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경영학석사학위논문

Behavioral motivation for target
selection in acquisition

- A linkage between aspiration and environment -

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ABSTRACT

Behavioral motivation for target selection in acquisition

- A linkage between aspiration and environment-

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This paper explores how acquirers' prior performance influences their selection of target firms across different industries contingent upon environmental conditions. Although extensive stream of research has advanced our understandings on what motivates a particular firm to pursue the acquisitions, a critical question still remains on what leads firms to select targets in different industries once they have decided to acquire. Using the sample of U.S. manufacturing firms, the paper argue that motivation to employ specific acquisition strategy (i.e., related or unrelated acquisition) is simultaneously affected by an individual performance feedback condition and environmental characteristics that acquiring firm compete in. Through incorporating behavioral perspectives with task environment dimensions (i.e., dynamism), the study examines the

contingency effects of environmental condition upon firm's acquisition strategies. Therefore, the study contributes to both streams of performance feedback theory and acquisition literature by identifying more integrative approach of antecedents that explains differences in acquisition behaviors.

Key words : performance feedback, target selection, acquisition strategy, environment dynamism

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1. Introduction

Originated from the behavioral theory of the firm (Cyert & March, 1963), a large volume of research has explored how managerial perception on firm's unique situation affects organizational behaviors (March & Shapira, 1987, 1992; Bromiley, 1991; Greve 1998). According to the behavioral perspective, firms evaluate their performance relative to a reference point (i.e., aspiration level) and decide whether to preserve or alter their organizational behaviors. Early behavioral studies have primarily focused on examining the influence of performance feedback on organizational risk taking (e.g., Audia & Greve 2006) or search behaviors (e.g., Chen & Miller 2007). Recent studies, however, have extended this stream of research to explaining further search behaviors that eventuate in acquisitions (Iyer & Miller, 2008; Ruth et al. 2013). These researches compared to extant acquisition literatures, which were considerably focused on examining ex-post acquisition performances (Ahuja & Katila, 2001; Cloudt et al., 2006), significantly contributed to the acquisition literatures by identifying the firm specific situational antecedents of acquisitions. Although this nascent stream of research has advanced our understandings on what motivates a particular firm to pursue the acquisitions, a critical question still remains on what leads firms to undertake different acquisition strategies once they have decided to acquire.

While the behavioral theory focuses on internal managerial perspectives, organization theorists and industrial organization economists argue that a choice of firm strategies is not only determined by internal aspects but also by external features, such

as environment or industry characteristics (Chandler, 1962; Child, 1972; Cyert & March, 1963; Porter, 1980). Both population-ecology (Campbell, 1969; Hannan & Freeman, 1997; Aldrich, 1979) and resource-dependence theory (Jacobs 1974; Pfeffer & Salancik, 1978) emphasizes the importance of the environment or the social context for understanding organizations and their decisions while industrial organization economics underlines the structural characteristics of industries as the main determinants of success (Porter, 1980). These theories simultaneously imply that external factors inevitably constrain firms to adjust their strategies according to an environment in which they operate. Regardless of the importance of external conditions on strategic decision makings, however, relatively little attention has been paid on the role of both internal and external features to organizational strategies (Shinkle, 2012). Thus, the paper further delves into the effect of environmental dynamism on differences in acquisition behaviors.

This study attempts to advance our understanding of how both internal firm specific situation and external environmental condition influences acquirer's target selection. In particular, I explore how firm's prior performance relative to aspiration level motivates them to acquire specific target firms across different industries (i.e., related or unrelated acquisition), and how this relationship changes contingent upon dynamism of environment. The paper suggests that conventional predictions of the behavioral theory might not be supported under diverse environmental conditions since different industry structures generate variations in organizational performances (Hawawini et al., 2003), thereby affects the decision of a direction to carry out the

acquisitions. The study therefore extends the previous researches that perceive performance feedback as a behavioral motivation to strategic changes, by integrating the behavioral theory of the firm with the role of environment (Goll et al., 1997).

The paper makes three primary contributions to research on the behavioral theory of the firm and acquisition literatures. First, while prior application studies of the behavioral theory primarily focused on examining the effect of firm's internal condition on organizational changes, the study considers the role of both internal and external features that affect organizational strategies by combining the theory with the task environment dimensions. Therefore, the study provides a more synthetic framework for understanding organizational acquisition behaviors. Secondly, the integration of theories indicates that environmental characteristics do not uniformly affect all firms within an industry. Rather, the influence of environment respectively depends on firm's specific performance situation. Lastly, the study contributes to the relatively nascent stream of research that extends the behavioral theory into the domain of corporate level strategies, merger and acquisition, by focusing on the choice of acquisition strategies. Specifically, I propose that a failure or a success to meet aspirations level triggers or hinders firms from selecting target companies operating in different industries. To examine the hypotheses, I applied logit regression by using the sample of publicly listed U.S. manufacturing firms (SIC code 2000-3999) who have performed any types of acquisition during 2000 to 2013.

2. Theory & Literature Review

2.1 The Behavioral Theory of the Firm

The behavioral theory of the firm (Cyert & March 1963; Levinthal & March 1981; Shapira 1986) proposes that organizations follow the process of performance evaluation, solution search, and decision-making. Managers compare their performance relative to aspiration levels to determine whether they are experiencing failures or successes and this evaluation shapes further organizational behaviors. If the gap generated between the aspiration levels and organizational performances, also known as “attainment discrepancy” (Lant, 1992), is negative, managers perceive their situation as a failure and engage in a problemistic search, hoping to find adequate solutions to the underlying problems (Cyert & March 1963). On the contrary, managers tend to adhere to current strategies when they are receiving positive feedback, or positive attainment discrepancy, from their organizational behaviors.

