

1 Introduction

After a period of restructuring, many companies have recently embarked on a strategy of sustained growth. The results of *The Global CEO Study 2006* revealed that cost cutting has been replaced by growth as a CEO's priority (IBM, 2006). In January 2006, the leading German newspaper *Frankfurter Allgemeine Zeitung* claimed that companies were again heading for growth as they were reinvesting the earnings from their restructuring efforts (Schäfer, 2006). Indeed, since then many companies have set up ambitious growth plans, which cannot be entirely achieved through organic growth. External growth methods, such as mergers and acquisitions (M&A)¹, play an important role. As a matter of fact, we are currently in the middle of a sixth merger wave (Müller-Stewens, 2006) that is registering new record volumes: In 2006, the announced global M&A volume reached USD 4.06 trillion, thereby exceeding the previous high of USD 3.33 trillion announced in 2000 by 21%. This development places new emphasis on one of the most extensively discussed topics in strategic management research: M&A management.

Managing M&A successfully is a complex organizational task, with acquisitions often resulting in failure (for a review see King, Dalton, Daily & Covin, 2004). This leads to the assumption that the evolution of a specific capability for M&A management is complicated. In the course of the current sixth merger wave, however, acquirers seem to be creating more value for their shareholders than during the earlier boom, which ended with the bursting of the Internet bubble in 2000 and was known for a lack of discipline (Dobbs, Goedhart & Suonio, 2006). On the whole, this implies that some acquirers have succeeded in building the required M&A capability.

This phenomenon is largely unexplored. This dissertation endeavors to fill this research gap by developing a mid-range theory of M&A capability evolution. First, an empirically grounded process model of M&A capability evolution is developed. Thereafter, an explanation is provided of how environmental, organizational, and acquisition-specific factors affect this evolution. Third, two managerial activities are suggested for engineering the evolution of successful M&A capability in different contexts. Lastly, the key findings are integrated in a proposition for a "middle-up-down management" approach with which to achieve a balance between standardization and flexibility that is regarded as vitally important for successful M&A capability evolution.

¹ Mergers & Acquisitions (M&A) are a form of external organizational growth. In this dissertation, M&A refers to the *acquisition of entire firms or parts of firms in the form of firm assets or shares*. During such a transaction, at least one of the firms involved loses its economic independence. A detailed overview of other definitions of M&A is provided by Becker (2004: 48-68).

1.1 Research Problem

Over the last decades, mergers and acquisitions have become an almost everyday phenomenon in business life. It is, however, remarkable that – in spite of the growing economic importance of M&A – management research's recommendations to companies regarding how to generate value from their highly risky investments are fragmented and sometimes even contradictory (Zollo & Singh, 2004). Some researchers argue that this is due to the insufficient specification of research models and call for a better understanding of the conditions under which acquisitions lead to superior performance (King, 2002; King et al., 2004).

In an attempt to answer this call, this dissertation proposes a change of perspective. To date, M&A research has strongly focused on analyzing a single transaction. The acquirer's acquisition strategy and history are hardly ever considered. Yet, given that single transactions are often part of one company's extensive sequence of acquisitions, a change of perspective from a single acquisition to a company's acquisition strategy as a whole might be meaningful for research purposes.

Recently, large consulting firms have started to conduct M&A studies assuming exactly such an acquisition strategy perspective (Cools, Gell & Roos, 2006; Cools, King, Neenan & Tsusaka, 2004; Harding & Rovit, 2004a, 2004b; Palter & Srinivasan, 2006; Rovit, Harding & Lemire, 2004; Rovit & Lemire, 2003). In one of these studies, Cools et al. (2004) explicitly call for an analysis of acquisition-driven growth strategies pursued by individual organizations instead of a mere measuring of single transaction performance. The scholarly literature has also begun to investigate M&A from this perspective (e.g., Laamanen & Keil, 2006). Nevertheless, the use of an acquisition strategy perspective is not new; it has just been neglected during the last decades: More than thirty years ago, Didrichsen (1972) investigated acquisition strategies. In the 1980s, Asquith, Bruner, and Mullins (1983) likewise suggested that a single acquisition is frequently part of a company's broad investment strategy.

