3-2017

Cross-border M&A: Challenges and opportunities in global business environment [Guest editors' introduction]

Rosa CAIZZA
Parthenope University

Katsuhiko SHIMIZU
Keio University

Toru YOSHIKAWA
Singapore Management University, toru@smu.edu.sg

DOI: https://doi.org/10.1002/tie.21825

Cross-Border M&A: Challenges and Opportunities in Global Business Environment

Rosa Caiazza, Katsuhiko Shimizu, Toru Yoshikawa

Published in THUNDERBIRD INTERNATIONAL BUSINESS REVIEW, Volume 59, Issue 2, March/April 2017, Pages 147-151. Guest Editors' Introduction

https://doi.org/10.1002/tie.21825

Cross-Border M&A

Under a rapidly changing and globalizing environment, mergers and acquisitions (M&As) have become one of the most important strategic initiatives (Caiazza & Volpe, 2015a ; Hitt, Harrison, & Ireland, 2001). In this context, cross-border M&As are increasingly popular (Hitt et al., 2009; Shimizu, Hitt, Vaidyanath, & Vincenzo, 2004). Cross-border M&As provide various opportunities and benefits such as expeditious entry into new markets by gaining local knowledge, supplier networks, government relationships, and customers embedded in the target firm (Caiazza & Volpe, 2015b ; Hitt et al., 2009).

According to Baker & McKenzie, a major law firm, total value of cross-border M&As was more than $1.6 trillion in 2015, approaching the all-time high of $1.8 trillion in 2007 just before the financial crisis. Results of a survey conducted by Bloomberg in 2011 also reported that 49% of global M&As in 2010 were cross-border transactions. Seventy-five percent of survey respondents answered that cross-border M&As would be more attractive than domestic ones (Bloomberg, 2011; Caiazza & Ferrara, 2016).

Academics and practitioners discuss various issues associated with M&As and extend our understanding of motives, key success factors, and challenges (Barkema & Schijven, 2008; Bauer & Matzler, 2014; Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). The dynamics of cross-border M&As are largely similar to those of domestic M&As. However, due to their international nature, they also involve unique challenges, as countries have different economic, institutional, and cultural structures. Such challenges include difficulty in appropriate valuation of foreign targets; country and organizational cultural clashes; liability of foreignness; and difficulties in hiring, utilizing, and retaining foreign employees (Barkema, Bell, & Pennings, 1996; Shimizu et al., 2004; Zaheer, 1995). As exemplified by Daimler-Chrysler, a large number of cross-border M&As result in failure (e.g., Christensen, Alton, Rising, & Waldeck, 2011).

Historically, research on cross-border M&As has predominantly focused on multinational corporations from developed countries such as the United States and some European countries and often examines M&As as a mode of foreign-market entry from economic and financial perspectives (Chari & Chang, 2009; Shimizu et al., 2004). In the past two decades, however, we observe two new major trends.

First, significant attention has been paid to the growing importance of emerging markets (Gammeltoft, Barnard, & Madhok, 2010; Khanna & Palepu, 2010). The importance of emerging markets has become particularly noticeable; when the acronym BRICs (Brazil, Russia, India, and China) was introduced in 2001 by a Goldman Sachs analyst, it quickly become a buzzword around the world. To the extent that developed markets such as the United States, Europe, and Japan are maturing, many multinational corporations (MNCs) seek their future growth opportunities in emerging markets such as Asia, Africa, and Latin America. Moreover, we also observe M&As initiated by MNCs from emerging countries, and vigorous research has begun on such M&As (e.g., Aybar & Ficici, 2009; Madhok & Keyhani, 2012).

Second, the issues associated with postmerger integration (PMI) received a renewed attention, although the importance of PMI has been recognized (Caiazza, 2016; Haspeslagh & Jemison, 1991). It is partly because researchers started realizing that we cannot explain M&A performance with antecedent variables such as acquirer type, relatedness, method of payment, and acquisition experience (King, Dalton, Daily, & Covin, 2004). Moreover, PMI is particularly challenging in cross-border M&As due to differences existing at both the national and corporate levels, which Barkema et al. (1996) calls “double-layered acculturation.” In fact, conventional financial performance measures, such as abnormal return, were also being questioned because such measures do not reflect the PMI processes (Caiazza & Dauber 2015; Zollo & Meier, 2008). Many international scholars stress the importance of PMI from a sociocultural perspective and suggest a need for further research (e.g., Sarala, Junni, Cooper, & Tarba, 2014; Stahl et al., 2013).

