables are simultaneously tested in the structural model with all of them included, the impact of these relationships, e.g., attitude's influence on VI and RR, actually have been counted. What is estimated in structural equation modelling is the unique effect of these variables. Moreover, due to the already complexity of the researched model (with higher-order constructs and two mediators), limitation of the questionnaire length, and limited sample size, this study could not cover all the potential variables and relationships in one model. Especially, in the research on social sciences, most of the time, a number of variables both on micro- and macro-level can have potential impacts on the dependent variable. However, a theoretical model also needs to be parsimonious and all other issues' effect actually have been covered in residual in the statistical analysis. Future research could add or replace the variables, investigate other interested relationships, and adopt different research perspectives.

Furthermore, limited sample size failed to support fulfilling my preliminary intention of further testing the model in the groups with different CBA motives (e.g., market expansion, innovation improvement). I would like to invite future research to do such group analysis to see whether the relationships in the model can still be established, whether these impacting factors play different roles when CBAs are conducted under different motives.

In addition, a single key informant was utilised for data collection, which may lead to common method bias. All efforts were made to ensure the validity of the outcomes as presented in chapter 5, such as pre-testing questionnaire using a face-to-face interview with both the scholars and M&A experts, measuring the variables using multi-items, mixing the item-related questions, testing the informants' competence for answering the questions, etc. In particular, the established conceptual model is complex with higher-order constructs and two mediators, making CMV-related cognition less likely. However, a promising methodological improvement would be to collect the independent and dependent variables from different sources.

Further, a longitudinal research design may provide more insights and is more advisable compared with the cross-sectional design. Especially, if there is a good opportunity that the outside researchers are allowed to participate in the whole acquisition process, more rich and in-depth understanding can be gained about the

reasons for explaining acquisition performance through observation and/or interviews. However, implementing a longitudinal design may also have some challenges and weaknesses as discussed in chapter 3, - e.g. challenges due to the target informants' turnover and the lack of willingness of the companies to participate in such a study. Besides, it usually takes three to five years after the acquisition for the companies to reap the benefits from acquisition and measure the acquisition's success. This was impossible within the limitations of a three-year PhD project. Moreover, if such longitudinal research design is confined to one case company, the rich information about the explanations of M&A outcomes tend to suffer the problem of generalization and practical application since each case is unique. Mix-methods design may overcome its drawbacks, permit researchers to have more complete data and a broader and richer understanding, and triangulation is also possible.

In the words of Patomäki and Wight (2000, p.218), 'no claim is ever immune from challenge...scientific outputs, understood simply as knowledge that attempts to explain, still require social evaluation'. Future research therefore is welcome to overcome the above limitations, validate the findings of this thesis in different settings and investigate these controversial variables. For example, with respect to the variable of 'acquisition experience', further studies are necessary to confirm its effect (positive or negative) and reveal the underlying reasons as well as to investigate how the acquirers manage their experience and apply it.

## **6.5 CONCLUSION**

Conclusions are made here based on three research questions of this study. The preliminary motive-performance analysis identifies five popular CBA motives, and the multiple-motives driven acquirers perform better than the single-motive driven ones. At the same time, the acquirers are found to attach higher importance to the performance measures that are related to their motives and they perform better than the others in their motive-related measures. These findings further underline the necessity and importance of taking acquisition motives into account in the future M&A research, especially when assessing the performance. The findings of hierarchical structural equation modelling analysis in general suggest CBA performance is a function of the joining firms' resources base, the acquirers' value identification and resource-reconfiguration capability, as well as some deal-setting variables (competition and attitude). My fine-gained mediation analyses further reveal value created in cross-border acquisitions is achieved through three

mechanisms of resources possession (i.e., the joining firms' historical resource base), resources picking (i.e., value identification capability) and resource utilisation (i.e., resource reconfiguration). They play a joint and sequential role in determining CBA success. Overall, the findings suggest better CBA performance can be achieved mainly through the successful implementation of the core practices even in the apparently not favourable deal-settings (e.g., high competition, not very friendly attitude of the acquired firm).

Theoretically, in contrast to previously specialised and fragmented research on M&As, this study makes a theoretical contribution by developing an 'input-process-output' model that draws on both contextual and implementation factors along the acquisition process, combined from such theoretical perspectives as the Resource Base View, Dynamic Capabilities, Process and Synergy Theory. Meanwhile, this study highlights the importance of taking a process and dynamic perspective for explaining acquisition performance. The process examined in this study helps reveal how merged firms can extract the maximum value from inputs (i.e. the combined resource) and transform them into desirable outputs (i.e. acquisition performance). In this regards, this study also contributes to fill the gap in RBV research by not only focusing on the characteristics of resources necessary for achieving superior CBA performance, but also research on how resources are managed to yield performance gains that few empirical studies have done (Cording et al., 2008; Crook et al., 2008). This study contributes to dynamic-capability research by further specifying and testing the concept of acquisition-based dynamic capabilities. Two conceptual constructions of acquisition-based dynamic capabilities (value identification and resource reconfiguration) have been operationally defined and employed as the mediators in the model. To my knowledge, this study represents the first step to do this, and the empirical findings strongly support their mediation effects in the relationship of resource base and CBA performance.

In closing, findings from this study shed light on a complex chain of events. I find strong support for mediation of the relationship between resource base and acquisition performance by pre-acquisition value identification and post-acquisition resource reconfiguration. This study thereby provides a meaningful theoretical clarification about how CBA performance is achieved through three mechanisms of resource possession, resource picking and resource utilization. Meanwhile, it is believed that through this theoretically developed and empirically supported 'input-process-output' model, managers can advance their causal understanding, prioritise their actions, get an idea about which are the determinant factors in different stages,



then know how to allocate their time and efforts on these actions, and ultimately enhance acquisition performance.

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# APPENDIX A

## A Preliminary Survey Study: Design and Findings

### 1. Survey Instrument

Forza (2002) summarises and describes three types of survey research in his study, i.e., exploratory, confirmatory (or theory testing or explanatory) and descriptive. Exploratory survey research usually takes place at the early stage of a study, which can help to gain preliminary insights of a research phenomenon or topic, explore the valid boundary of theories and provides the basis for in-depth survey. Usually, there is no theoretic model and specific concepts of interest need to be tested or measured. Confirmatory (or theory testing or explanatory) survey research is then carried out when knowledge of a phenomenon has been organised in a theoretic form using well defined concepts, models and propositions. In this case, data collection will be used to test the adequacy of the related concepts to a phenomenon or hypothesised relationship among these concepts or constructs, or the validity boundary of the models. Descriptive survey research is used to understand the relevance of a certain phenomenon and describe the distribution of the phenomenon in a population. Its aim is not theory development even though it may provide some hints for theory refinement or theory building.

Referring to Forza's (2002) introduction of these three types of survey research, this preliminary study for the whole PhD project is more exploratory in nature. The main objective of this preliminary study is to gain some preliminary insights of the phenomenon of cross-border mergers and acquisitions (CBM&As) and identify the research gaps by comparing what has been found so far in academic field with the practitioners' CBM&A practice and opinions about the research findings. Exploratory studies are said to be particularly useful when the researchers want to clarify their understanding of a problem or to make sure whether such research is worth pursuing (Saunders et al., 2009). Moreover, as reported by Kent Baker and Mukherjee (2007) 'investment decisions and practices', are the top finance issues that would benefit the most from survey-based research according to the editors' opinion from seven top journals in finance field. Using survey research allows the researcher to understand what people actually do and why they do it and then compare the results with theoretical conclusions. Such an approach helps bridge the gap between theory and practice, which is quite consistent with my research purpose. Thus, this exploratory survey provides the basis for identifying the research questions and the subsequent in-depth explanatory survey introduced in chapter 4



and 5. Meanwhile, this survey is also used to test the response rate, from which to judge the feasibility of survey strategy for this study.

Based on the literature review, I developed a number of survey questions and adopted several questions from Mukherjee et al.'s (2004) study. The survey is split into 5 sections. Section 1 provides a general overview of the participating firms' CBM&A activities. Section 2 attempts to gain insights about valuation techniques used by the acquirers. Section 3 checks how the responding firms assess their CBM&A performance and their perception of the results. Section 4 examines their attitudes and opinions towards the widely discussed impacting factors such as M&A experience and business relatedness. Finally, section 5 gathers the responding firms' views on some controversial findings from M&A research. Most of the questions are closed and a number of open questions are designed to get additional or unexpected information. Initially, the survey instrument was pre-tested with five scholars and six companies. I changed the wording on some questions to improve its clarity.