In line with other authors (e.g., Haspeslagh & Jemison, 1991), this dissertation therefore suggests that acquisition strategies, i.e., several acquisitions realized by an individual firm², should be investigated from a strategy process perspective.³ The proposed change of perspective is visualized in figure 1-1:

² Please refer to subsection 1.1.2 for a detailed definition of the term "acquisition strategy".

³ Numerous authors have provided detailed overviews of strategy process research (e.g., Frankenberger, 2006; Lechner, 2005; Marx, 2004). This dissertation thus purposefully refrains from presenting another one. Instead, assumptions, constructs, and methods from prior strategy process research that are of relevance for the current research objective will be taken into consideration during the theoretical and methodological considerations presented in this dissertation.

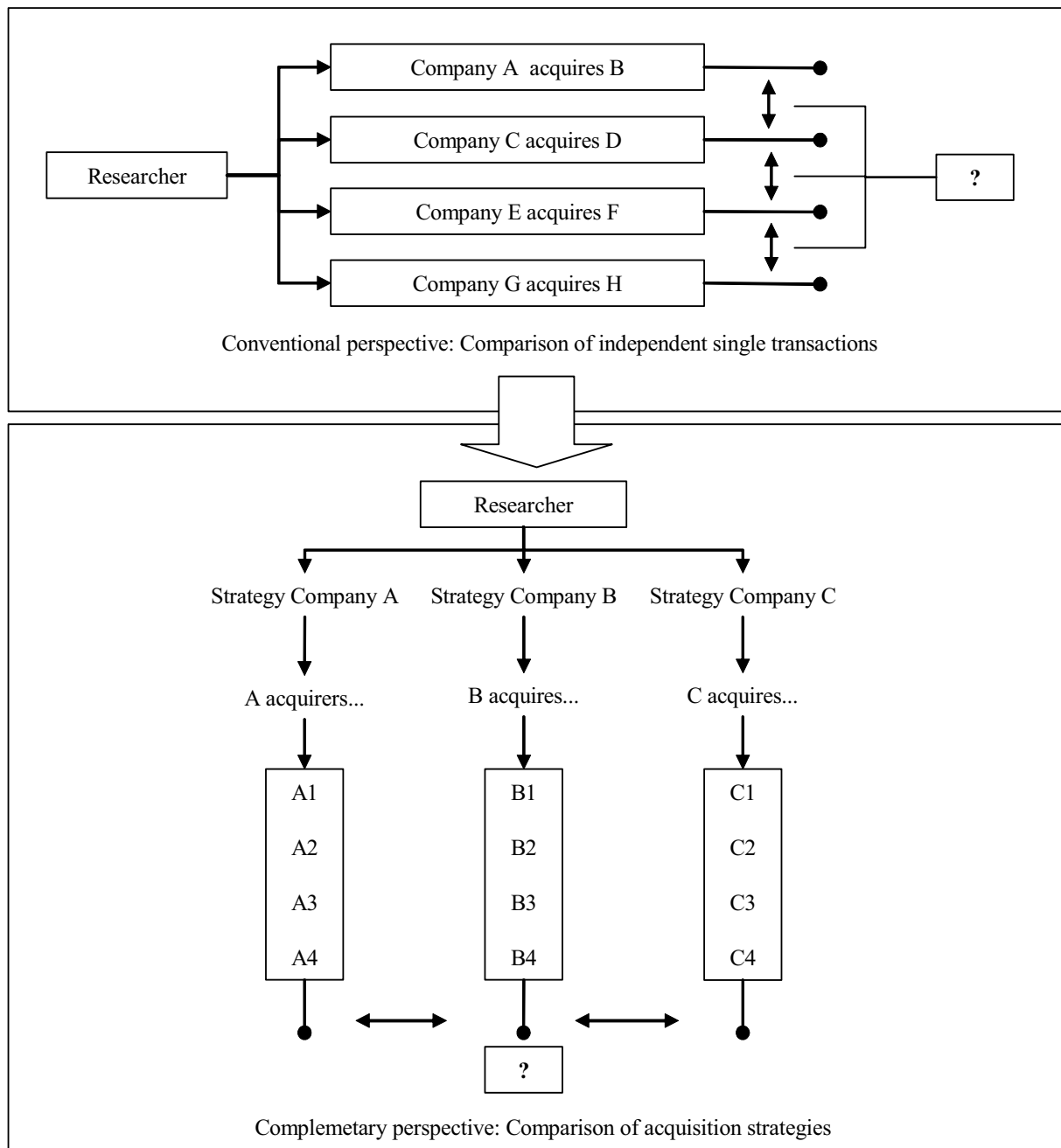


Figure 1-1: From individual acquisitions to acquisition strategies

(Source: Author)