Researchers suggest that examining PMI from an economic perspective has limitations and that we should employ sociocultural and behavioral perspectives (Stahl et al., 2013). By doing so, we need to pay attention to cultural fit, human resource management, management style similarity, politics, cultural tolerance, and social climate (Sarala et al., 2014; Stahl et al., 2013). It is also suggested that imposing acquirer's culture and knowledge on acquired firm may not productive. Instead, a more flexible approach, possibly encouraging and utilizing bottom-up movement from the acquired firm may be important (Colman & Grogaard, 2013).

Among various issues, a few interesting topics emerge. First, there has been a debate in terms of how much an acquirer should integrate an acquired firm and how much autonomy an acquirer should provide to realize potential synergy of the acquisition. Although some researchers assume that more integration is better (e.g., Bauer & Matzler, 2014), it is also suggested that a contingent perspective is needed on this issue. For example, Zaheer, Castner, and Souder (2011, p. 604) argue that “integration and autonomy are not the opposite ends of a single continuum” and certain conditions contribute to both high integration and high autonomy.

Second, while cultural differences had been assumed to have negative impact on PMI and resulting performance and knowledge transfer, the assumption is also questioned (e.g., Bauer & Matzler, 2014). Although cultural similarity enhances PMI, integrating different cultures has positive effects on acquirer performance through learning opportunities (Reus & Lamont, 2009). Similarly, while we tend to regard high knowledge transfer as positive, Reus, Lamont, and Ellis (2015) point out the possibility of negative effects of knowledge transfer.

Third, past research tends to conceptualize culture holistically, often using the measures proposed by Kogut and Singh (1988). More recent research examines specific elements consisting of the cultural differences. For example, Cuypers, Ertug, and Hennart (2015) examine the effects of linguistic distance and lingua franca.

In relation to PMI, how we measure M&A performance has been a major issue (Zollo & Meier, 2008). For example, Stahl et al. (2013) suggests that M&A performance measures can be categorized into five different types: financial measures, economic measures, strategic measures, executive measures, and regulatory measures. Similarly, by reviewing various measures used in the M&A research, Zollo and Meier (2008) concluded that M&A performance is a multifaceted construct and that there is no one overarching measure.

Challenges and Opportunities in Global Business Environment

Starting from existing studies on cross-border M&As, our special issue aims to evidence challenges and opportunities in the global business environment. At this aim, "Management of Overseas Acquisitions by Developing-Country Multinationals and Its Performance -Implications: The Indian Example" starts from the assumption that developing-country multinationals (DMNCs) make overseas acquisitions to leverage extant capabilities of acquired companies in order to enter foreign markets and acquire their know-how to enhance their own competitiveness against global competition at home and abroad. The article goes "inside the black box" to examine how DMNCs manage those acquisitions and the attendant implications for postacquisition performance. When DMNCs keep the acquired firm "structurally separate" from their own organization and retain its senior executives, they exhibit better acquisition performance. Also, "linking mechanisms" to coordinate interdependencies between the two firms improves performance, especially when the acquired firm is kept structurally separate. Analyses of large-sample data of Indian DMNCs' overseas acquisitions show that DMNCs' light-handed approach to manage acquisitions, despite acquiring majority ownership in them, seems suited to their acquisition objectives.

"Defying Distance? Cross-Border Acquisitions by Emerging-Economy Firms" argues that emerging- -economy firm international location choices are driven by the pursuit of dynamic efficiency rather than the immediate minimization of transaction and learning costs, and hence the relationship between country distance and the number of cross-border acquisitions will be less negative for these firms relative to advanced-economy firms. It then tests the hypothesis with respect to four measures of country distance—geographic, economic, cultural, and institutional—and find support for the hypothesis. The study provides empirical support for claims in the literature about differences in the international expansion behavior of emerging-economy firms with respect to location. In addition, it makes a theoretical contribution by showing that the theoretical perspective of dynamic efficiency can explain the difference in the location choices for cross-border acquisitions by emerging-economy firms relative to those by advanced-economy firms.

“The Canon Acquisition of Océ: A Qualitative Analysis of a Successful Sociocultural Integration” is based on an inductive, qualitative research approach that comprises in-depth, semistructured executive interviews, employee observations, internal company data, and external media accounts. The study analyzes the recent large-scale acquisition of the Dutch Océ N. V. by the Japanese Canon Inc. Despite their significantly different national cultural heritages and considerably contrasting organizational cultural practices, both companies were able to successfully manage the sociocultural integration process. Building on a recently published marriage metaphor model of sociocultural integration, this study sketches out explicit links between national cultural value orientations and the respective organizational cultural practices, identifies and discusses key success factors for each of the three stages of the acquisition process (i.e., preacquisition, closing, and postacquisition stages), and examines the interconnectedness of these success factors across the three stages by discussing interlocking best practices. In so doing, this study provides a more dynamic and encompassing account of the key factors that determine the success of the sociocultural integration process in international acquisitions.