## **2. Sampling and Data Collection**

The survey was conducted in April, 2012 using the online survey system 'SurveyXact'. As allowed for a minimum assimilation period of two years for the acquirers to reap the benefits, the sample was restricted only to those acquisitions, which were completed before January 2010. Initially, I obtained the information on 750 CBM&A deals completed by 346 Danish firms during the period between 1/1/2000 and 1/1/2010 from the Zephyr Database. Thereafter, I excluded the firms from financial sectors (e.g., banks, private equity firms) because they have different structures of assets and the main M&A objective for private equity firms is to buy the firm or assets at low price then sell it. Furthermore, to make sure the respondents have the necessary information to answer these questions, I only considered firms in which CFOs have been working for the company for more than five years. CFOs are chosen as the respondents because they possess sufficient knowledge about the acquisition to complete this survey. In particular, they have the detailed information related to valuation techniques, performance measures and value creation. Because the CFOs and their contact information of some firms could not be identified elsewhere, the sample size was reduced to 131 firms. These 131 firms formed the basis of our investigation. Each company in the sample was sent an e-mail, identifying a Danish university as the sponsor and requesting their participation in the study. I reminded each firm twice by using reminder emails two weeks in between each one. To reduce potential self-report bias, the anonymity and confidentiality of their answers were assured, and I also stressed that there were no right or wrong answers. Finally, 35 replies were received with 3 partially completed.

These were later dropped from the study. The final sample consists of 32 usable replies.

### 3. Non-response Bias

Admittedly, the survey method has its strengths and weaknesses. The strengths are: (1) it can produce data unavailable from other sources; (2) survey responses can suggest new avenues for future research; (3) direct responses from decision makers add value and (4) sometimes there is no other way to answer a research question. However, the survey questionnaire has some weaknesses. These include non-response bias, self-report bias and limited knowledge to respond to a question. In this study, CFOs are chosen to answer the questions as they are thought to be knowledgeable about M&A investment, valuation and performance assessment issues. Also, to make sure they know the relevant information, I select the firms in which CFOs have been working for at least five years. To reduce potential self-report bias, anonymity and confidentiality of their answers were assured and also I stressed that there was no right or wrong answers. Moreover, I checked the possible non-response bias by comparing the dimensions of average size (total asset), industrial affiliations (I used the acquirers' primary UK SIC code) and legal status between the responding firms and the population. The t-test shows (see Table 1) that they are similar in these aspects. By checking the legal status of respondents and non-respondents, the public listed firms account for 28 percent of the respondents and 30 percent among non-respondents. Therefore, non-response bias is not a problem.

*Table 1 Non-response bias analysis*

	<b>Identity</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>t</b>	<b>Sig. (2-tailed)</b>
Total assets	Respondents	30	835582.75	1853558.96	-0.991	0.324
	Non-respondents	91	2502775.05	9131260.20	-1.642	0.103
Industry type (Primary UK SIC code)	Respondents	30	3964.33	2250.94	-1.243	0.216
	Non-respondents	91	4597.01	2469.38	-1.303	0.198

### 4. Priori Expectations

This survey is mainly exploratory in nature. However, I still have several priori expectations.

First, synergy theory is a dominant theory for explaining M&A behaviour and is also the most cited reason by the practitioners for doing M&As (Seth et al., 2000; Bruner, 2002; Ismail, 2011; Bernile and Bauguess, 2011). Hence, I anticipate most CBM&As will be synergy related. Also, I want to go a step further and check which source the synergy mainly comes from.

Second, a number of researchers indicate 'paying too much' is major cause of failure (Datta and Puia, 1995; Sirower, 1997; Inkpen et al., 2000; Bower, 2001; Hayward, 2002). Therefore, this survey aims to understand how the acquirers make valuation of their target firms and whether they have experienced overpayment. Four commonly used valuation methods have been introduced and discussed by Damodaran (2007), which are the discounted cash flow model (DCF), market-multiple analysis model, real option model and asset-oriented model. Each method has its applicability and limitations. There is no perfect method and the challenge is to apply them correctly. Financial theory tells us that the value of any asset is equal to the present value of its future cash flows. Therefore, the DCF model is the most mature and logical valuation method. In the DCF model, 'the company is viewed as a cash flow generator and the company's value is obtained by calculating these flows' present value using a suitable discount rate' (Fernández, 2007). Evidence also shows that DCF has a dominant position in M&A valuation (Lie and Lie, 2002; Mukherjee et al. 2004). It is therefore predicted that most of the acquirers will use DCF for pricing the target.

Third, because M&A activities have been conducted and researched for many decades, this survey intends to investigate the practitioners' attitude toward M&A experience and knowledge and expects their acquisition experience (either obtained from their own cases or learned from other companies/researchers) to help them do better. In particular, this should be the case in CBM&As, which have more challenges compared to domestic M&A. These include higher uncertainties, higher information asymmetry and the 'liability of foreignness'. Although the existing empirical studies come to inconclusive findings on the effect on acquisition performance (King et al., 2004; Barkema and Schijven, 2008), 'the success of Banc One, Cisco Systems and General Electric do suggest that acquisition experience impacts focal acquisition performance at least partly through building expertise at post-acquisition management' (Puranam and Srikanth, 2007).

Lastly, I expected that business relatedness can help the acquirers achieve higher performance, not only because relatedness has long been considered as a source of

various synergies (Lubatkin, 1983; Singh and Montgomery, 1987; Chatterjee and Lubatkin, 1990), but also because relatedness can help the acquirers uncover these synergy opportunities and identify the hidden problems of the target firm as well (Dundas and Richardson, 1982; Zaheer et al., 2013). Moreover, familiarity with the industry and products can facilitate learning (Hitt et al., 2001) and enable the acquirers to productively leverage their resources and redeploy them in the new business (King et al., 2004). Particularly when performing cross-border acquisitions, 'the sensitivity of post-acquisition management is likely to increase' (Child, 2001, p. 17) due to the challenges such as 'liability of foreignness', 'double-layered acculturation' and information asymmetry. Related acquisition, under this circumstance, is supposed to buffer these negative impacts instead of bringing more uncertainties, which unrelated one may do.

## **5. Survey Findings and Discussion**

This relatively small sample may not be strong enough to generalise the findings, but the practitioners' replies are based on their CBM&A experience of the last ten years. Included in the sample are actually hundreds of deals. Since most of the companies have similar answers to some questions, several meaningful conclusions can therefore be drawn from their replies. The survey findings are presented in four parts as follows: (1) an overview of Danish firms' CBM&A activities; (2) valuation techniques; (3) performance assessment practice and their performance; and (4) other views on CBM&As.

### *An overview of Danish firms' CBM&As*

During the past decade 37 percent of Danish firms conducted 1-3 CBM&As, while 31 percent of them conducted more than 10 CBM&As. The acquired firms were generally private (30 out of 32). This was probably because most of the acquirers were private firms (72 percent). Sixty two percent of the firms acquired targets with less than €50 million valuation (See Table 2). Checking the respondents' information, I found that their average latest total assets was only €11 million, so it makes sense that their targets are not as big as those targeted by the U.S. firms. The payment methods they used were primarily internal cash or cash combined with debt, which was probably due to the nature of their private ownership.

In terms of M&A style, horizontal M&A is the most popular, which means they tend to acquire the companies with identical products operating in the same or different markets. Also consistent with the expectation of this preliminary study, all of the respondents either 'agreed' or 'strongly agreed' that an acquisition in a related industry was worth more than an acquisition in a non-related industry. However,

they have no consistent opinion about whether diversification was a justifiable motivation for M&As. One respondent said, *'there is no simple answer to this question, which depends on many factors'* and *'if you want to go into a new segment rapidly, you may need it'*.