1.1.1 Research Goal and Research Questions

Changing the perspective from the single transaction to the acquisition strategy level gives rise to new research questions. The following inconsistency is particularly striking: When investigated from the traditional single transaction perspective, acquisitions do not usually contribute to the sustained improvement of acquirer performance (e.g., Blackburn, Lang & Johnson, 1990; Chatterjee, 1986; Datta, Pinches & Narayanan, 1992; Elgers & Clark, 1980; King et al., 2004; Larsson & Finkelstein, 1999; Lubatkin, 1987; Matsusaka, 1993; Seth, 1990; Singh & Montgomery, 1987; Sirower, 1997).

Conversely, researchers assuming an acquisition strategy perspective find that some serial acquirers' acquisition strategies perform extraordinarily well (e.g., Bruton, Oviatt & White, 1994; Fowler & Schmidt, 1989; Gregory, 1997; Hayward, 2002; Hopkins, 1987b; Laamanen et al., 2006; Stegemoller, 2001).⁴ Obviously, these serial acquirers have succeeded in building the required M&A capability, thus enabling them to outperform single acquirers as well as other, less successful serial acquires.

Given that the acquisition task is complex and faces multiple internal and external influences, an interesting question is how M&A capability evolves in the course of a frequent acquirer's acquisition strategy. This dissertation's general research question is therefore: **How does M&A capability⁵ evolve successfully?** Based on an in-depth analysis of acquisition strategies in four of a large corporation's business groups, a basic understanding of the evolution of M&A capability is developed in this dissertation. More specifically, the focus is on three relevant sub-aspects of the overall research question: The processes through which M&A capability evolves; the specific context's impact on M&A capability evolution; and top management's role in engineering M&A capability evolution.

The following section highlights the lack of answers to these questions to date. Furthermore, it specifies why they are worth investigating.

M&A Capability Evolution. The M&A literature concerned with the question of how firms build capabilities to carry out acquisitions⁶ has assumed that repeated acquirement results in increased acquisition experience due to the ongoing learning processes. Consequently, a frequent acquirer's transaction experience has been suggested as resulting in a comparatively lower M&A failure rate (Lubatkin, 1983). Empirical studies trying to confirm this notion have mostly been of a quantitative, cross-sectional nature and the results have been contradictory.⁷ Researchers have therefore called for more research to uncover the processes through which firms learn to manage acquisitions

⁴ These results are relevant in many ways. The applied performance measures – i.e., mainly capital market reactions – have, however, been repeatedly called into question by scholars and practitioners, as most event studies do not entirely capture the anticipated benefits from an acquisition due to information asymmetries (King et al., 2004). Please refer to subsections 2.1.1 and 3.2.3 for more details on acquisition performance measurement.

⁵ M&A capability is defined as dynamic capability enabling the organization to reconfigure its existing operating resource and capability base in order to achieve competitive advantage in changing environments. Please refer to subsection 1.1.2 for a detailed definition.

⁶ Existing research has mainly analyzed two types of capability building in acquisitions: First, building capabilities through acquisitions, e.g., acquiring promising technological capabilities (Ahuja & Katila, 2001; Chauduri & Tabrizi, 1999; Hitt, Hoskisson, Ireland & Harrison, 1991; Uhlenbruck, Hitt & Semadeni, 2006). Second, building capabilities to carry out acquisitions, e.g., evaluating potential targets or integrating acquired firms (Haleblian & Finkelstein, 1999; Vermeulen & Barkema, 2001; Zollo et al., 2004).

⁷ For a more detailed discussion of the effects of experience gained from prior acquisitions on posterior acquisitions, see subsection 2.1.2.

effectively (e.g., Haspeslagh et al., 1991). Not only M&A literature has paid little systematic attention to the capability accumulation process: While the dynamic capability-based view of the firm⁸ offers some process characteristics, e.g., idiosyncrasy and path-dependency (Teece, Pisano & Shuen, 1997), there are no adequate process theories (e.g., Langley, 1999; Zollo & Winter, 2002) that describe and explain the capability evolution process (Pandza, Polajnar, Buchmeister & Thorpe, 2003). Hence, contributions describing the processes underlying capability evolution are limited in number and lack micro-level detail (Eisenhardt & Martin, 2000). This leads to this study's first research question (RQ):

RQ1: Through which processes does M&A capability evolve?