Majority of the studies that have examined the influence of performance feedback to organizational changes were centered on explaining differences in risk taking behaviors (Fiegenbaum & Thomas, 1988; Bromiley, 1991; March & Shapira 1992). However, recent studies have extended this stream of research by examining the relationship of performance feedback to a broader set of strategic behaviors such as search behavior (Chen & Miller 2007; Bromiley & Washburn 2011), illegal behavior (Mishina et al., 2010) and partnering behavior (Baum et al., 2005). The results indicate

that firms performing below aspiration levels are inclined to take greater risks compared to firms performing above aspiration levels motivated to recover from the repairable gaps (Bromiley et al. 2001; Nickel and Rodriguez 2002; Audia & Greve, 2006).

Further applications of the theory involve acquisition behaviors. Iyer and Miller (2008) employed the performance feedback theory to explain the timing of acquisitions while Ruth et al. (2013) applied the theory to explore motivation and ability to undertake acquisitions. Although deciding whether to acquire or not is crucial in the decision-makings of an organization, it is also equally important to decide in which direction to carry out the acquisition thereafter. Park (2002) considered both firm's prior profitability and industry prior profitability to clarify the relationship between diversification strategies and post-performances, yet the study used relatively simple model to test the hypotheses. Moreover it does not shed light on whether the prior performance level motivates acquirers to adopt certain diversification strategies. Therefore, this paper explores the direction of acquisition by applying the performance feedback theory to understand the firm specific situation that influences managerial choices of acquisition strategies.

2.2 Organizational Task Environments

While prior behavioral theories focused on delineating organizational changes with regard to a firm's internal situation, theories such as population-ecology theory (Campbell, 1969; Hannan & Freeman, 1997; Aldrich, 1979) and resource-dependence

theory (Jacobs 1974; Pfeffer & Salancik, 1978) emphasize the importance of a firm's dependency on external environments. They posit that organizations are inseparable from environmental factors primarily due to resource availability, and also with regard to new opportunities that can be exploited or explored (Eisenhardt & Schoonhoven, 1990). Therefore, both theoretical and empirical management studies conclude that environmental conditions extensively influence organizational strategies (Pfeffer, 1973; Pfeffer & Nowak, 1974; Pfeffer & Leblebici, 1973). Studies by early investigators of the resource dependence theory examined the effects of environmental factors on organizational strategies such as the formulation of boards of directors (Pfeffer, 1973), merger (Pfeffer, 1972) and joint-venture behaviors (Pfeffer and Nowak, 1974). Furthermore, since organizations are contingent upon both internal and external conditions (Hofer, 1975), the studies have concluded that it is significant to match strategies to environmental changes (Miller & Friesen 1983).

According to organizational perspectives, the environment has been considered to have multidimensional effects on organizational activities (Keats & Hitt, 1988; Aldrich, 1979; Dess & Beard, 1984). Among the multiple environmental dimensions, this study focuses on one commonly used dimensions; dynamism. Environmental dynamism is characterized by environmental turbulence, instability, volatility and uncertainty. It is defined as highly unpredictable and uncertain rapid environmental changes that stem from a shift in customer demand, an introduction of a new technology or an action from competitors (Rosenbusch et al., 2013). Consistent with organizational theorists, strategic management studies empirically support the moderating role of

environmental effects on firm strategies. For example, Lim et al. (2009) supports the moderating effects of environmental dynamism between diversification strategy and the firm's level of debt financing while Heeley et al. (2006) examines the moderating role of three environmental dimensions in relation to R&D investment and the possibility of target firms getting acquired.

Following the stream of researches, this study also investigates how environmental dynamism influence firms' target selections in acquisitions. It is especially important to consider environmental, or industry characteristics, when exploring the antecedents of the direction of acquisition because not only organizational specific factors determine differences in firm profit but industry variables also affects the performances (Grinyer et al. 1988; Hansen & Wernerfelt 1989). Therefore, by emphasizing the importance of both external environmental factors and internal organizational situations, this paper provides more integrative framework for understanding acquisition behavior.

2.3 Related acquisition vs. Unrelated acquisition.

Following the description of risk from the classical decision theory, which explains the degree of risk as a variation in the distribution of possible outcomes and their likelihoods (March & Shapira 1987), this study regards unrelated acquisition as a relatively uncertain and riskier strategy than related acquisition. Firms are generally unfamiliar with unrelated industries as they often lack relevant knowledge or resources

about the industries (Govindarajan, 1989; Gupta, 1984) thereby the possibility of successfully diversifying into those businesses significantly varies, leading to a larger variance in future outcomes. Thus the study considers unrelated acquisition as a greater strategic change that includes explorative characteristics than related acquisition (Sitkin & Pablo, 1992).

3. Hypotheses

3.1 Problemistic Search

According to the behavioral theory, firms performing below aspiration levels perceive their organizational actions as failures and undertake problemistic search. This problemistic search, however, follows gradational phases from searching for nearest local solutions to distant solutions when the initial search process fails to discover “satisfying” alternatives (Cyert & March, 1963). Failures to find competent solutions in the initial search stage subsequently pressures firms to adopt more dramatic, radical strategic changes (March & Simon 1958) such as overturning their existing corporate portfolio through acquisition (Park 2002; Iyer & Miller, 2008).

Once firms have decided to overturn their strategies through engaging in acquisitions, the next step is to select an appropriate target firm that will alleviate their negative attainment discrepancies. According to the attention based view and shift-of-focus model (March & Shapira, 1987 & 1992; Ocasio 1997), firms shift their focus of

attention to different reference points relative to their performance position to aspiration level. These theories suggest that firms performing below the aspiration level focus their attention on two points; 1) aspiration level and 2) survival point. Firms who focus on aspiration level view their failures as a repairable gap and tend to increase risk taking behaviors as their performance falls below the aspiration level. However, further decreases in performance shifts their focus of attention from aspiration level to survival point and perceive their negative attainment discrepancies as a huge threat to a complete failure. Therefore, these firms tend to reduce risk taking behaviors and become more risk averse (Audia & Greve, 2006). In accordance with this view, I predict that firms slightly below their aspiration levels are expected to go through more unrelated acquisitions over related acquisition in an attempt to explore and develop newer, more innovative and radical solutions that can boost their organizational performances to its aspiration levels. However, as their performance falls furthermore from the aspiration level, firms interpret their situation as a threat to failure, thereby reluctant to significantly change their current domain of corporate activities. Thus, these firms are expected to acquire firms within their markets rather than to acquire target firms from completely different markets that takes more time and costs to go through post-merger integration process.