Table 2 General information about the Danish firms' CBM&As

<b>Times of CBM&amp;As conducted during last 10 years (1/1/2000-1/1/2010) (Single choice)</b>	<b>n</b>	<b>%</b>
1-3	12	37.5
4-7	9	28.1
8-10	1	3.1
Above 10	10	31.3
Total	32	100
<b>The size of preferred target companies (asset) (Single choice)</b>	<b>n</b>	<b>%</b>
Less than € 50 million	20	64.5
€ 50 million - € 150 million	7	22.6
€ 151 million - € 1 billion	3	9.7
Over € 1 billion	1	3.2
Total	31	100
<b>Legal status of their target companies (Single choice)</b>	<b>n</b>	<b>%</b>
Most of them are privately-held firms	30	93.8
Most of them are publicly-held firms	1	3.1
Half and half	1	3.1
Total	32	100
<b>Payment methods frequently used (Single choice)</b>	<b>n</b>	<b>%</b>
Internal cash	13	50
Internal cash and debt	9	34.6
Internal cash and stock	4	15.4
Stock	0	0
Total	26	100
<b>Merger type (multiple choices)</b>	<b>n</b>	<b>%</b>
Horizontal merger <i>(Mergers between firms with identical products operating in the same or different markets)</i>	23	51.1
Vertical merger <i>(Mergers happened in which a buyer-seller relationship exists or could exist between the two firms)</i>	10	22.2
Concentric merger <i>(Mergers between firms with highly similar production or distributional technologies)</i>	9	20
Conglomerate merger <i>(The acquiring firms that have no buyer-seller relationship, no technical and distributional relationship, and do not deal with identical products)</i>	3	6.7
Total	45	100

In addition, synergy is most frequently cited as the primary motive for conducting M&As. Seventy five percent respondents reported that their companies have been involved in synergy-related CBM&As. This can also be seen from their acquisition types. Further, according to their experience of cross-border acquisition, synergy effects mainly came from operating synergy (e.g., economies of scale/scope, increased joined sales and market power), while financial synergy (e.g., lower transaction costs, tax reduction) contributed very little. These findings are consistent with Mukherjee et al. (2004), Fields et al. (2007) and Devos et al. (2009). Mukherjee et al. (2004) report that 89.9 percent of the respondents choose operational synergy as the main synergy resource. Fields et al. (2007) state that positive bidder wealth effects are significantly related to economies of scale/scope. Devos et al.'s (2009) study shows that over 80 percent of positive synergies are from operating efficiencies, while tax savings contribute only 1.64 percent in additional value. This suggests that tax consideration is not a major source of merger gains. However, 'synergy evaluation and realisation' is still described by most of the respondents as a challenge in CBM&As.

### *Valuation practice*

The discounted cash flow model (DCF) and market-multiple valuation analysis are the dominant methods used by Danish firms. DCF is also the most popular valuation method for pricing both publicly- and privately-held target firms (see Table 3). However, a majority (71 percent) of Danish firms used their own weighted average cost of capital (WACC) as the discount rate in valuing target firms, which is consistent with Mukherjee's (2004) findings. There is a mismatch between cash flows and discount rate, especially for cross-border M&As. No matter what kind of cash flows are calculated (Dividends, FCFE or FCFE), the target countries' systematic risk (e.g., macroeconomic fluctuations, political risk, etc.) need to be considered when determining the discount rate, as it should be matched with the cash flows produced by the foreign acquired firms. This inappropriate definition of discount rate can be a reason for over-pricing the target firms.

*Table 3 Valuation techniques used for target firms*

<b>Valuation of publicly-listed target firm</b>	<b>n</b>	<b>%</b>
Discounted cash flow model plus market multiple analysis	16	53
Discounted cash flow model only	10	33
Market multiple analysis only	2	7
Market multiple analysis plus others	2	7
Others	0	0
Total	30	100
<b>Valuation of closely-held target firm</b>	<b>n</b>	<b>%</b>

Discounted cash flow model plus multiple analysis	14	44
Discounted cash flow model only	9	28
Market multiple analysis only	7	22
Others (e.g., negotiated price, evaluate the specific project)	2	6
Total	32	100
<b>Discount rate used to value a target firm</b>		
	<b>n</b>	<b>%</b>
The acquirer's weighted average cost of capital	22	69
The target's weighted average cost of capital	7	22
The acquirer's cost of equity capital	3	9
The target's cost of equity capital	0	0
Others	0	0
Total	32	100

Overpayment has been identified as one reason for merger failure in the literature, which is again confirmed by the survey findings. Eighty seven percent of the respondents indicate that they have experienced overpricing and the primary reason is their overconfidence about the potential benefits from CBM&As (see Table 4). This finding is further verified by their replies to an open-end question, for which 'avoiding synergy trap, evaluating synergies correctly and realisation of synergy' are described as one of the thorniest issues when performing CBM&As. Also, asymmetric information, the inappropriate valuation methods used and competition from other buyers are also stated as reasons for driving up the price.

*Table 4 Overpricing experience and the reasons*

<b>Experience about overpricing the targets</b>	<b>n</b>	<b>%</b>
Never	3	13
Rarely	12	50
Sometimes	7	29
Very often	2	8
Always	0	0
Total	24	100%
<b>Reasons for overpricing the targets</b>		
	<b>n</b>	<b>%</b>
Overoptimistic about the potential benefits	25	76
Asymmetric information about the target companies	4	15
Inappropriate valuation methods	1	3
Others(i.e., underestimating risks and competition from other buyers)	2	6
Total	32	100

***Performance assessment practice and their general CBM&A performance***

As discussed before, there is no agreement on the best way to measure acquisition success, but the more suitable approach. Many scholars suggest to link performance measures with the acquirers’ primary M&A motives. Because this survey does not focus on one specific acquisition case but on the company’s general CBM&A activities, it thus uses the index of overall goal attainment to measure their overall CBM&A performance during last ten years (see Kiessling and Harvey, 2008). This survey study also intends to check how practitioners measure the outcomes of their CBM&As and seeks their views about 'whether and how CBM&As help their companies create value'.

To my surprise, almost half of the acquirers (15 out of 32) had no specific performance measures to assess their CBM&A outcomes. Some of the companies did not set up any index for monitoring the performance during and after M&As and some of them just did this occasionally (see Table 5). Such an imprudent attitude and no-plan operation are likely to be the reasons for disappointing M&A results. For those respondents who had performance measures, open-end questions are designed to identify which measures they used in their evaluation. The results show that most respondents linked the performance measures to their original objectives or business plan. For example, they used '*follow up the budget for the target*', '*follow up initial DCF-valuation logic*', '*track the assumptions of the benefits*', '*track the integration milestones by monthly financial key performance indicators*', '*compare the financial targets to initial business plan*' and '*follow up earn-out threshold to be achieved in year 1-4*'. Financial indicators were also used such as profitability, sales, EBIT and cost cutting. In addition, regardless of the motives, 83% of respondents expected to achieve their objectives within 3 years. Therefore, accounting-based measures are thought to be a proper way for assessing CBM&A outcomes and three years after CBM&As is a reasonable time horizon for external researchers to assess the performance.

*Table 5 Performance assessment practice and the results*

<b>Please indicate if your company has some performance evaluation measures to assess the outcomes of your cross-border M&amp;A activities.</b>	<b>n</b>	<b>%</b>
Yes	17	53.13
No	15	46.88
Total	32	100
<b>Please indicate how many years your company expects to wait before realising the initial objectives for performing cross-border M&amp;As.</b>	<b>n</b>	<b>%</b>
1 year	2	6.67
2 years	12	40
3 years	11	36.67



4 years	3	10
5 years+	2	6.67
Total	30	100.01
<b>Does your company set some indices related to the preliminary objectives of conducting cross-border M&amp;As in advance for monitoring them during and after mergers?</b>	<b>n</b>	<b>%</b>
Never	4	12.5
Rarely	3	9.4
Sometimes	12	37.5
Very often	4	12.5
Always	9	28.1
Total	32	100
<b>Compared to the other alternative growth paths (e.g., strategic alliance and Greenfield investment), the risk adjusted return of cross-border M&amp;As is ____?</b>	<b>n</b>	<b>%</b>
Significantly lower	2	7.41
Slightly lower	1	3.7
Almost the same	5	18.52
Slightly higher	13	48.15
Significantly higher	6	22.22
Total	27	100

Regarding the performance of Danish international acquirers, only two companies fully met their initial expectations for their CBM&As. Approximately half of the companies achieved their objectives by 60 percent or less. The reasons could be cultural difference, overvaluation and imprudent implementation based on the following survey evidence. 'Cultural difference' and 'synergy prediction' were described as the toughest issues in CBM&A. Many companies had experienced overpricing the target firms, and many were overoptimistic about the anticipated benefits. Half of the respondents had no specific measure for assessing their CBM&A performance. These propositions require further research.