“Acquisitions Entry Strategies in Africa: The Role of Institutions, Target-Specific Experience, and Host-Country Capabilities—The Case Acquisitions of Finnish Multinationals in Africa” points to international acquisitions as an important foreign direct investment mode for firms seeking foreign-market entry. The number and value of cross-border mergers and acquisitions (M&As) increased about ten times between 1990 and 2008, and cross-border M&As now account for the vast majority of total global FDIs. As multinational enterprises (MNEs) are increasingly using acquisitions as a growth option, they have also set up acquisition departments/units responsible for acquisition process and decisions. These developments suggest that managers are systematically omitting other entry mode choices (e.g., greenfields entries) from their decision process and are focusing on acquisitions rather than exploring alternative entry mode choices. Based on these assumptions, the article explores acquisition strategies as strategic entry decisions rather than as dichotomous choices with greenfield investments using the case of Finnish multinationals in Africa.

“When Organizational Justice Matters for Affective Merger Commitment” focuses on the topic of organizational justice according to which employees who are treated fairly during acquisitions are more committed to their new firms. The article extends this finding by dividing organizational justice into three subdimensions: informational justice, interpersonal justice, and procedural justice. It finds evidence that procedural justice is an important antecedent of affective merger commitment at an early stage of the integration period, while informational justice becomes important at a later stage. Further analysis on heterogeneity between target firms’ employees and bidder firms’ employees reveals that immediately after the acquisition, target firms’ employees value knowing where they will be at the new firm (procedural justice), while bidder-firm employees are more concerned about communication and transparency (informational justice). The article's results point to the importance of organizational justice in a cross-border M&A setting and the need for a separate study of issues related to bidder firms and target firms.

Finally, “New Geography of M&As: A Framing Device of Firms’ Strategies” starts from the assumption that the emergence of new economic centers is changing the competitive scenario. The diffusion of power across an increasingly broad range of countries has opened a window of opportunity for firms from China that want to compete globally. These firms understand their options in exploiting economic geography, and they frequently use cross-border M&As to penetrate developed countries. The United States and Europe are becoming natural destinations for such investments because of their huge markets and leading-edge technologies. Based on these assumptions, the article provides a framing device for firms' strategies in a multipolar world.

Overall, we are greatly honored to introduce these six articles that aggressively attack important and challenging topics in cross-border M&As. We believe that these articles stimulate interests and conversations regarding cross-border M&As and contribute to further development of our understanding.

Biographies

Rosa Caiazza is a professor of strategic management at Parthenope University of Naples. She is a board advisory member of the Academy of Management Perspective, Corporate Governance, and several other A journals. She was a visiting researcher at Wharton University of Pennsylvania (United States) and Universitè Libre de Bruxelles (Belgium). She is the author of many articles published in top-tier academic journals on interlocking directorates and M&A. She has chaired many EIASM conferences on M&A. She received the Emerald Literati Network Awards for Excellence. Her main research topics are corporate and business strategies, internationalization, cross-cultural management, M&A, and corporate governance.

Katsuhiko Shimizu is a professor of strategic management at Keio University. His research interests include decision change and decision implementation under uncertainty, learning from mistakes, and managing cultural challenges in international contexts. He has also published research examining M&A activities in such top outlets as Academy of Management Journal, Strategic Management Journal, Journal of Management, and Business Horizons. He serves on multiple editorial boards including the Academy of Management Journal, Strategic Management Journal, Journal of Management Studies, and Journal of International Management. Before joining Keio, he taught undergraduate, MBA, and PhD students at the University of Texas at San Antonio for ten years. He has authored management textbooks both in English (The Cores of Strategic Management, 2010) and in Japanese (What Is Strategy and What Is Not, 2007).

Toru Yoshikawa is a professor of strategic management at Lee Kong Chian School of Business, Singapore Management University. He received his PhD in business policy from York University in Toronto, Canada. He was previously a faculty member at McMaster University in Canada and Nihon University in Japan. His main research interests include strategic and performance implications of corporate governance, corporate governance reforms and institutional change, corporate governance of family-controlled firms, and behaviors of corporate directors. He has published his research articles in such academic journals as Strategic Management Journal, Academy of Management Journal, Organization Science, Journal of Management, and Journal of Management Studies. His coedited book on comparative corporate governance, The Convergence of Corporate Governance: Promise and Prospects, was published in 2012 from Palgrave MacMillan. Prior to his academic career, he was an investment banker in capital markets and investment banking areas with a Canadian financial institution in Tokyo and Toronto.

References

Aybar, B., & Ficici, A. (2009). Cross-border acquisitions and firm value: An analysis of emerging-market multinationals. Journal of International Business Studies, 40, 1317–1338.