This dissertation approaches this question by developing a working framework of capability evolution to help structure the argumentation and elaborate on the findings (subsection 2.2.1). With the help of this theoretical framework and evidence from fieldwork, the observed evolutionary processes are then described coherently and an M&A capability evolution cycle is developed (section 5.1).

Factors Affecting M&A Capability Evolution. To provide a theoretical contribution, a description needs some explanation of why a process occurs. Consequently, this dissertation investigates factors that potentially affect the process of M&A capability evolution. Various literature streams provide hints pointing to such factors: First, the dynamic capability-based view suggests that the evolution of dynamic capabilities is affected by market dynamics (Eisenhardt et al., 2000). Second, it has been proposed that dynamic capabilities are unique and idiosyncratic processes emerging from path-dependent histories (Teece et al., 1997). Lastly, research on learning from M&A has suggested that learning curve effects as observed in production may not occur in acquisitions due to their specific characteristics (Ahuja et al., 2001; Hayward, 2002; Zollo et al., 2002). Hence, prior literature assumes the existence of influences on M&A capability evolution; their dynamics have, however, been inadequately explored (for a review see Helfat et al., 2007). The second research question is therefore:

RQ2: How is M&A capability evolution influenced by the organization's environment, development, and acquisition strategy characteristics?

In this dissertation, a theoretical review of the three factors' impact on capability evolution guides the consideration of this research question (subsection 2.2.1). Furthermore, the various acquisition strategies are classified on a framework developed for that purpose (subsection 2.2.2). Based on the gained evidence and previous literature, a contingency model of M&A capability evolution is developed (section 5.2).

⁸ Please refer to subsection 2.1.3 for a literature review on the dynamic capability-based view of the firm.

Engineering M&A Capability Evolution. It has been proposed that capability evolution is an emergent process (e.g., Carroll & Hannan, 2000; McKelvey & Aldrich, 1983; Nelson & Winter, 1982). Accepting this point of view would make this dissertation's third research question obsolete: If managers cannot exert influence on M&A capability evolution, they cannot be provided with guidance regarding how to contribute to its successful evolution. M&A literature has, however, argued that building capabilities for acquisition process management is a top management task that is vital for sustained competitive advantage (Haspeslagh et al., 1991). This implies that management can actively influence M&A capability evolution. In line with this, several authors in the realm of strategy process research have found that management can partially steer evolutionary processes (Burgelman, 1983a; Burgelman, 1983b, 1991; Lovas & Ghoshal, 2000; Salvato, 2003). The question then is which managerial actions promote the evolution of successful M&A capability. Consequently, this study's third research question is:

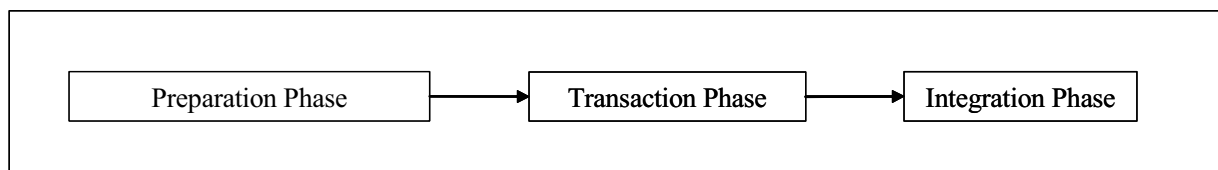
RQ3: How can top management engineer the evolution of successful M&A capability?

This dissertation approaches this research question by measuring the investigated M&A capabilities' evolutionary fitness via a multidimensional framework (subsection 3.2.3). With the help of a matrix based on empirical evidence and prior literature, managers are subsequently provided with some normative guidance on how to engineer M&A capability evolution appropriately in their respective contexts (section 5.3).

1.1.2 Research Focus and Important Definitions

This section briefly introduces this research's boundaries by describing the dissertation's research focus. It further defines two constructs that are of vital importance throughout this dissertation.

