Preservation and Dissolution of the Target Firm's Embedded Ties in Acquisitions

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PRESERVATION AND DISSOLUTION OF THE TARGET FIRM'S EMBEDDED TIES IN ACQUISITIONS

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Abstract

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Key words: Embedded ties, acquisitions, embedded tie dynamics

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Introduction

Typically focusing on the parent-target dyad, acquisition studies tend to overlook the importance of relational elements such as external linkages and networks. This paper aims to fill this gap. We concentrate on inter-organizational relations that span *outside* the parent-target dyad, and analyze the dynamics of the target firm's embedded ties during the acquisition process. As embedded relations thrive in conditions of stability (Uzzi 1996), acquisitions represent a significant threat to their existence and, in turn, to the potential benefits that they might generate for both parent and target firm. Past research on the dynamics of embedded ties in contexts characterized by high uncertainty and ambiguity is currently limited by a lack of in-depth longitudinal case studies. Its findings are, at present, inconclusive, and suggest that the acquisition process could equally lead to the maintenance of the target firm's embedded ties or to their dissolution (Uzzi 1996, 1997). The literature on the dissolution of market-ties (Baker et al. 1998) offers useful some insights in identifying some of the forces at play, but the overall impact of the acquisition process on the target firm's network portfolio remains uncertain.

When and how the processes of preservation or dissolution of the target firm's embedded ties occur are, therefore, still relatively unexplored areas but these are important issues for both theory and practice. From a theoretical viewpoint, a greater understanding of the processes of tie preservation and dissolution would redress the current imbalance in favor of tie formation. Identifying the factors that underlie these processes would also shed light on their potential impact on important organizational dimensions such as, to name but a few, knowledge and learning (Kogut 2000; Uzzi and Lancaster 2003; Hansen 1999), absorptive capacity (Van den Bosch et al. 1999; Jansen et al. 2005), innovative potential (Burt 1992). From a practical point of view, this would increase managerial awareness as to the intended and unintended consequences of decisions taken throughout the acquisition process, with potentially significant consequences in terms of their effectiveness and ability to control.

Our efforts are directed towards the identification of the conditions under which maintenance and dissolution are likely to occur and of the specific contingencies affecting these processes. The exploratory research presented here aims to encourage more in-depth longitudinal approaches in future studies of embeddedness, and is an early response to recent calls for these types of analyses by scholarly experts in the field (Angwin and Vaara 2005). The paper is structured as follows. First we review extant literature on the dynamics of embedded ties and explain why the acquisition context is a particularly promising area for research. Second, we describe the research strategy and our methods of data collection. Third we present our findings and discuss them in the light of extant literature. Finally, we derive the main implications of our study for both theory and practice.

Theory background: The dynamics of embedded ties and acquisition processes

The concept of embeddedness relates to the idea that social structure can facilitate or derail economic life, thereby connecting economics with social theory (Polanyi 1957; Granovetter 1985). The degree of embeddedness of a relationship can vary, with the two extremes characterized as embedded and arm's length (Dacin et al. 1999). Arm's length ties occur between actors motivated solely by selfish and individualistic profit-seeking and behaving opportunistically to achieve their goals (North 1990; Uzzi 1996). They involve exchanges of mainly publicly available information (Uzzi and Lancaster 2003) - typically on prices and quality, and result in impersonal and atomistic relations regulated by short-term calculative logic (Uzzi 1997).

Embedded ties, instead, occur when commercial exchanges develop together with strong social attachments. The parties involved are motivated by the opportunity to engage in exchanges that entail trust and reciprocity, besides profit making (Powell 1990). Behavioral expectations are created, heuristic decision-making prevails on purely calculative logic, and the presence of trust allows for information of private and sensitive nature to be exchanged between the parties (Uzzi 1996, 1997; Uzzi and Lancaster 2003). Embedded ties thrive on conditions of stability and close social relationships, and constitute a powerful integrating mechanism (Uzzi 1996, 1997). They also tend to develop when information-processing requirements are high, and privilege density and centralization (Baker and Faulkner 1993).

Embedded ties provide a variety of functions for the organizations they connect either directly through strong ties or indirectly through weak ones (Granovetter 1973). Given their information processing qualities, repetitive nature, and reliance on trust, they provide opportunities for knowledge creation and transfer (Kogut 2000) and for explorative learning (Uzzi and Lancaster 2003), facilitate the search for useful knowledge (Hansen 1999), and enhance knowledge absorption (Van den Bosch et al. 1999; Jansen et al. 2005). They also contribute to the development of social capital, which in turn allows higher rates of return from both financial and human capital, and pave the way for control advantages by facilitating negotiations and reducing the cost of communication and coordination (Burt 1992). Because of resource pooling, improved coordination and coordinated adaptation, strong embedded ties enhance a firm's chances of survival by promoting time-based efficiency gains, risk sharing, and coordinating efficiency (Uzzi 1996, 1997).