Therefore, I predict that firms performing slightly below their aspiration level, or experiencing small negative attainment discrepancies, tend to more acquire targets from unrelated industries whereas firms performing far below their aspiration, or experiencing large negative attainment discrepancies, tend to more acquire targets

within their same industry. Accordingly, I hypothesize that:

Hypothesis 1: As performance relative to aspiration level increase, firms are more likely to engage in unrelated acquisition over related acquisition for firms performing below the aspiration levels

3.2 Slack Search

On the contrary, the behavioral theorists supports that firms become more risk averse when performing above aspiration levels. According to organizational learning perspectives (Cyert & March, 1963; March & Simon, 1958), firms are perceived as organizations that rely heavily on their previous operational process unless faced with threats. Thus, when firms obtain positive feedback from the organization's chosen action, they tend to continuously repeat the process by remaining the status quo and become less inclined to change. Empirical research have supported this argument; Park (2002) found that high profit firms, compared to low profit firms, tend to seek less strategic change while Greve (2003) concludes that the propensity to change falls more rapidly for above-aspiration firms compared to below-aspiration firms.

Moreover, the attention based view and shift-of-focus model (March & Shapira, 1987 & 1992; Ocasio 1997) suggest that firms performing far above the aspiration level are expected to shift their focus of attention from aspiration level to slack search. Organizational slacks are defined as underutilized spare resources that act as a buffer

against future unforeseeable events by enabling firms to initiate new strategic changes (March, 1979; Levinthal & March, 1981). As the performance increases far above the aspiration level, firms generally tend to accumulate large volume of slack resources that needs to be effectively in use. Therefore, as the performance compared to aspiration level increases, firms shift their attention from aspiration to slack search, and this search tends to focus on advancing their previous organizational procedures as they are already receiving strong positive feedbacks from their corporate activities. In other words, firms with higher performance relative to aspiration level would be reluctant to adopt dramatic changes through exploring new industries by acquisitions that often possess greater possibility of potential failures. Meanwhile, related acquisition allows firms to concentrate on exploiting their already established business by developing their existing resources, knowledge and capabilities.

Thus, I hypothesize that further increase in performance relative to aspiration level will lead firms to undergo more related acquisition rather than unrelated acquisition in order to maintain and enhance their successful position in a current industry. Accordingly, I hypothesize that:

Hypothesis 2: As performance increases relative to aspiration level, firms will more likely to engage in related acquisition over unrelated acquisition for firms performing above the aspiration level.

3.3 Moderating effect of environment

Organizational theorists view external environment as a major facet that heavily influences a firm's managerial decisions. Studies have shown that external environmental factors directly or indirectly affect firm performance (Bain, 1956; Rumelt 1991) and stimulate strategic behaviors (Porter, 1980). Therefore, firms are expected to tailor their strategies with respect to their external environmental changes. For example, a particular acquisition strategy may be considered as a more appropriate strategy since the need for specific knowledge or resources varies upon environmental characteristics. Moreover, according to the industrial organization economics, industry specific characteristics that a firm competes in and its relative position to competitors affect firm profitability (Hansen & Wernerfelt, 1989). Therefore, the industry conditions along with the organizational factors simultaneously influence managerial decisions regarding the choice of acquisition strategies.

This section elaborates on how environmental conditions moderate the relationship between a firm's prior performance and acquisition strategies. Particularly, the paper focuses on the most common dimensions of environment, an environmental dynamism (Aldrich, 1979; Dess & Beard, 1984; Keats & Hitt, 1988).

3.3.1 Environmental Dynamism

Environmental dynamism refers to both the uncertainty and the unpredictability

of change that occurs within an industry (Khandwalla, 1972; Sharfman & Dean, 1991). In a dynamic environment, externally induced environmental changes that are difficult to anticipate or to draw discernable patterns heighten the uncertainty for organizations to obscure them to predict any consequences from the changes (Mintzberg, 1979; Dess & Beard 1984).

Under relatively stable and non-dynamic environments, firms do not require highly intricate or risky strategies (Aldrich, 1979). Thus firms performing well above the aspiration level in a non-dynamic environment were expected to pursue more related acquisitions over unrelated acquisitions to sustain and enhance their market position by continuing their business in their respective industry. Therefore, a primary motivation for the acquisition would be to maintain stability while seeking for growth (Ansoff, 1957). However, the motivation for acquisition may be different for firms performing in high dynamic environments.

Unlike firms operating in low dynamic environments, firms operating in high dynamic environments are faced with erratic environmental turbulences that stem from a shift in customer demand, an introduction of a new technology or an action from competitors (Rosenbusch et al., 2013). These dynamic environments, however, can be perceived as two distinct situations depending upon firm's specific situations; either as a growth opportunity or as challenges.

Firstly, firms with strong growth desire can view dynamic environment as a growth opportunity as rapid environmental changes create new opportunities for growth-oriented firms (Drucker, 1985). For instance, changes in demand allows firms to seek for

new customer needs, products and services that can be accommodated to the new demands (Wiklund & Shepherd 2003) and the technological discontinuities allows firms to develop new technological trajectories (Utterback, 1994). Therefore, environmental conditions that are associated with shifts in customer demands and technologies provide ample opportunities for firms seeking growth (Chandler & Hanks, 1994; Covin & Slevin, 1991; Zahra, 1993). Although dynamic conditions often puts firms into difficult situations in implementing appropriate strategies, firms that can effectively exploit and explore the opportunities generated from such environmental conditions can outperform their competitors (Rosenbusch et al. 2013).