Research Focus. An important aspect that needs to be considered in order to refine this study's research topic is that each acquisition project consists of three – interdependent, yet separable – phases (e.g., Becker, 2004; Gerpott, 1993; Gocke, 1997): The preparation phase, the transaction phase, and the integration phase. These phases are depicted in the following figure:



*Figure 1-2: The three acquisition phases
(Source: Author)*

The different challenges presented during these phases have been widely neglected in research into capabilities required to carry out acquisitions. The few studies that do focus on a specific phase have dealt almost exclusively with the third integration phase (e.g., Ashkenas, DeMonaco & Francis, 1998; Burgelman & McKinney, 2006; Harvey, 2000; Hitt, Harrison, Ireland & Best, 1998; Zollo et al., 2004). It can be assumed that the capabilities required during the second transaction phase are tangible, as this phase mainly comprises acquisition-related technical issues (e.g., the drafting of purchase contracts). It can therefore be assumed that strategic issues are irrelevant during this phase. To date, hardly any in-depth studies have dealt with the preparation phase, the first of the three acquisitions phases.⁹ It has been suggested, however, that acquisition success can be enabled by a disciplined approach to acquisition strategy and decision-making (e.g., Fray, Gaylin & Down, 1984).

This dissertation's focus is therefore on the evolution of M&A capability in respect of managing the M&A preparation phase.¹⁰ This phase embraces the following five mutually related sub-phases: Acquisition strategy definition, target screening, target selection, internal acquisition justification, and the final investment decision. The boxes highlighted in grey in figure 1-3 depict this research's focus:¹¹

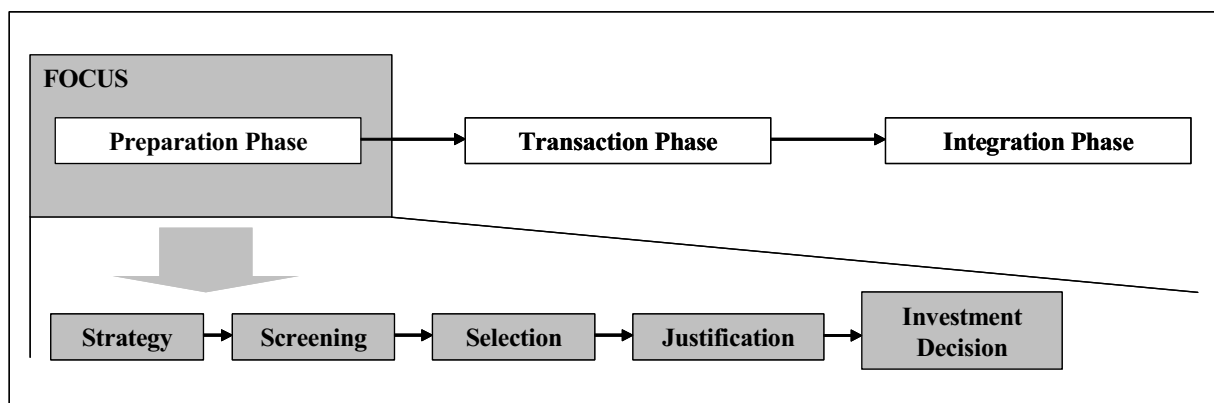


Figure 1-3: Focus of this dissertation

(Source: Author)

⁹ Only one prior study was found that focused on the processes during acquisitions' strategy definition phase: Côté, Langley, and Pasquero (1999) used the "dominant logic" construct to explain how a firm's acquisition strategy and management approach evolve.

¹⁰ This decision does not imply that the other M&A phases do not require specific capabilities. The study's complexity has, however, to be reduced to gain meaningful insights. The capabilities required during acquisition preparation differ sufficiently from those required during post merger integration to legitimize the theoretical division. This is supported by the fact that this study is not the first to distinguish between pre-acquisition and post-acquisition capabilities, see, for example, Eisenhardt and Martin (2000: 1109).

¹¹ There is no final agreement on the various elements contained in each of these phases. The division presented in this study stems from the literature and from interviews conducted with M&A practitioners. This division is, however, a theoretical one. In practice, the sub-phases' sequence can differ, and may not always be clearly distinguishable.