Nevertheless, compared with alternative growth strategies (e.g., strategic alliance and Greenfield investment), around 70 percent of the companies thought the risk adjusted return from CBM&As was higher. This finding contradicts the negative depiction about CBM&A performance in prior research. It states us that least returns from CBM&As are larger than the opportunity cost of other growth strategies. Moreover, 99 percent of our respondents stated CBM&As can help their companies create value by offering better geographical position to the market, technology driven advantages, market shares increase, economies of scale, new products/business, sourcing and logistic optimising, speed advantage and a global

footprint. Some of the respondents even said: *'without M&A there is a risk of the value to decline', 'in our line of business, we can only create value by doing CBM&As' and 'our customers are global, we need to be global to serve our customers and get economies of scale to optimise sourcing and logistics which is the key factors in our industry.'* 'Value' created by CBM&As in these views is not just immediate financial improvement but also the strategic resources gained for future development or for survival. This indicates that, it is not reasonable enough for the external researchers to judge the success of CBM&As just based on the changes of stock price or some accounting indicators. Rather, perceptual performance assessment approach is thought to be more suitable.

### ***Other views on CBM&As***

This survey also investigated the Danish firms' practice and attitude toward their CBM&A experience/knowledge (see Table 6). Sixty seven percent of the firms had specific team/section responsibility for CBM&As. In addition, 56 percent of the respondents stated that they intentionally stored the experience and knowledge of CBM&As. However, 88 percent of the respondents replied that they have no training programs for relevant staff to gain knowledge about CBM&As. Based on these findings, there are a number of firms that did not pay much attention to CBM&A experience and knowledge. This was the case even for the firms that had conducted CBM&As more than ten times between 1/1/2000 and 1/1/2010.

*Table 6 Attitudes towards experience and knowledge of CBM&As*

<b>Does your company intentionally store the experience and knowledge of CBM&amp;As?</b>	<b>n</b>	<b>%</b>
Yes	18	56.25
No	14	43.75
Total	32	100
<b>Does your company have specific team or section responsible for M&amp;As?</b>	<b>n</b>	<b>%</b>
Yes	16	66.67
No	8	33.33
Total	24	100
<b>Does your company have some training program for relevant staff to learn the knowledge about CBM&amp;As?</b>	<b>n</b>	<b>%</b>
Yes	4	12.5
No	28	87.5
Total	32	100
<b>Please indicate if you previous experience with CBM&amp;A have helped you firm do better in later CBM&amp;As.</b>	<b>n</b>	<b>%</b>
Harmed significantly	0	0
Harmed moderately	5	16.13
Neither helped nor harmed	3	9.67
Helped moderately	16	51.61

Helped significantly	7	22.58
Total	31	99.99

Regarding the effect of acquisition experience, consistent with our expectation, most of the respondents (74%) stated that previous experience of CBM&As could help them do better in future activities. Further, we examined the relation between respondents' perceptions of the CBM&A results with the number of times they have conducted CBM&As. Among the group that conducted 1-3 CBM&As, 72 percent of the acquirers performed unsatisfactorily (they achieved their expectation 60 percent or less of the time). Only 25 percent received disappointing results in the group that had done CBM&As more than 4 times. Such differences may be attributed to acquisition experience. CBM&A experience can sometimes be harmful. This was stated by five respondents. Thus, further research is needed about the effect of acquisition experience.

An open-end question was used to investigate the trickiest issues in firm experience for doing CBM&As. The keywords in their replies were 'cultural difference'. This finding is consistent with what Cartwright and Schoenberg (2006, p.3) state in their study: 'poor culture-fit or lack of cultural compatibility has become much cited, if rather poorly defined, reasons for M&A failure'. High levels of cultural distance can prevent the success of the M&As integration (e.g., Brouthers and Brouthers, 2000). However, some culture clash is desirable to prompt positive debate about what's best for the organisation and to avoid group think (DiGeorgio, 2003). Hence, cultural difference has both potentially negative and positive effects. Its final impact may depend on managerial efforts such as whether managers perceived and evaluated cultural differences early enough during the evaluation stage to avoid buying a company too difficult to integrate and whether the cultural difference has been accounted for during the integration process to avoid major pitfalls and misunderstandings (Teerikangas and Very, 2006). Research on the acquirer's implementation from a process perspective can help investigate these issues.

Table 7 shows the respondents' opinions about the existing research findings (from strongly agree to strongly disagree labelled on a five-point scale). Respondents agree with these statements except for Questions 6, 7 and 8. Three of the statements (Questions 1, 2 and 3) show a statistically positive mean value (using one-sample t-test) different from zero (no opinion). For Question 6, the negative mean level is statistically different from zero at the significant level of 0.05. Similar to Mukherjee et al.'s (2004) study on U.S. acquirers, our study reports the same findings to Questions 1, 2 and 3. But for Question 7, this investigation shows almost the

opposite result. Also, many respondents disagreed with Question 8. However, this is not significant. On the contrary, respondents more strongly supported Question 6.

Table 7 level of agreement or disagreement with statements involving CBM&As

Q#	Questions Statement	n	Strongly agree +2	Agree +1	No opinion 0	Disagree -1	Strongly disagree -2	Mean	t-value
1	A hostile takeover often results in higher payment to the acquired company than a friendly merger.	31	10%	71%	19%	0%	0%	0.90	9.333***
2	An acquisition in a related industry is worth more than an acquisition in a non-related industry.	30	33	60	3	0	3	1.20	8.163***
3	An all-cash offer is more effective in a hostile merger than in a friendly merger.	30	3	37	40	20	0	0.23	1.563*
4	Returns from cross-border M&As are often more positive when the targets are private or subsidiary rather than public.	30	3	23	60	13	0	0.16	1.306
5	Please indicate if you agree that diversification is a justifiable motivation for CBM&As?	32	19	25	22	28	6	0.27	1.216

	30	0	17	38	41	3	-0.31	-2.073**
6	A higher premium is justified for the targets, when the economies of the targets' countries have a much lower correlation with the economy of Denmark.							
7	30	3	23	37	37	0	-0.07	-0.421
Most of the gains from CBM&As usually accrue to shareholders of the acquired firm.								
8	30	3	33	23	33	7	-0.07	-0.348
Cash (or cash mixed with stock) payment requires a higher premium in CBM&As than a straight stock-exchange transaction.								

Notes: \* $P < 0.1$ ; \*\* $P < 0.5$ ; \*\*\* $P < 0.01$

For Question 1, 81 percent of respondents agreed that 'a hostile takeover often results in a higher payment to the acquired company than a friendly merger'. This is consistent with some other findings (e.g., Chen and Cornu, 2002). High payments tend to make the benefits from hostile deals unable to cover the cost, thus is part of the reason of poor acquisition performance as reported in Healy et al., (1997). However, many respondents agree that an all-cash offer is more effective in a hostile acquisition than in a friendly acquisition (see Question 3). This suggests that the payment method matters in determining acquisition result.

Consistent with expectation, 93 percent of respondents supported Question 2's statement: 'an acquisition in a related industry is worth more than an acquisition in a non-related industry'. However, there is no consistent opinion about whether diversification is a justified reason for conducting CBM&As in this study (see Question 5).

For Question 7, a majority of respondents agreed with the statement 'most of the gains from M&As usually accrue to shareholders of the acquired firm' in Mukherjee et al.'s (2004) study. Slightly more respondents disagreed with this statement in this survey, which suggests that such a conclusion is context based. Lastly, most of the respondents do not agree that 'a higher premium is justified for the targets, when the economies of the targets' countries have a much lower correlation with the economy of Denmark' (Question 6). This indicates that the cross-border nature of international acquisitions is not bound to higher payment compared to domestic deals. Instead, their replies to prior questions in this survey suggest that a high payment is mainly the result of over-optimism and inaccurate valuation.

## **6. A Summary**

The performance of Danish international acquirers is disappointing as only two respondents stated the outcomes of CBM&A fully met their initial objectives. According to their replies, the reasons were cultural difference, mis-valuation, overpayment and imprudent operations. On the contrary, acquisition experience and business relatedness are found to play a positive role. The legal status of the target firm is not relevant. Further study of these issues based on a larger sample or in-depth case study can provide more insights.