The primary motive for firms performing slightly below aspiration level is strongly associated with pursuing growth that can overcome their adversities. Therefore these firms pose high motivations to fully exploit the opportunities created from the dynamic environment instead of exploring into new markets. By engaging in related acquisitions, underperformers can expand their current business and reap the benefits by tailoring themselves to new growth opportunities. Thus, firms who regard their negative attainment discrepancy as repairable gap is expected to take more related acquisitions as environments get more dynamic. However, firms performing far below aspiration level will be primarily concerned with survival. Anderson and Tushman (2001) supported that environmental uncertainty is a lethal characteristic that leads firms to exit more from current industries. Therefore, if firms are already underperforming in this type of industry, underperformers have a greater incentive to escape from the current industry and search for a new market that is less volatile and more profitable by engaging in

unrelated acquisition. Accordingly, I hypothesize that:

Hypothesis 3: Environmental dynamism will mitigate the relationship between prior performance and acquisition strategies for firms performing below their aspiration levels.

On the other hand, dynamic environment can pose some challenges to firms. Focusing on previously developed routines or capabilities create a misfit between the altering external condition and the firm's existing resources or capabilities which, in turn, adversely affect the firm's performance by lowering the flexibility of coping with rapid changes (Anderson & Tushman, 1990, 2001; Sirmon et al., 2007). However, exploring new areas or building novel capabilities broaden alternative choice sets that adaptively apply a firms' prior resources and routines to changing environments (Cohen & Levinthal, 1990), thereby mitigating existing resources from being obsolete (Fleming, 2001; Fleming & Sorenson, 2001) and prevent firms from being trapped in an organizational inertia (Rosenbusch et al., 2013). Therefore, firms who view the dynamic environments as a threat will try to diversify their corporate portfolios through exploring new business areas.

When faced with environmental turbulences, firms performing above the aspiration level are more inclined to focus on retaining their successful position rather than pursuing excessive growth. Firms that have been receiving positive feedbacks from their original corporate activities with large business units and resources have a high possibility of being trapped in organizational inertia and fail to effectively cope with

rapid environmental changes. Therefore, as the environment gets more dynamic, these firms are expected to increase their firm flexibility by broadening alternative choice sets. Furthermore, since firms with successful positions often possess sufficient ability to diversify, such as organizational slack or financial resources, they can withstand a few experiments (i.e., acquiring firms from unrelated industries) without a fear of falling below the aspiration level. Therefore, increase in firm's performance above aspiration levels leads them to engage less in related acquisitions than beforehand but to enhance their corporate flexibilities that can effectively manage unforeseeable contingencies when environment gets dynamic. Accordingly, I hypothesize that:

Hypothesis 4: Environmental dynamism will mitigate the relationship between prior performance and acquisition strategies for firms performing above their aspiration levels

4. Data & Method

The M&A deal data were obtained from the Securities Data Corporation (SDC) Platinum database and these data were further combined with company information data obtained from Compustat database. Final M&A deal data were collected if: (1) the deals were completed between year of 2000 to 2013; (2) the company was operating in manufacturing industry (SIC codes 2000-3999); (3) the deal values were greater than \$1

million; (4) there was full financial data available for acquirer in the Compustat; and (5) the acquirer with less than 50% ownership of the target firm before the deal owned more than 50% of the target shares after the deal was completed. As a result, the total sample consisted of 1,275 firms. Among them, 549 firms (43% of total firms) engaged in unrelated diversification and 726 firms (57% of total firms) engaged in related diversification, respectively. Logistic regression model was employed to test the hypotheses and standardized beta coefficients are reported in the result tables. Compared to unstandardized regression coefficients, standardized beta coefficients are more useful when variables in the models are measured in different units of measurement or when a unit increase of explanatory variable does not give a clear sense of whether the change is “big” or “small” with regard to the scale (Agresti 1996).

4.1 Dependent Variable

Acquisition strategy is measured as a dummy variable. It is indicated as 1 if the first two digits of the SIC code among the four digits were same for acquirer and target firms and 0 otherwise. Therefore, related acquisition is coded as 1 whereas unrelated acquisition is coded as 0 (Palepu, 1985).

4.2 Independent Variable

Attainment discrepancy: We follow extant studies (i.e., Miller & Chen, 2007)

that have independently run two different models with two aspiration proxies: Historical aspiration and Social aspiration. *Historical attainment discrepancy* (*performance – historical aspiration*) is the difference between a firm's ROA measured in (t-1) period and (t-2) period and *Social attainment discrepancy* (*performance – social aspiration*) is the difference between a firm's ROA measured in (t-1) and median ROA of firms in the same 4 digits SIC industry in (t-1) period. Lastly, *Environment Dynamism* was measured as the standard errors of regression slopes from regressing industry sales on time for five years (Keats & Hitt, 1988; Tosi et al., 1973)

4.3 Control Variable

All control variables are measured as one year lagged period where M&A deal year is considered to be period (t). Firstly, firm's intangible resources were controlled. According to Chatterjee and Wernerfelt (1991), firm's possession of intangible resources heavily influences their direction of acquisition activities. Thus, following the stream of research, I controlled two main intangible resources that firms have invested in, R&D intensity and advertisement intensity. *R&D Intensity* is measured as the ratio of total R&D expenditure to total sales. *Advertisement Intensity* is measured as ratio of total advertisement expenditure to total sales. Furthermore, total of three types of slack resources were also controlled. *Unabsorbed slack* is measured as the ratio of current assets to current liabilities while *Absorbed slack* is measured as the ratio of selling, general, and administrative expenses (SGAE) to total sales. Moreover, *Potential slack* is