Barkema, H. G., Bell, J. H. J., & Pennings, J. M. (1996). Foreign entry, cultural barriers and learning. Strategic Management Journal, 17, 151–166.

Barkema, H. G., & Schijven, M. (2008). How do firms learn to make acquisitions? A review of past research and an agenda for the future. Journal of Management, 34, 594–634.

Bauer, F., & Matzler, K. (2015). Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree and speed of integration. Strategic Management Journal, 35, 269–291.

Bloomberg. (2011). M&A Outlook. Retrieved from www.bloomberg.com

Caiazza, R. (2016). New drivers and challenges in a multi-polar world, Benchmarking: An International Journal, 23, 329–337.

Caiazza, R., & Dauber, D. (2015). Research on M&As—time for consolidation. Journal of Organizational Change Management, 28, 872–894.

Caiazza, R., & Ferrara G. (2016). Economic geography and multipolar strategies. Journal of Management Development, 35(3),

Caiazza, R., & Volpe, T. (2015a). Interaction despite of diversity: Is it possible? Journal of Management Development, 34, 743–750.

Caiazza, R., & Volpe T. (2015b). M&A process: A literature review and research agenda. Business Process Management Journal, 21(1), 205–220.

Christensen, C. M., Alton, R., Rising, C., & Waldeck, A. (2011). The new M&A playbook. Harvard Business Review, 89, 49–57.

Chari, M., & Chang, K. (2009). Determinants of the share of equity sought in cross-border acquisitions. Journal of International Business Studies, 40, 1277–1297.

Colman, H. L., & Grogaard, B. (2013). Integration vacuum: Creating action space for global strategy implementation in international acquisitions. Thunderbird International Business Review, 55, 405–418.

Cuypers, I., Ertug, G., & Hennart, J.-F. (2015). The effects of linguistic distance and lingua franca proficiency on the stake taken by acquirers in cross-border acquisitions. Journal of International Business Studies, 46, 429–442.

Gammeltoft, P., Barnard, H., & Madhok, A. (2010). Emerging multinationals, emerging theory: Macro- and micro level perspectives. Journal of International Business Studies, 16, 95–101.

Haleblian, J., Devers, C. E., McNamara, G., Carpenter, M., & -Davison, R. E. (2009). Taking stock of what we know about mergers and -acquisitions: A review and research agenda. Journal of Management, 35, 469–502.

Crossref Web of Science®Google Scholar

Haspeslagh, P. C., & Jemison, D. B. (1991). Managing acquisitions. New York, NY: Free Press.

Hitt, M. A., Harrison, J. S., & Ireland. R. D . (2001). Mergers and acquisitions: A guide to creating value for stakeholders. New York, NY: Oxford University Press.

Hitt, M. A., King, D., Krishnan, H., Makri, M., Schijven, M., Shimizu, K., & Zhu, H. (2009). Mergers and acquisitions: Overcoming pitfalls, building synergy, and creating value. Business Horizons, 52, 523–529.

Khanna, T., & Palepu, K. G. (2010). Winning in emerging markets. Cambridge, MA: Harvard Business Press.

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

Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. Journal of International Business Studies, 19, 411–432.

Madhok, A., & Keyhani, M. (2012). Acquisitions as entrepreneurship: Asymmetries, opportunities, and the internationalization of multinationals from emerging economies. Global Strategy Journal, 2, 26–40.

Reus, T. H ., & Lamont, B. T. (2009). The double-edged sword of cultural distance in international acquisition. Journal of International Business Studies, 40, 1298–1316.

Reus, T. H ., & Lamont, B. T., Ellis, K. M. (2015). A darker side of knowledge transfer following international acquisitions. Strategic Management Journal, 36, 1866–1876.

Sarala, P. M., Junni, P., Cooper, C. L., Tarba, S. Y. (2014). A sociocultural perspective on knowledge transfer in mergers and acquisitions. Journal of Management, forthcoming.

Shimizu, K ., Hitt, M.A., Vaidyanath, D ., & Vincenzo, P . (2004). Cross-border mergers and acquisitions: Reviews and research issues. Journal of International Management, 10, 307–353.

Stahl, G. K., Angwin, D. N., Very, P., Gomes, E., Weber, Y., Tarba, S. Y., … Yildiz, H. E. (2013). Sociocultural integration in mergers and acquisitions: Unresolved paradoxes and directions for future research. Thunderbird International Business Review, 55, 333–356.

Zaheer, S. (1995). Overcoming the liability of foreignness. Academy of Management Journal, 38, 341–363.

Zaheer, A., Castner, X., & Souder, D. (2011). Synergy sources, target autonomy, and integration in acquisitions. Journal of Management, 39, 604–632.

Zollo, M ., & Meier, D . (2008). What is M&A performance? Academy of Management Perspectives, 22(3), 55–77.