Most of the CBM&As conducted by Danish firms are synergy related and horizontal acquisition is the preferred type. Operational synergy is described as the major synergy source while 'financial synergy' and 'managerial efficiency' contribute little. However, 'prediction and realisation of synergy' are still described as the biggest challenges in CBM&As. In Ficery et al.'s (2007) study, they also mention that most

of the acquiring executives fail to identify value and realise synergy. They point out the six most common mistakes that acquiring executives tend to make such as 'defining synergies too narrowly or broadly' and 'missing the window of opportunity'. In an earlier study conducted by Goold and Campbell (1998), they indicate that four managerial biases that make synergy seem more attractive and more easily achievable than it truly is. For instance, the executives may have synergy bias to overestimate the benefits and underestimate the costs of synergy. Information asymmetry between the acquirer and the target can make synergy realisation more difficult. More research on these biases is required. Questions should be examined such as: how can the synergy effects be predicted? What are the efficient strategies and required resources/capabilities for synergy realisation? And what are the barriers to synergy realisation?

Overpayment has been identified as one main reason for merger failure and this is supported again by this survey. Most of the respondents (87%) indicate that they have experienced overpricing. Incorrect valuation methods (i.e., a mismatch of cash flow and discount rate) and over-optimism could have been reasons for this.

Concerning 'value creation' in CBM&As, this investigation reports some positive evidence from other perspectives. Almost all the respondents indicated that CBM&As could help their companies create value and the 'value' created by CBM&As in their views was not just immediate financial improvement, but also the creation of a strategic foundation for future development. CBM&As not only help to enhance the firms' value, but can also protect firms from losing value. Sometimes, it is the only way for the firm to survive. Furthermore, risk-adjusted returns from CBM&As are thought to be higher than alternative internationalisation strategies (e.g., strategic alliance, Greenfield investment). This finding may also partly answer the general and ongoing question: 'why do so many M&As still take place when most are doomed to fail?'. At the same time, this evidence also reveals that acquisition performance is a multi-faceted construct. Studies that attempt to measure the success of M&As using a single approach (e.g., event studies) or single financial indicators (e.g., ROA), or using only objective data tend to overlook the achievement of other goals and fail to provide an accurate picture of CBM&A success.

Regarding performance assessment, almost half of the respondents had no metrics to assess the outcomes of CBM&As. Hence, I doubt the quality of the whole implementation process. Such seemed imprudent no-plan implementation tends to produce disappointing results regardless of the widely discussed contextual factors (e.g., cultural difference). 'Managers can make choices that materially influence the profitability of M&A' (Bruner, 2002, p.15). Therefore, a more in-depth investigation



on the whole CBM&A implementation process rather than on separated stages or just contextual factors may significantly contribute our understanding of CBM&A performance. For those practitioners who had performance measures, the measures had been linked to their original objectives and financial indicators were mainly used. Also, three years after CBM&As is enough time for the acquirers to reap the benefits and is thus a suitable time horizon for external researchers to assess performance.

# APPENDIX B

## Philosophical Foundation of the Present Study

### 1. Philosophy of Science

Philosophy of science is defined as 'the systematic study of how scientific knowledge is produced, substantiated and used in the society' (Holm, 2013). All social scientists approach their research subject via four sets of explicit or implicit assumptions related to ontology, epistemology, human nature and methodology (Burrell and Morgan, 1979). These assumptions underpin a scholar's research focus and research strategies. More recently, Kuada (2012, p.58) has described four levels of understanding in a research design process as illustrated by Figure 1. These levels feed into each other. The researchers' ontological viewpoints will shape their epistemological beliefs, which will then influence the methodological decisions that guide their choice of methods and techniques. Methodology therefore, works as an area that connects issues at the abstract level of epistemology and the mechanical level of actual methods. However, in accordance with the views from Johnson and Onwuegbuzie (2004) and Morgan (2007), emphasis needs to be put here, that these philosophical assumptions, especially on ontology and epistemology level, will 'guide' not 'determine' the choice of specific research methods and techniques, and rather it is the 'research question' mainly determine it.

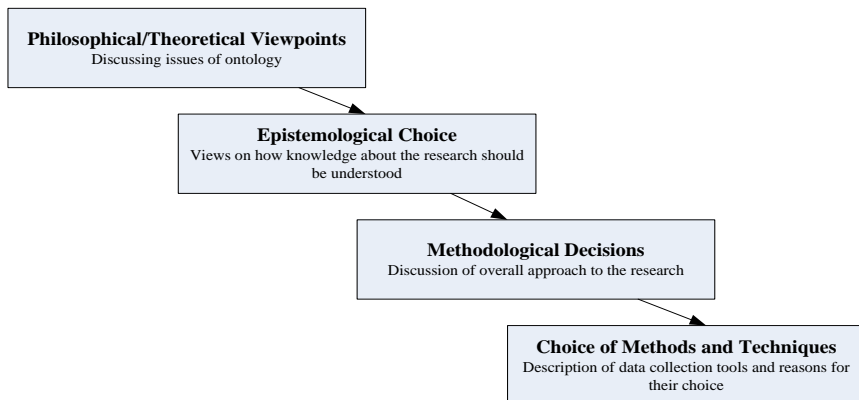


Figure 1 Four levels of research design

Source: Kuada, 2012, p.58

Following this logic, ontological and epistemological considerations, as well as the research paradigms of this thesis are introduced, followed by a discussion of methodological decisions. Thereafter, the choices of methods and techniques in this study are presented and justified.

## **1.1 Ontological Considerations**

Ontology refers to the nature of 'reality' that the researcher seeks to know (Saunders et al., 2009; Kuada, 2012). It will affect the way a researcher views the world and what they consider to be 'real'. Generally, there are two ontological approaches, i.e., objectivism and subjectivism (or constructionism). The social science scholars who choose objectivism will view the social world as real and external to an individual social actor, whereas the scholars of subjectivism held the view that social world is subjectively constructed from the individual perceptions and consequent actions (see Saunders et al., 2009, p.110-112; Bryman and Bell, 2011, p.20; Kuada, 2012, p.58). Taking 'organisational culture' as an example, it is stated the objectivists tend to view the culture as something that the organisation 'has' and something that can be manipulated and changed to the state desired by the managers (Smircich, 1983; Saunders et al., 2009). On the contrary, in the subjectivists' view, the 'culture' is something that the organisation 'is', which is difficult to isolate, understand and manipulate, and it only can be understood by interpreting the meaning attached by the social actors within the organisation.

Since the phenomena under investigation in this study are the historical experiences of the firms surveyed - cross-border acquisitions, which are observable social facts rather than impressions - I prefer to view the world as an external reality and try to study it independently from outside in a value-free way as much as possible. If I have to situate myself either in objectivism or subjectivism in terms of the ontology, I would like to say the present study leans heavily toward the ontological position of objectivism.

## **1.2 Epistemological Considerations**

Epistemology concerns what should be accepted as 'knowledge' in a discipline (i.e., the nature of knowledge and the means of knowing) (Saunders et al., 2009; Kuada, 2012). According to Burrell and Morgan (1979, p.1), epistemological assumptions are 'predicated upon a view of the nature of knowledge itself: whether, for example, it is possible to identify and communicate the nature of knowledge as being hard, real and capable of being transmitted in tangible form or whether 'knowledge' is of a softer, more subjective, spiritual or even transcendental kind, based on experience and insight of a unique and essentially personal nature'. Generally, three types of

epistemology have been widely discussed in recent years, which are positivism, realism, and interpretivism (see Bryman and Bell, 2011; Saunders et al., 2009).

The positivists assume the existence of an objective reality, which can be accurately discovered through scientific inquiry (Clark, 1998). Moreover, “positivism is based on the assumption that there are universal laws that govern social events, and uncovering these laws enables researchers to describe, predict, and control social phenomena” (Tuli, 2011, p.103). Therefore, the positivist seeks to explain and predict social phenomena with an emphasis on regularities and causal relationships between its constituent elements (Burrell and Morgan, 1979). They believe that the social science researcher can be objective and conduct his/her research as an external observer in a value-free way (Clark, 1998). The existing theory and literature are used to develop hypotheses that can be tested and that will thereby allow the explanation of laws to be assessed. Therefore, positivist researchers are likely to use a highly structured methodology in order to facilitate replication (Gill and Johnson, 2010). They hold that knowledge is arrived at through the gathering of facts that provide the basis for laws (Bryman and Bell, 2011). To sum up, positivists emphasise discovering causal laws, rigorous empirical observations, and value-free research.