measured as the ratio of debt to equity (Bromiley, 1991). To control for firm specific characteristics, *Firm Size* and threat to bankruptcy, *Altman's (1983) Z-score*, were included. *Firm Size* is measured as log of total assets and *Altman's Z-score* is calculated as $(1.2 \times \text{working capital divided by total assets}) + (1.4 \times \text{retained earnings divided by total assets}) + (3.3 \times \text{income before interest expense and taxes divided by total assets}) + (0.6 \times \text{market value of equity divided by total liability}) + (1.0 \times \text{sales divided by total assets})$. Moreover, if the acquisition was conducted during the period of the Global Financial Crisis (year 2008 to 2009), the *Financial Crisis* variable was coded as 1 and 0 for all the other years. Lastly, two other dimensions of task environments, environmental munificency and complexity, were also controlled for the acquirer's industry. Environmental munificence represents the degree of environmental capacity that can support sustained growth in terms of resource availability (Aldrich, 1979; Sharfman & Dean, 1991). The scarcity or abundance of resources within an industry influences both the survival and growth of firms operating in the environment (Randolph & Dess, 1984). On the other hand, environmental complexity implies the degree of heterogeneity and the diversity of environmental elements that needs to be taken into account in strategic decision-makings (Child, 1972; Aldrich, 1979). In a complex environment, firms interact with a wide range of environmental factors such as customers, suppliers, or competitors and this complex task environment, in turn, intensifies the uncertainty and information processing demands (Duncan 1972; Dess & Beard, 1984). Acquirer's *Industry Munificency* was measured as the standard errors of regression slopes from regressing industry sales on time for five years (Keats & Hitt, 1988; Tosi et al., 1973)

while *Industry Complexity* was captured by the Herfindahl-Hirschman Index (HHI). HHI is measured as squaring the market share of each firm in same industry, and then summing the resulting numbers. The HHI number ranges from 0 to 10,000.

5. Result

Table 1 illustrates the descriptive statistics and correlations among variables used in the study. Most of the correlations among each variable ranges from low to moderate range of numbers except for two pairs of correlation; correlation between two different performance–aspiration variables ($r=0.82$) and correlation between absorbed slack and R&D intensity ($r=0.78$). High correlation between two negative attainment discrepancy variables, however, is not a concern in this study as they hypothesises 1 and 2 for different aspiration levels; model 2 tests the effect of firm’s performance relative to their historical aspiration levels on acquisition behaviors while model 3 tests the effect of firm’s relative performance level to social aspiration levels on acquisition behaviors.

Hypothesis 1 predicted that for firms performing under aspiration level, as their performance compared to aspiration level increases they will more likely to undertake unrelated acquisition over related acquisition in an attempt to find innovative and new solutions from relatively nascent industry. Model 2 finds support for this hypothesis, while model 3 does not. The negative and significant coefficient of performance–aspiration (below aspiration) for model 2 indicates that one standard deviation of performance increase compare to their historical aspiration level leads to 27.7% lower

Table 1. Descriptive Statistics and Correlations

Variable	Mean	Std. dev	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) Acquisition strategy	0.57	0.50	1.00														
(2) Performance-aspiration (above historical aspiration)	0.08	0.60	-0.01 *	1.00													
(3) Performance-aspiration (below historical aspiration)	-0.04	0.11	-0.03 *	0.01 *	1.00												
(4) Performance-aspiration (above social aspiration)	0.12	0.16	0.09 *	0.00	0.08 *	1.00											
(5) Performance-aspiration (below social aspiration)	-0.04	0.21	-0.01	-0.09 *	0.82 *	0.12 *	1.00										
(6) Environment Dynamism	0.03	0.02	-0.08 *	0.01	-0.05 *	-0.13 *	-0.06 *	1.00									
(7) Advertisement Intensity	0.03	0.04	0.08 *	-0.02	-0.01	0.10 *	-0.02	-0.12 *	1.00								
(8) R&D Intensity	0.11	0.27	0.07 *	0.06 *	-0.13 *	-0.02 *	-0.26 *	0.00	0.07 *	1.00							
(9) Firm Size	7.04	2.25	-0.06 *	-0.08 *	0.08 *	0.18 *	0.19 *	-0.12 *	0.07 *	-0.13 *	1.00						
(10) Financial Crisis	0.12	0.33	0.04 *	-0.01	-0.01	0.06 *	-0.01 *	-0.06 *	-0.06 *	0.03 *	0.03 *	1.00					
(11) Industry Munificiency	0.06	0.08	0.03 *	0.00	0.03 *	-0.02 *	0.01	-0.27 *	0.06 *	0.04 *	-0.01	-0.01	1.00				
(12) Industry Complexity	1398.87	1400.81	-0.11 *	-0.01	0.05 *	-0.20 *	0.04 *	0.05 *	-0.01	-0.14 *	0.03 *	0.00	-0.14 *	1.00			
(13) Unabsorbed Slack	0.44	0.27	-0.09 *	0.13 *	0.01	-0.03 *	-0.08 *	-0.06 *	0.18 *	-0.15 *	0.36 *	-0.02 *	-0.08 *	0.19 *	1.00		
(14) Absorbed Slack	0.40	0.60	0.04 *	0.13 *	-0.15 *	-0.02 *	-0.36 *	-0.01	0.15 *	0.78 *	-0.24 *	0.01 *	0.02 *	-0.13 *	-0.09 *	1.00	
(15) Potential Slack	1.00	5.47	0.00	-0.01	0.02 *	0.00	0.00	0.02 *	0.11 *	-0.03 *	0.09 *	0.00	-0.05 *	0.03 *	0.15 *	-0.05 *	1.00
(16) Altman's Zscore	0.14	5.06	0.00	-0.12 *	0.26 *	0.15 *	0.49 *	-0.01	0.04 *	-0.20 *	0.18 *	-0.05 *	0.02 *	0.05 *	-0.06 *	-0.28 *	-0.03 *

* p<0.05

chance of acquiring firms within their focal industry. However, firms performing below the social aspiration level did not support the hypothesis 1. Therefore, hypothesis 1 is partially supported for firms performing below their historical aspiration level.

In hypothesis 2, I discussed about firms performing above their aspiration level. Hypothesis 2 predicts that as firms' performance increase, they will more likely to acquire target firms within their focal industries rather than target firms operating outside of their industry boundaries. Model 2 and model 3 each supports this hypothesis by showing positive and statistically significant coefficients. These results illustrate that one standard deviation increase in performance relative to historical and social aspiration levels leads to increases in the possibility of acquiring firms within their industries by 49.1% and 53.3% respectively when firms perform above their aspiration levels. Therefore, the results fully support hypothesis 2.