A strong embedded tie between two organizations can, when all avenues for connectivity are explored, constitute a weak tie for a third organization. This idea broadens the importance of embedded ties and pushes towards network-level analyses (Halinen et al. 1999). On the one hand, weak ties increase an organization's innovative potential by creating structural holes (Burt 1992), and by allowing and facilitating the transfer of complex knowledge (Hansen 1999). They also impact on the quality of strategic decision-making by increasing network diversity and providing variety of experiences (Beckman and Haunschild 2002). On the other hand, weak ties combine with strong ones in generating complex and diverse networks. Their analysis can lead to a deeper understanding of complex and at times paradoxical phenomena in areas that include organizational learning and imitation strategies (Haunschild and Miner 1997), spill-over effects and network transitivity (Uzzi and Gillespie 2004), and 'domino effects' across several connected business relationships (Halinen et al. 1999; Hertz 1993).

Given the variety of functions that embedded ties can provide, a more in-depth understanding of their dynamics, including when and how they maintain their nature or, alternatively, decay, is of critical importance. Attention has so far been mainly devoted to analyze how arm's length ties mutate into embedded ones. According to

Uzzi (1997), a trigger such as, for example, third party referral or previous personal relations, sets expectations of trust for partners that do not know each other, thereby activating the transformation of an existing arm's length tie into an embedded one. During a trial period, a primed relationship can develop so that calculative logic is replaced by heuristic decision-making. The literature on strategic alliances and networks formation (Gulati, 1995; Powell et al. 1996) also provides insights into the formation of embedded ties. However, the opposite process – that is, *the process of dissolution and decay of embedded ties* - is still a relatively unexplored area (Baker et al. 1998; Montgomery 1998).

We maintain that acquisitions constitute a particularly relevant context for the study of embedded ties' dynamics. The acquisition process represents, in fact, a major discontinuity for the target firm *and* its network portfolio. Prior research in acquisitions has mainly concentrated on the effects of the acquisition process on the target firm or on the new organization resulting from the combination of the two. The debate has focused on post-acquisition integration issues and their impact on acquisition outcomes, and different perspectives - namely strategic, human resource, cultural, and sensemaking – highlight different aspects. The strategy perspective focuses on the main obstacles to integration (Hunt 1990; Hapeslagh and Jemison 1991; Pablo 1994), and on how managers can overcome them and realize the expected and potential benefits from acquisitions (Lindgren 1982; Larsson 1990), create value (Hapeslagh and Jemison 1991), enhance learning (Leroy and Ramanantsoa 1997), and transfer capabilities (Laamanen 1997). The human resource perspective focuses on organizational resistance to acquisitions as the main obstacle in integration, and concentrates on both employees' and managers' reactions (Schweiger et al. 1987;

Buono and Bowditch 1989; Napier 1989; Cartwright and Cooper 1990; Schweiger and DeNisi 1991; Hambrick and Cannella 1993; Greenwood et al. 1994; Fried et al. 1996). The cultural perspective focuses on cultural differences at both organizational (Sales and Mirvis 1984; Buono et al. 1985; Walter 1985; Datta 1991; Chatterjee et al. 1992; Larsson 1993; Weber et al. 1996) and national (Olie 1994; Calori et al. 1994; Very et al. 1997; Gertsen et al. 1998) levels as the main obstacle to successful post-acquisition integration. The sensemaking perspective (Vaara 2002, 2003) overcomes the overly rationalistic view of the integration process of the strategic, human resource and cultural perspectives, and focuses instead on how the 'irrational features of post-acquisition decision-making may impede organizational integration' (Vaara 2003: 859). Beyond clear differences in focus and approach, what these perspectives have in common is that they concentrate on the parent-target dyad. None of them clearly focuses on the impact of acquisitions on external relationships and networks. However, acquisitions are discontinuous events in the life of an organization and generate significant uncertainty and ambiguity in all its aspects, including the relational. They represent, therefore, an ideal setting for the study of network relationships and their dynamics.