'The essence of realism is that what the senses show us as reality is the truth: that objects have an existence independent of the human mind' (Saunders et al., 2009, p.114). It shares two features with positivism: both assume social world is real and external to individual cognition; both assume that natural and social science can and should apply the same kinds of approach to data collection and to explanation (Bryman and Bell, 2011). There are two major forms of realism: direct (or empirical or naïve) realism and critical realism (for essential readings about critical realism, see Archer et al., 2013). 'Direct realism says that what you see is what you get: what we experience through our senses portrays the world accurately', whereas 'critical realism argues that what we experience are sensations, the images of the things in the real world, not the things directly' (Saunders et al., 2009, p.114). When positivism and post-positivism are viewed as the paradigms, Guba and Lincoln (1994) describes naïve realism as the ontology of positivism, and critical realism as the ontology of post-positivism. According to their introduction, the reality, from naïve realists' view, is assumed to be real and apprehendable, and is driven by immutable natural laws and mechanisms. Critical realists, unlike positivists, assume the reality exists but can only be imperfectly and probabilistically apprehended (Guba and Lincoln, 1994). Critical realism concerns generative mechanisms, which represent tendencies rather than absolute truths (Bhaskar, 2013). As Sayer (1992, p.104) put it, 'on the realist view, causality concerns not a relationship between discrete events ('Cause and Effect') but the 'causal powers' or 'liabilities' of objects

and relations, or more generally their ways of acting or ‘mechanisms’. It says, critical realism, compared with positivism and interpretivism, can be compatible with a relatively wide range of research methods, and the particular choices are determined by the object of study and what one wants to learn about it (Sayer, 2000).

Interpretivism takes quite the opposite viewpoint from positivism, and subscribes to what is called constructivism. Interpretivists believe that reality is socially constructed and depend on people’s perception of it. As Easton (2010) described that, the interpretivists generally deny the possibility of knowing what is real and reject the possibility of identifying causality. Rather, they seek to understand values, beliefs and meanings of social phenomena based on individual interpretation (Tuli, 2011). Therefore, it advocates the necessity of the researcher understanding a given social world from the points of view of people being studied and the intentions underlying their behaviour (Saunders et al., 2009; Tuli, 2011; Kuada, 2012). Phenomenology and symbolic interactionism are two influential intellectual traditions in the development of interpretivism. The interpretivists hold the view that the study of the social world needs to follow a different logic and research procedure that reflects the distinctiveness of humans from the natural order (Bryman and Bell, 2011). For instance, they prefer to interact with and to have dialogue with the studied participants (Wahyuni, 2012). The problem with this interpretivism, as Easton (2010, p.118) put, ‘what is not clear in the interpretivist approach is by what standards one interpretation is judged to be better than another. It is even more problematic when the interpretations are particularistic.’

After reflecting on these three main types of epistemology, I would say that positivism is one type of epistemology that characterises this study, since the ambition of this study is seeking to explain and predict the performance of cross-border acquisitions by identifying a number of causal relationships. Hypotheses about these cause-effect relationships are derived from the existing literature and theories, and then tested by large-sample data analysis. The underlying belief is that although each cross-border acquisition is unique, they have something in common, such as the critical acquisition processes of target selection, due diligence and negotiation that most of the acquirers need to experience, and hence that there should exist some effective way for performing cross-border acquisitions or some pivotal issues they need to pay attention to during the acquisition process, so that the possibility of achieving better performance or higher success rates can be significantly improved.

However, this study incorporates many aspects of realism as well, especially critical realism (post-positivism), since I am aware that ‘we (will) only be able to understand...the social world if we identify the structures at work that generate

those events or discourses...these structures can only be identified through the practical and theoretical work of the social sciences...such structures may be hierarchically ranked in terms of their explanatory importance' (Bhaskar, 1989, p.2). As such, a hierarchical structural conceptual framework is established in this study based on the existing literature from four main theoretical lenses, taking both contextual and implementation factors into account, and also considering both firm- and deal-level factors, as well as the mediation effects of some factors. It is stressed that realism is not a substitute for empirically controlled investigations, but helps guide the study of the structures that generate social phenomena (Bhaskar, 1989). I also tend to agree with the critical realists' view that generalisations derived from research represent a probabilistic approximation of the truth, rather than an absolute truth (Bisman, 2010), since hypotheses are confirmed or rejected at some significance level (e.g., 0.05), not one hundred percent. Furthermore, like the critical realists (Healy and Perry, 2000) but unlike with the positivists, I am aware of the 'value' effect in research, and I try to investigate the phenomena of cross-border acquisitions in a value-free way: (1) most of the variables in this study are measured by using multi-items developed from the literature with the objective not only to fully and more accurately capture its meaning but also to cross-check the consistency of respondents' answers. The reliability and validity of the measurements of these variables have been rigorously examined and ensured (see chapter 6). (2) A number of methods are used to reduce potential common method bias, as you can see from chapter 6. (3) The interpretation of the findings and discussion are also presented in accordance with the critical realists' view, since I believe that only by seeing the same data through the different theoretical lenses employed by different researchers can we understand some of the features of the real world (Easton, 2010; Woodside et al., 2005).

## **2. Research Paradigms and Methodological Considerations**

### **2.1 The concept of 'paradigm'**

Guba and Lincoln (1989) claim that questions of method are secondary to questions of paradigms. The concept of 'paradigm' is derived from Kuhn's (1970/1962) analysis of revolutions in science in his influential work titled '*The Structure of Scientific Revolutions*', but thus far there is no universally accepted definition. According to Bryman (1988, p.4), a paradigm is 'a cluster of beliefs and dictates which for scientists in a particular discipline influences what should be studied, how research should be done, and how results should be interpreted'. Similarly, four basic versions of the paradigm concept discussed by Morgan (2007) all treat paradigms as shared belief systems that influence the kinds of knowledge researchers seek and their interpretation of the collected evidence. Most scholars now discuss paradigms

in terms of sets of assumptions related to ontology, epistemology and methodology (see Saunders et al., 2009; Bryman and Bell, 2011; Babbie, 2010; Neuman, 2006; Kuada, 2012). Borrowed the idea from Morgan (2007, p.69), we may also view the paradigm as a set of shared beliefs among the members of a specialty area about both which questions are most important and which methods are most appropriate for answering those questions. Anyhow, research carried out under different paradigms tends to views the social world in different ways, research on different questions and thus make different research designs.

## **2.2 Three methodological views**

The objectivist-subjectivist debate has produced a number of typologies of research paradigms. Neuman (2006, p.81) states that 'sociology is called a multiparadigm science because no single paradigm is all-powerful'. Three popular typologies have been summarised and discussed by Kuada (2012), among which is a more recent typology of paradigms, the one developed by Arbnor and Bjerke (2009). According to Arbnor and Bjerke (2009), paradigms describe the relation between the ultimate presumptions (or ontological and epistemological discourses) of the researcher and the practical use of various methodological views. They argue that it is possible to have more than one methodological view within one paradigm, and that a single methodological view can also be inspired by more than one paradigm. In accordance with their arguments, rather than accepting the dichotomy between objectivism and subjectivism (see Burrell and Morgan, 1979), Arbnor and Bjerke (2009) propose six continuum paradigms that link objectivism and subjectivism. Accordingly, three methodological views are developed in relation with these paradigms as illustrated by Figure 2 (Arbnor and Bjerke, 1997, 2009).