Table 3 tests hypothesis 3 and hypothesis 4 by adding moderating effects of environment dynamism to the relationship between attainment discrepancy and acquisition strategies. Model 4 and model 5 now includes interaction terms of each attainment discrepancy level to environmental dynamisms. Hypothesis 3 predicted that when operating environment gets highly dynamic for firms performing below their aspiration level, they will view the dynamic environment as a growth opportunity and try to seize the opportunities embedded in their industry. Therefore, instead of trying to find competent solution from outside of their industries through acquiring target firms in different

Table 2. Main Effects. Logit regression of attainment discrepancy on acquisition strategies

	(1)	(2)	(3)
	Controls	Historical	Social
Performance-aspiration (below aspiration)		-0.2765*	-0.1027
		(-2.13)	(-0.55)
Performance-aspiration (above aspiration)		0.4913**	0.5332**
		(2.97)	(3.21)
Environment Dynamism	-0.0958	-0.1361	-0.0248
	(-0.76)	(-1.05)	(-0.19)
R&D Intensity	0.8434+	0.5262*	0.9212*
	(1.92)	(2.16)	(2.21)
Advertisement Intensity	0.5073**	0.5755**	0.4643**
	(2.98)	(3.27)	(2.79)
Firm Size	-0.1353	-0.1613	-0.2271
	(-0.93)	(-1.09)	(-1.50)
Financial Crisis	0.2305+	0.2522*	0.2140+
	(1.89)	(2.06)	(1.73)
Industry Munificiency	-0.0928	-0.0845	-0.0575
	(-0.72)	(-0.66)	(-0.44)
Industry Complexity	-0.12	-0.1571	-0.0154
	(-0.98)	(-1.25)	(-0.12)

Table 2 continued

Unabsorbed Slack	-0.2235 (-1.48)	-0.3171* (-2.02)	-0.193 (-1.25)
Absorbed Slack	-0.6286 (-1.43)	-0.8295** (-2.73)	-0.7805+ (-1.76)
Potential Slack	0.0346 (0.29)	0.0538 (0.45)	0.0463 (0.39)
Altman's Zscore	0.079 (0.60)	0.2042 (1.39)	0.0466 (0.32)
Number of observations	1209	1205	1209
Pseudo R^2	0.0164	0.0216	0.025
Log-Likelihood	-813.2	-806.1	-806
Chi-Square	21.4	30.41	32
Degree of Freedom	11	13	13

Standardized beta coefficients; t statistics in parentheses

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 3. Interaction Effects. Logit regression of attainment discrepancy on acquisition strategies

	(4)	(5)
	Historical	Social
Performance-aspiration (below aspiration)	-0.3825 ⁺ (-1.70)	-0.9267 ^{**} (-2.79)
Performance -aspiration * Dynamism (below aspiration)	0.1649 (0.76)	1.2600 ^{**} (2.60)
Performance-aspiration (above aspiration)	2.1374 ^{***} (3.50)	0.8457 ^{***} (3.32)
Performance -aspiration * Dynamism (above aspiration)	-1.5807 ^{**} (-2.83)	-0.3715 ⁺ (-1.67)
Environment Dynamism	-0.0193 (-0.14)	0.1714 -1.09
R&D Intensity	0.5670 [*] (2.28)	1.1736 ^{**} (2.59)
Advertisement Intensity	0.5768 ^{**} (3.26)	0.4773 ^{**} (2.80)
Firm Size	-0.1864 (-1.25)	-0.2541 ⁺ (-1.67)
Financial Crisis	0.2387 ⁺ (1.94)	0.2078 ⁺ (1.69)

Table 3 Continued

Industry Munificiency	-0.1102 (-0.84)	-0.0899 (-0.69)
Industry Complexity	-0.163 (-1.28)	0.0124 -0.1
Unabsorbed Slack	-0.3109* (-1.98)	-0.2058 (-1.32)
Absorbed Slack	-0.9226** (-2.88)	-1.0684* (-2.34)
Potential Slack	0.0546 (0.45)	0.0527 (0.44)
Altman's Zscore	0.1667 (1.14)	0.0679 (0.47)
<hr/>		
Number of observations	1205	1209
Pseudo R^2	0.0256	0.0306
Log-Likelihood	-802.8	-801.5
Chi-Square	36.53	37.4
Degree of Freedom	15	15

Standardized beta coefficients; t statistics in parentheses ; + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

industries, they will try to pursue growth by acquiring target firms within their industry as their environment gets more dynamic. This hypothesis is partially supported from model 5 as the interaction coefficient for negative attainment discrepancy to environment dynamism shows positive value while the coefficient for negative attainment discrepancy shows negative value. This indicates that the main effect of negative attainment discrepancy to acquisition strategies is negatively moderated. In other words, when environment get dynamic, firms performing below the social aspiration level tend to less acquire target firms in different industries as their performance increases, but no support was found for firms performing below their historical aspiration level.

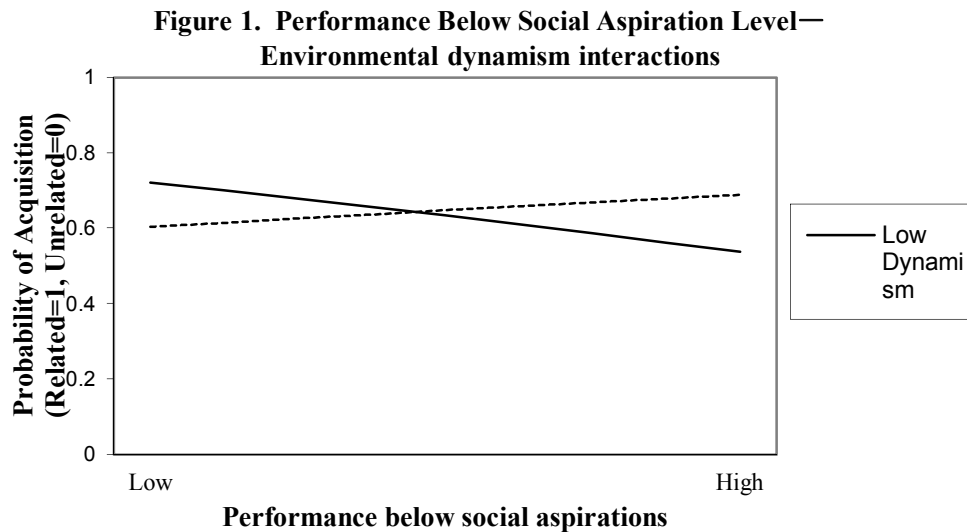
Last but not least, hypothesis 4 predicted that the main effect of positive attainment discrepancy to acquisition strategies will be mitigated as the environment gets dynamic. When firms' performances increase highly above than their aspiration level, they tend to view dynamic environment as a challenge rather than an opportunity due to the fear of them being trapped in an organizational inertia and their existing resources and capabilities becoming obsolete. The adverse influence generated from a failure to adjust to highly rapid environmental changes will critically impact firms who desire to remain their already successful positions in their markets. Therefore, hypothesis 4 predicated that firms performing above their aspiration level will less likely to acquire target firms from their industries when the environment gets dynamic in order to explore new areas. This hypothesis is fully supported by model 4 and model 5. In both models, the coefficients for positive attainment discrepancy show positive value while the