In maintaining this, we build on Uzzi's insights on the phenomenon of embeddedness (1996, 1997), and on his observation that acquisitions increase the risk that a firm's connection with a core member of its network portfolio is severed. As embedded relationships thrive in conditions of stability and close social interaction, acquisitions potentially constitute a mortal threat to their maintenance in the long term. Uzzi (ibid.) suggested that the rationalization typically associated with post-acquisition restructuring often compromises the basis of existing embedded ties, leading to their break-up or dissolution into arm's length types. However, he also recognized that dissolution in the face of major organizational changes is not inevitable and that embedded ties can be maintained in some contexts, as proven in the case of the relocation abroad of the focus firm. The dynamics of embedded ties in organizational contexts characterized by high potential for uncertainty and instability are not, therefore, clearly understood in terms of either their outcome (preservation or dissolution) or their processes. Moreover, further developments in this field appear to be hampered by a distinct lack, at the present time, of longitudinal case studies, a more suitable approach for the in-depth study of organizational micro-dynamics.

The literature on the dissolution of inter-organizational *market* ties (Baker et al. 1998) offers useful insights on the forces that might impact on the stability of inter-organizational ties in general, including embedded ones. For example, it highlights the destabilizing role of competition and power asymmetry between the parties to an exchange, therefore leading to market ties dissolution (Burt 1992; Fligstein 1996; Pfeffer 1987), and the stabilizing one played by institutional forces including personal ties and organizational investments that promote close bonding (DiMaggio and Powell 1983; Granovetter 1985; Seabright et al. 1992). It also suggests that institutional forces are the strongest in determining the stability – or, conversely, dissolution – of market ties, followed by power and, lastly, competition (Baker et al.1998).

To sum up, we maintain that acquisitions constitute organizational contexts where uncertainty, institutional forces, competition and power asymmetry may affect the target firm *but also its network portfolio*. Extant theories on the dynamics of embedded ties under high uncertainty and on the dynamics of market ties offer some clues but no clear answer to the problems posed by the acquisition process for the maintenance or dissolution of the target firm's embedded ties. Given the potential benefits for both parent and target firms that might be associated with the preservation of embedded ties – in the above mentioned areas of knowledge and learning, efficiency and coordination, diversity and innovative capability – a greater understanding of their dynamics must be beneficial for both theory and practice. Our research efforts attempt to shed light on the conditions under which preservation or disruption of the target firm's embedded ties are more likely to occur, and on the specific contingencies that affect these dynamic processes. Our aim is to promote the development of longitudinal research in this areas and, through the analysis of in-depth case studies, to answer a series of questions: What happens to the target firm's embedded ties when the company is acquired? Are they preserved or disrupted? Are the patterns of preservation and dissolution always the same? What factors affect them, and how do these processes unfold?

Research Methods

Our empirical efforts are mainly exploratory and our research strategy is replicated retrospective case studies. This is justified in terms of both the nature of the questions (Yin 1994), and the study's main objective (Eisenhardt 1989). In case selection, we concentrated on acquisitions motivated by the desire to extend the parent's product line or its international coverage and where both parent and target firms were financially viable. Acquisitions motivated by expansion and growth (Barkema and Vermeulen 1998) account for a large share of recent mergers and acquisition deals (for example, about 36% of all M&A deals over $500 million in the US for the period

1997-1999). In these types of acquisitions, the parent firm is typically interested in the successful continuation of the target firm's operations as a whole, which makes the issue of potential changes in the target firm's embedded ties particularly poignant.

We selected two acquisition cases that varied across a number of relevant theoretical dimensions (absolute and relative size; the parent firm's intended integration strategy; organizational fit; the degree of friendliness or hostility of the acquisition) in order to control for the potential impact of organizational variables on the dynamics of the target firm's embedded ties. Because of the confidential and sensitive nature of many issues for both the companies and individual respondents, we present all illustrative material anonymously. Table 1 summarizes key information for the two cases, respectively named Edis and Candy.

Table 1 about here

We developed a pilot study on a third acquisition case not reported here. The objectives were to carry a preliminary test of our criteria for case selection, to refine our measurement tools and to develop a case study protocol (Miles and Huberman 1994). This opportunity was provided through personal contacts, whereas the two acquisition cases presented here agreed to participate after more formal contacts were established. Involvement with industry experts directed the selection and provided initial access. After the conclusion of the pilot study, extensive data collection was carried out at the two selected firms. This involved a mixture of informal conversations, as well as open ended, and semi-structured interviews with several key informants. Numbers varied across the cases, according to availability and need. Without including informal conversations and follow-up contacts, 18 interviews in