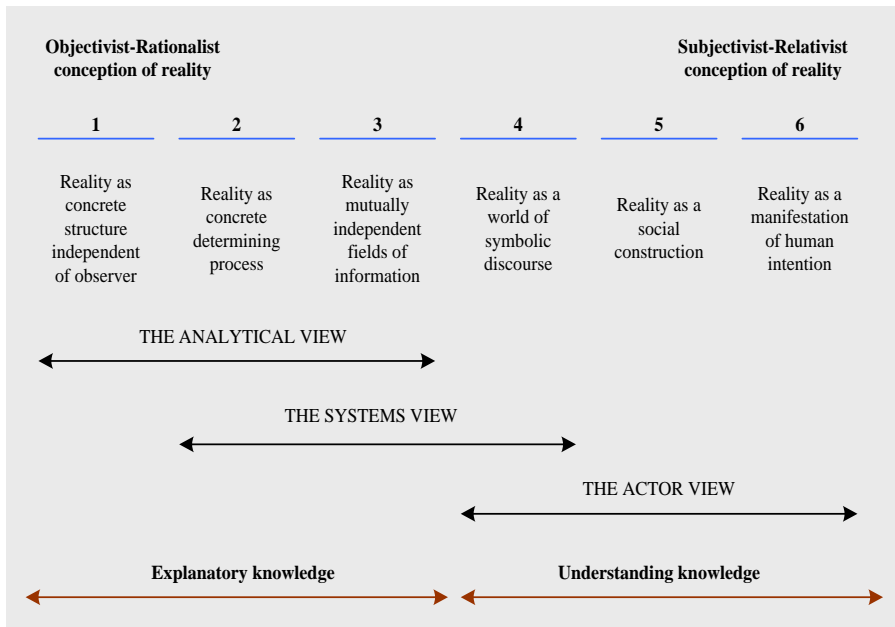


Figure 2 Three methodological views related to six paradigms

Source: adapted from Arbnor and Bjerke (1997, 2009)

### 2.2.1 Analytical view

In the analytical view, reality is factual and independent of individual perception. Both objective facts (i.e., indisputable circumstances) and subjective facts (i.e., stable opinions that people may hold) are looked at as true, and the task of analytical scholars is to discover invariant elements (things, events, opinions) in spite of changes in the environment and variations of individual perceptions. Analysis plays a central role in the analytical view, and the underlying philosophy is analytical philosophy (or positivism). This philosophy holds that reality has a summative character, and its parts can be considered in isolation from other parts. Therefore, the scientific ambition of the analytical view is to come up with generalisable explanations, such as patterns, regularities or representative models. Research is usually conducted by taking well-defined steps with the goal of verifying or falsifying the pre-formulated hypotheses about some causal-effect relationships. These verified or falsified hypotheses clarify facts that are subsets of the factual reality, and all these facts added together are supposed to generate a more complete picture.

### 2.2.2 Systems view



In the systems view, reality consists of fact-filled systems structures. Unlike the analytic view, the systems view holds that the whole is not simply the sum of different parts, and its parts cannot be seen in isolation from each other. Three overlapping philosophies of systems theory, holism and structuralism, make up the paradigmatic foundation of the systems view. Arbnor and Bjerke (2009, p.106 &110) use some classic systems models as an example to illustrate the approach of systems explanation and understanding, such as McKinsey's 7S model and the Cluster Diamond. The research ambition of a systems researcher is to explain or to understand the structural relationships between parts. Generally, one consequence of researching systems is to supplement the picture of a system that is extensive and complicated, with many people involved, and the other consequence is to clarify the system's history by identifying critical events and important decisions along the

### **2.2.3 Actor view**

The concept of 'reality' in the actor view is quite different from the other two views, and assumes that reality is a social construction. It holds that the social world largely depends on the finite provinces of meaning held by individual actors, and that the researcher is also one of its constructors. Wholes and parts are thought to be ambiguous and continuously reinterpreted. The researcher's ambition from the actor view is to understand rather than to explain reality. They attempt to develop a language that will bring understanding and action when facing the study area. It is worth mentioning that understanding in the actor view could be called constitutive understanding (i.e., part of the reality, not as stand-alone pictures), while understanding through the systems view could be called representative. In order to achieve understanding, the actor-oriented researchers use the dialogues with the actors in the study area (e.g., interview), rather than analysing the actors' behaviour just on their own. Knowledge developed from the actor view is therefore dependent on actors. Descriptive language and symbols are frequently used to disclose different sides of reality.

To sum up, we may say that all three views focus on relations in reality, but the analytical view chooses to look at these relations as causal, the systems view talks about the relations in terms of finality, while the actors view see the relations as dialectical (Arbnor and Bjerke, 2009). Moreover, as pointed out by Arbnor and Bjerke (2009), each methodological view has received criticism from the other views, and the goal of reconciling them is to use their differences as complementary strengths. They further suggest that the way to use this complementarity is to use one view as a transformative operator, that is, under the framework of that view as a transformative operator, techniques, methods, etc., from other methodological views can be used at the same time and as the study proceeds (Arbnor and Bjerke, 2009,

p.342). Moreover, three areas for realising complementarity have been proposed, which are: adapting existing concepts and theories, collecting data and modelling and interpreting data. The potential interdependency in these methodological views toward similar problems is to be used for excellent explanations and/or understanding of them (Arbnor and Bjerke, 2009, p.330).

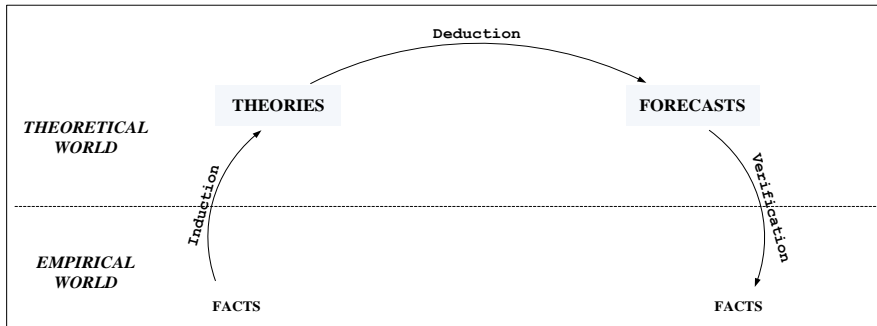
According to the introduction and discussion of the above three methodological views, this thesis mainly falls under the first three paradigms and takes the analytical view. Since the research subject of this study is cross-border acquisitions that are concrete historical events, their existence is objectively independent of the observer. Meanwhile, cross-border acquisition is a multi-stage and multidisciplinary phenomenon. Therefore, it can be viewed as a concrete determining process, involving mutually independent fields of information. Since the objective of this research is to investigate the determinants of acquisition performance, the analytical view is taken to examine a number of cause-effect relations in the established framework. Hypotheses associated with these relations were derived from literature, and these guided data collection. Thereafter, these hypotheses were tested by using the techniques of PLS-SEM based on the data collected through an online survey. Most of the hypotheses have been verified from the empirical data, providing strong evidence of the significant explanatory/predictive power of the developed model.

It worth noting that this study also draws on some elements from the systems view, as synergy theory is used when establishing the conceptual framework, which is grounded in the systems view. However, one criticism of this approach from the analytic viewpoint is that the 'systems view does not contain anything new just because it talks about 'synergy'' (Arbnor and Bjerke, 2009, p.336). Operating under the analytic view (working as transformative operator at this time), the nebulous concept of 'synergy' is defined and measured, and becomes the dependent variable in my model, and the aim of using the analytical view is to find an operational way (i.e., common factors explaining synergy realisation) to improve the possibility of achieving the potential synergy characterizing the firm as a system (i.e., the new combined entity). Furthermore, I am aware of the criticism from the systems view that the factual world consists of complex relations, and that is why I established higher-order structural model to capture the complexity of acquisition activities, considering both contextual and implementation issues that appear along the whole acquisition process, and testing the mediation effect of some variables. As mentioned by Arbnor and Bjerke (2009, p.335), the complexity and totality of the systems view is not a problem for the actor view, since the factual reality's complexity can be broken down into its parts, which enables the researchers to study even systems complexity in general terms of cause/effect.

'Methodology describes the reasons underlying the choice and use of specific methods in the research process' (Kuada, 2012, p.59). Before going into the detailed research methods and techniques, two groups of related methodological concepts are discussed, induction vs. deduction as well as quantitative vs. qualitative research strategies.