coefficients for interaction terms show negative values. This change in coefficient sign illustrates that as the environment gets highly dynamic, increase in performance relative to aspiration level leads firms to less acquire target firms within their industry but to acquire target firms from different industries. Therefore, the result supports hypothesis 4 for both historical and social aspiration models.

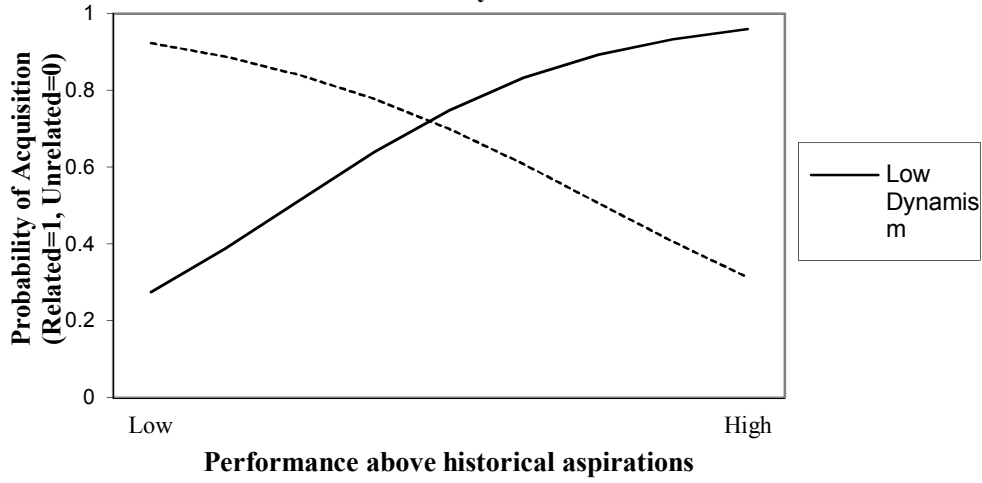
In addition to tables, Figure 1 depicts the interaction effects of environment dynamism for firms performing below their social aspiration level while Figure 2a and Figure 2b depict the interaction effects for firms performing above the historical and social aspiration levels. Figure 1 shows how firms' acquisition behavior changes regarding their performance status relative to social aspiration as well as to the degree of environmental dynamism. When firms are performing below their social aspiration level and when their environment is relatively less dynamic, the probability of undertaking related acquisition falls as performance increases. However, once the environment becomes highly dynamic, the negative effect obtained during the low dynamic environment gets mitigated, shifting the negative direction of the curve to a positive direction. This shows that in highly dynamic environments, increase in performance level for firms performing below their social aspiration level increases the probability of them undertaking related acquisition.

On the other hand, Figure 2a and Figure 2b shows the influence of environmental dynamism on positive attainment discrepancies to acquisition behavior for each historical and social aspiration level. Both Figures depict that in low dynamic environments, firms' performance increases above their historical and social aspiration

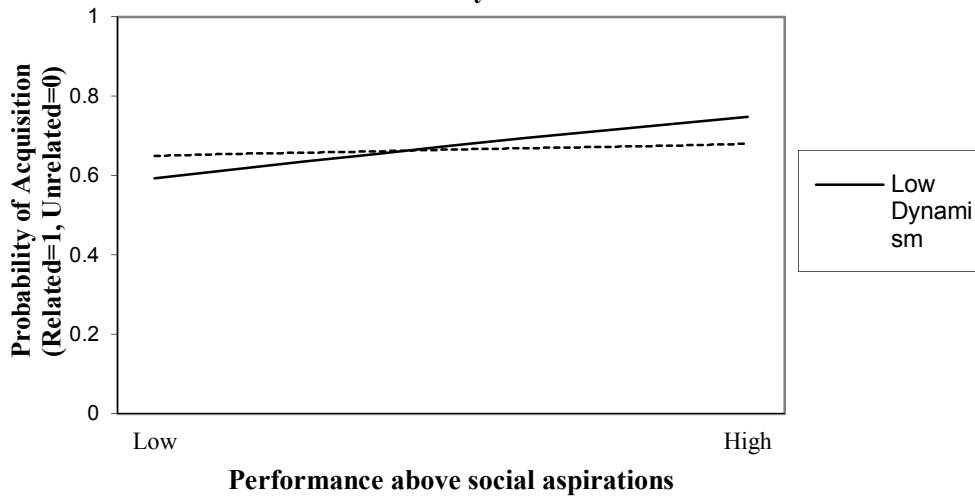
level leads to increases in the probability of acquiring target firms within their focal industry, yet this relationship gets weakened when environments become highly dynamic. Moreover, the environmental effect appears to be stronger in historical aspiration model than social aspiration level. In Figure 2a, the direction of curve gets completely opposite when environments become highly dynamic from environment being less dynamic, while the shift of curve in Figure 2b is less dramatic than Figure 2a. This illustrates that when firms' performances increase above their historical aspiration level in highly dynamic environment, they now tend to acquire target firms from different industries rather than from their focal industries.