Edis's case and 22 in Candy's case were carried out. We interviewed industry experts (at least two for each case) and a number of senior and middle managers from both the parent and target firms. Besides one representative from the top management team with responsibilities for strategy development, these included the director of human resources and the director of mergers and acquisitions (or equivalent position, for example, the manager in charge of post-acquisition integration) plus various account, sales and procurement managers. Interviews varied in length from about one to over two hours, mainly depending on the type of informant, and were tape-recorded whenever possible. Extensive notes were also taken during interviews and company visits, and all available documentation (field notes, interview transcripts, etc.) was organized in a database to enhance reliability and minimize investigator' bias. We also collected company documents, both internal – such as agendas, minutes of meetings, progress reports – and external – such as public announcements, press statements and annual reports. As for construct validity, we used a variety of tactics to make sure that our operationalizations and measures were satisfactory. In some cases, as in the case of the target firm's embedded ties, we relied on a-priory specification of the construct and on existing tested metrics.

We adopted Uzzi's model (1997) to operationalize the concept of embedded ties by distinguishing between *social structural antecedents* and *components* of embedded ties (see Appendix A). We first asked key informants from the target firm to provide a full list of all customers and suppliers before the acquisition and to shortlist 'the most important' ones. We then collected data on both the social structural antecedents and the actual components of embeddedness according to Uzzi's conceptualization using triangulation of sources to validate our measures. For example, in the case of exchange of fine-grained information we asked our informants to identify the *areas* where information was exchanged (allowing us to measure the *extent* of communications) and to quantify on a 5-points scale the level of *detail* of the exchanges (to gauge *depth*) and their perceptions about the nature of information (to gauge *sensitivity*). We then compared the results from different informants, including, whenever possible, those from the other side (i.e. supplier or customer) of a given relationship. We also verified these data by asking for examples of documents or reports that would corroborate them. In some cases we were shown the documents but we were not allowed to analyse their content, and this was interpreted as confirmation of the sensitive and private nature of the information. On the basis of this evidence, the team discussed and agreed on an ordinal category (very high/ high/ medium/ low/ very low) that would summarise the various measures into a single indicator of "exchange of fine-grained information". A similar process was followed for other dimensions – either structural antecedents or components - of embeddedness. Finally, we identified the ties that proved to be 'embedded' according to our operational measurements. The criteria for judging about changes (dissolution) in embeddedness levels were in line with Uzzi's model (1997) and with extant theory on the dissolution of embedded ties (Baker et al. 1998; Montgomery 1998): Exit from the relationship or, a radical change in its main characteristics (such as, for example, a significant reduction in trust, severe interruptions to the exchange of private information, or increased level of conflict).

Throughout data collection and analysis, we used triangulation (Pettigrew 1988) whenever possible, and validation from participants was sought and incorporated. Also, precautionary measures were adopted to overcome the limitations of retrospective recollections. For example, we made sure that temporal proximity to the studied event was guaranteed by selecting cases that were still in the post-acquisition integration stage at the time of data collection. Finally, multiple perspectives were employed to reduce the dangers of biased recollections and interviews were carried out at both the parent and target firm whenever possible.

Research findings

The research findings relate to two key aspects, each addressed individually in a specific sub-section. The first concerns the nature and context of target firms' embedded ties before the acquisition. The associated sub-section provides a detailed picture of these relationships at the onset of the changes recorded during the study. The second concerns the dynamics of the target firm's embedded ties during the acquisition process. The associated sub-section focuses on the changes to the social structural antecedents and the components of these embedded relations and on the specific contingencies that influenced the processes of, respectively, dissolution and preservation.

The target firms' embedded ties before the acquisition: Nature and context

All the target firms' embedded ties in the study consisted of relationships with suppliers and customers and showed fundamentally similar characteristics (see Table 2).

Table 2 about here

First, all were long standing, ranging from a minimum of 10 years to over 25. Edis' embedded supplier in Table 2 had participated, through a combination of spin-off and cooperation with other airlines, to the creation of Edis itself. The already close relationship between this supplier and Edis was reinforced by means of a mandatory participation agreement. Although this agreement was no longer active at the time of the study, it had contributed in previous years to create the necessary conditions of trust and reduced risk that allowed the two companies to engage in a series of significant process adjustments to increase their operational fit. Moreover, it had guaranteed Edis' access to the entire range of services provided by its supplier, a necessary condition for its success as an intermediary. The mandatory agreement was later replaced by a broader partnership agreement, and this was interpreted as a sign that genuine long-term trust had developed. One of Edis' account managers recalled: *'We had been in business together since the start and we worked together. When they changed their reservation system, we modified our own operations. It was not always easy, but we talked and we knew they were not just trying to make life harder for us. They wanted to improve, and so did we.'* This is confirmed by one of Edis' more senior managers: '*Trust means commitment and we* (i.e., the more senior managers) *were right there, especially if there were problems. And this sent a message to them: We are here and we want to make it work for both of us.*' The partnership agreement did not prevent, had the companies wanted to do so, to exit the relationship and there was no significant poison 'pill'. This was explained in terms of the fact that it would have been difficult for the partners, and especially for Edis, to abandon the partnership, given the amount of idiosyncratic investments realized over time and its reliance on this suppliers' full range of services for its own success.