### **2.3 Induction and Deduction**

Since this thesis utilises analytical view, Figure 3 is used to illustrate the cyclical nature of creating knowledge in the analytical view (Arbnor and Bjerke, 2009, p.91). We see that the analytical view starts from facts and end with facts. In the first step, the analytical scholars collect facts from the empirical world (the factual world), and then attempt to describe the facts they see and hear in terms of what they have observed and what they think. Based on their theories and explanations, a prediction is made, which again can be verified against facts. A dash line (in Figure 3) separates the empirical world (factual world) and the theoretical world which, in accordance with the analytical view, is more or less quantitatively constructed. In the world above the line, the deduction process can be seen, in which there is usually a chain of mathematical formulae, logical sequences and systematically arranged data, and the objective is to verify or falsify the predictions (hypotheses) inferred from these theories. An induction process occurred in the world below line, where we usually see the researchers look into microscopes or observe behaviour or interview people, and then generate laws from individual cases (i.e., induction). In principle, the researcher in the deductive process goes from theory to facts and the one in the inductive process goes the other way around. Downward (2003) summarised these two research processes as 'theory-then-research strategy' (i.e., deduction) and 'research-then-theory-strategy' (i.e., induction) respectively. However, as argued by Morgan (2007), the actual research design, data collection and analysis, cannot be operated either an exclusively theory- or data- driven fashion.



*Figure 3 Cyclical nature of creating knowledge in the analytical view*

Since this study is done in order to answer questions posed by theoretical considerations, i.e., theory guides research, a deductive strategy is used, and the research has undergone five sequential stages in deduction (Robson, 2002): (1) Deducing hypotheses from the theories. In this thesis, ten hypotheses were deduced from the literature and the theoretical perspectives of resource based view, dynamic capabilities, process, and synergy theories as presented in chapter 2. (2) Transferring the hypotheses in operational terms (i.e., indicating how the concepts or variables contained in the hypotheses are measured), and proposing relationships between pairs of concepts or variables. The concepts/variables associated with the hypotheses in this study have been operationally defined and measured usually by multi-items (see chapter 4). Each item is a question asked in the questionnaire. The reliability and validity of the measurements in this model have been tested and presented in chapter 5. (3) Testing the hypotheses. The technique of partial least squares structural equation modelling (i.e., PLS-SEM) is used to test the hypotheses, which can be found in chapter 5. (4) Examining the specific outcome of the inquiry (denying or confirming the hypotheses). Empirical analysis of this thesis and the findings are reported in chapter 5. (5) If necessary, modifying the theory in the light of the findings. Chapter 6 presents my reflections on the conceptual framework according to the findings, conclusions and follow-up research ideas.

## **2.4 Quantitative and Qualitative Research**

Quantitative and qualitative research approaches have traditionally been seen as belonging to two separate research paradigms (Kuhn, 1970/1962). There has been a long-standing debate between quantitative and qualitative paradigms, especially concerning their ontological and epistemological assumptions (see Sale et al., 2002; Johnson and Onwuegbuzie, 2004; Morgan, 2007). Bryman and Bell (2011) describe this debate as 'the paradigm argument'. It is commonplace for quantitative researchers to be criticised by qualitative researchers, and vice versa. For example,

qualitative researchers tend to criticise quantitative research for failing to distinguish between individuals, neglecting the context, being too abstract and artificial, and using the analysis of causal relations to create a static view of social life, whereas quantitative researchers criticise qualitative research as being too subjective and difficult to replicate, lacking transparency, and having problems with generalisation (see Bryman and Bell, 2011). Table 1 summarises the typical comparative distinctions between two types of research strategies.

*Table 1 A comparison between quantitative and qualitative research strategies*

	<b>Quantitative Research</b>	<b>Qualitative Research</b>
<b>Epistemological stance</b>	Positivism	Interpretivism and constructivism
<b>Theory and research</b>	Theory is used deductively for deriving testable hypotheses	Theory is usually developed from the research inductively
<b>Research purpose</b>	Measure and analyse causal relationships between variables within a value-free framework	Capture and discover meaning once the researcher obtains the data, focusing on interactive processes and events
<b>Research procedure</b>	Procedures are standard, and replication is frequent	Procedures are particular and replication is rare
<b>Concept</b>	Concepts are in the form of distinct variables	Concepts are in the form of themes, motifs, and taxonomies
<b>Nature of Data</b>	Data is in the form of numbers from precise measurements	Data is in the form of words, symbols, and images from documents, observations, and transcripts
<b>Sample</b>	Relatively much larger, statistical methods are used to ensure that samples are representative	Relatively much smaller, purposeful samples usually chosen mainly because they can provide important information not because they are representative
<b>Analysis</b>	Statistical analysis that proceeds by using statistics, tables, or charts, and relating them to the hypotheses	Thematic analysis that proceeds by extracting themes or generalisations from evidence and organising data to present a coherent and consistent picture

*Source: adapted from Firestone, 1987; Sales et al., 2002; Neuman, 2006; Bryman and Bell, 2011*

We see that qualitative and quantitative research differ in many ways. According to Morgan (2007, p.73), 'qualitative research is the research that emphasizes an inductive-subjective-contextual approach, whereas quantitative research emphasizes

a deductive-objective-generalizing approach'. 'An important by-product of these differences is that they provide complementary information to the reader' (Firestone, 1987, p.18). Firestone (1987) suggests that on the one hand, quantitative studies 'persuade' the reader through de-emphasising individual judgment and stressing the use of established procedures, leading to more precise and generalisable results. On the other hand, the qualitative studies 'persuade' through rich depiction and strategic comparison across cases, thereby overcoming the abstraction inherent in quantitative studies. Hence, the advantage of large-sample study is breadth, whereas its main disadvantage is lack of depth. For case studies, the opposite is true.

Considering that both quantitative and qualitative research have complementary strengths and weaknesses, or that they focus on different phenomena or different aspects of the same phenomena, some scholars suggest using a mixed-methods approach by carrying out qualitative and quantitative work sequentially, simultaneously or iteratively in a single study or series of investigations (e.g., Rossman and Wilson, 1985; Rossman and Wilson, 1994; Johnson and Onwuegbuzie, 2004). The research goals of using mixed-methods can be (see Rossman and Wilson, 1985; Greene et al., 1989): (1) triangulation/corroborations (i.e., seeking the convergence of the findings); (2) complementarity (i.e., seeking elaboration, enhancement, illustration and clarification of the results from one method with results from the other method); (3) initiation (i.e., disvoering paradoxes and contradictions that lead to new research questions); (4) development (i.e., results from one method are used to shape a subsequent method); or (5) expansion (i.e., seeking to expand the breadth and range of inquiry on different components). However, still other researchers argue that the underlying paradigms of qualitative and quantitative approaches are incompatible (characteristically, interpretivism and positivism respectively), and therefore that it is impossible to combine the two approaches (e.g., Smith and Heshusius, 1986; Guba, 1987, 1990; Guba and Lincoln, 1988).

With regard to attitudes toward whether qualitative and quantitative methods can be combined in a single research project, Rossman and Wilson (1985) identify three different perspectives: purists, situationalists and pragmatists. The purists usually focus on the paradigm level, and hold the view that qualitative and quantitative approaches are derived from quite different and mutually exclusive paradigmatic sets of assumptions, hence that one cannot mix the two methods. This view refers to the incommensurability of paradigms (Kuada, 2012). Focusing on the method level, the situationalists on the one hand retain the paradigmatic integrity stance of the purists but on the other hand argue that different paradigms contribute complementarily to business research. Therefore, they suggest both methods have value and can provide supplementary information, and that a certain method is most

appropriate in a specific situation or phase of the research process. On the contrary, the pragmatists argue that method-types do not need to be linked with paradigms and one does not need to adopt mono-philosophical position, which means quantitative methods are not necessarily positivistic nor are qualitative ones necessarily phenomenological. Hence, they argue for the integration of methods in a single study (e.g., Teddlie and Tashakkori, 2003). We may summarize three perspectives in a continuum way toward the extent to which two approaches co-exist and can be combined, with purists and pragmatists sitting on two opposites ends, and situationalists lying somewhere inbetween.

Confronted with the unsolved puzzle of the 'success paradox' in M&A and the research gaps presented earlier, this thesis uses quantitative research strategies with the goal of identifying some general principles that can explain the success/performance of cross-border acquisitions. A conceptual framework is established and relevant hypotheses about some causal relationships have been derived from the existing literature, and then tested using the data collected via online questionnaire. I consider myself a situationalist, as I think both qualitative and quantitative approaches are important, and they will be more appropriate and particularly useful in certain research situations with certain research questions and research objectives. Findings obtained from different approaches can provide complementary information about the phenomena of interest.