**Figure 2a. Performance Above Historical Aspiration Level—
Environmental dynamism interactions**



**Figure 2b. Performance Above Social Aspiration Level—
Environmental dynamism interactions**



6. Conclusion

This paper demonstrates how internal and external conditions of firms simultaneously influence their target selection in acquisition context through applying the BTOF perspective and task environment dimension. I propose that when firms have decided to undergo acquisitions, their selection of target firms from diverse industries are influenced by their relative performance level to aspiration level and this relationship is contingent upon the degree of environmental dynamism. The results have indicated that when firms perform below their historical aspiration level, they were more likely to acquire target firms from different industries than from their focal industries as their performance level increases. On the other hand, when firms are performing above the historical and social aspiration levels, they were more inclined to acquire target firms within their focal industry than from different industries as their performance increases above the aspiration levels. However, when operating environment becomes highly dynamic, these relationships tend to get mitigated. For instance, when firms perform below their social aspiration level and when environment becomes highly volatile, they tend to less acquire target firms from outside of their focal industries. Similarly, when firms perform above their historical and social aspiration levels and when environment becomes highly dynamic, they tend to less acquire target firms from within their focal industries. These results offer an important insight into why firms competing in same industries undergo different types of acquisition by uncovering different motivations that drive those acquisition behaviors.

The paper makes both theoretical contribution and managerial implications. Theoretically, the paper improves the understanding of the application of behavioral theory on organizational behaviors by integrating the theory with the task environment dimensions. Through analyzing both internal and external effects on organizational strategies, the study provides a more synthetic framework for understanding the relationship between performance feedback theory and organizational behaviors, thereby contributing to the relatively nascent stream of research that extends the behavioral theory into the domain of corporate level strategies. Secondly, and more importantly, by showing how environmental dynamism motivate firms to undertake different acquisition behaviors, this paper implies that environmental characteristics may not uniformly affect all firms competing in an industry. Rather, the influence of environment may respectively depend on firm's specific internal situation. Last but not least, I also contribute to the M&A literatures by identifying comprehensive antecedents of direction of acquisition in regard to both internal and external situations. By demonstrating how individual's specific condition as well as environmental feature motivates firms to select different target firms across the variety of industries, the study improves the understanding of why and when firms engage in such different acquisition behaviors. This theoretical contribution also indicates significant managerial implication by emphasizing the needs for managers to not only tailor their strategies according to their internal and external contingencies but also to identify underlying motivation of its competitor's strategic actions in order to effectively cope with their strategic changes. Furthermore, I posit that even same external environment situation may pose different

effects to managerial perspectives depending on firm's independent performance status.

7. Limitation and Future Research

The study contains several limitations that may encourage avenues for future research. First, the measurement of defining each acquisition into related acquisition versus unrelated acquisition has been relatively simple. Although this study defined and divided the acquisition strategies into binary variable through comparing the first two digits of SIC code, other studies have argued that defining related and unrelated acquisition through SIC code may bias the measurement (i.e., Park 2002). Developing a new methodology of measuring how much acquirers' and targets' industries differ and making it as a continuous variable may improve the accuracy of measuring the degree of relatedness between two firms in the acquisition process.

Secondly, the sample contained firms who have undergone multiple acquisitions in a single year with mixed directions. For instance, few firms have acquired several target firms from both related and unrelated industries in a same single year. Although it is simpler to just exclude those firms from the total sample, the results obtained from that sample may bias the whole result. Therefore, instead of deleting those firms from the total sample, I have simply considered each acquisition per year as a different firm unit even if the multiple acquisitions were undertaken by a single firm. One way to solve this issue would be to divide the time frame into shorter periods (i.e., quarterly) than annually. However, few of the firms still have engaged in multiple

acquisitions within each quarter. Moreover, the issue arises from a possibility that managers may not evaluate their current positions and make strategic decisions stemming from performance feedbacks that often. Therefore, this limitation also calls for a need to develop a new measurement for relatedness or unrelatedness between acquirer firms and target firms for firms that have engaged in multiple acquisitions in a single year.

A third opportunity for future study arises from the results of this study. According to the study results, few of the hypotheses were not supported under specific aspiration levels. For instance, hypothesis 1 was only supported from the historical aspiration model while hypothesis 3 was only supported from social aspiration model. A lot of existing studies regarding the application of the performance feedback theories have interchangeably applied two different aspiration levels in same model or combined two measures by giving weights. However, the results from this study imply that firms may differently react to individual aspiration levels depending on their emphasis to each aspiration level. Delving into how firms differently react to each of the aspiration level or when firms shift their focus of attention from one to another reference point may bring interesting stream of researches in the domain of performance feedback theory.

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국 문 초 록

인수합병 시 피인수 기업 선정에 대한 기업의 행동학적 동기

- 열망과 환경과의 연계 -

최운영

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경영대학

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본 논문은 인수 기업의 사전 성과가 환경 조건에 따라 다른 산업에 속해있는 피인수 기업의 선택에 어떠한 영향을 미치는지 연구하고 있다. 기존의 많은 연구들이 기업들의 인수 결정에 영향을 미치는 요소에 관하여 살펴보았지만 인수를 진행하기로 한 후에 어떠한 피인수 기업들을 선정할 것인가에 관한 연구는 미흡한 것으로 보인다. 본 연구는 미국의 제조 기업들을 중심으로, 기업들의 특정한 인수 전략(관련 또는 비관련 인수)은 각 기업의 performance feedback 상황과 인수 기업이 경쟁하고 있는 특정 산업의 환경적인 요소들에 의하여 정해진다고 주장하고 있다. 행동학적 관점과 task environment dimension (i.e., dynamism)을 도입하여 환경적인 특성이 기업의 인수 전략에 미치는 contingency effects를 살펴 보고 있다. 따라서 본 논문은 인수합병의 사전 요소를 더 통합적으로 파악하여 performance feedback theory와 인수합병 문헌 모두에 의미 있는 시사점을 제공한다는 공헌점이 있다.

주요어 : performance feedback, 피인수 기업 선택, 인수 전략, 환경적 dynamism

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