As for the embedded customers in Table 2, their relationships with Edis were, respectively, over 10 and 12 years old. One of them, in particular, was using Edis' reservation system for all its operations, whereas the other – although significantly reliant on Edis' service – was not quite so dependent on it. In both cases, there had been significant process adjustments by both sides. When reflecting on the nature of the relationship with their closest customer in Table 2, one of Edis' account managers recalled: '*They basically used to make all their reservation through us, and when they changed their system there were a lot of problems. But there are always problems, even when you don't change a thing. What we did was sit down and talk, me, them, also some of the other managers* (i.e., more senior ones) *and find a way out that was good for them and us. The fact is, after you do it a few times with the same people and get to know each others' way, it becomes easier.'* This shows how joint-problem solving operated in practice, relying on both a shared understanding of the long-term nature of the relationship, the reciprocal inter-dependence, and the active and informal involvement and commitment of managers at different levels of the organization.

The volatile nature of the business made continuous interactions between Edis and its embedded customers a critical aspect of their relationships. Communications were very intense and extremely frequent, characterized by high levels of face-to-face interactions. The presence of the same account manager, who, according to our sources, had maintained his position for over six years, proved a key success factor. Inter-personal relationships, in this case, appeared to reinforce inter-organisational ones, allowing for higher degrees of trust to develop and for the transfer across Edis and its embedded customers of fine-grained information through a very quick and effective channel. One of Edis' current account managers, who had been in a more junior position before the acquisition, recalled how '*we met at least twice a week. They needed a lot of information that was not easy to get, and we did pass it on. For* *us, meeting regularly was useful because we would anticipate problems, and sort them out before they really blew up in our faces.*' Although it would have been easier for Edis to find new customers than for its embedded customers to replace it as key provider, this did not seem to play a significant role in shaping the relationship beyond the precautionary step of drafting very detailed contracts. As noted earlier, from both sides there seemed to be a mutual understanding of the long-term nature of the relationship and inter-personal elements contributed towards maintaining this belief true.

Candy's relationships with its embedded suppliers in Table 2 had both been in place for over 25 years. These were the main suppliers of two of Candy's fundamental raw materials, sugar and glucose. Over time, significant reciprocal adjustments had occurred, concerning size of operations, plant capacity and operational processes. These adjustments were regarded as fundamentally important for the maintenance of constant quality levels, one the key success factors for Candy's own production efficiency and effectiveness. In both cases, partnership agreements were drafted when a just-in-time system was introduced, which also required increasing levels of information exchange and the establishment of continuous communication channels. Some of these exchanges involved information of a sensitive and '*strategic*' nature, and managers at more senior levels were involved regularly, as one of them recalled: '*We talked over long term issues, things such as decisions on product mix and quality, often anticipating our next moves. It was not about "giving our secrets away", but – well, yes – some of the stuff was rather confidential.*' The exchange of fine-grained and sensitive information was supported by the presence of significant levels of trust and reciprocal commitment. These were reinforced by the practice of joint-problem solving, which relied on a carefully balanced combination of regular, scheduled meetings, formal assessment and on-going, personal interactions. Strong emphasis was put on self-certification. These practices did not contrast with the maintenance of a high level of attention paid to the drafting of exhaustive contracts. A documentary analysis of Candy's contracts with one of its embedded suppliers prior to the acquisition confirmed, in fact, the presence of very detailed terms and conditions, especially relating quality. This was in line with interview reports from procurement managers, and was later confirmed in an informal conversation with a member of the supplier's organization. The detailed nature of these contracts might be interpreted as a direct contradiction of the advocated trust, but other explanations are also possible. In Candy's case, both the procurement manager and our informant with the supplier confirmed that the level of detail in the contract only related to technical aspects, in order to guarantee stability and high quality of supply. They also stated that both parties had willingly agreed to this level of contractual detail, considered "*normal in our business*" and, more specifically, did not interpret it as a sign of lack of trust. When pressed, they tended to point towards the informality and regularity of their communications, and their collaborative spirit in solving potential problems, as emerges from the following quote from an interview with the procurement manager: "*That's not what it means* ('it' being the association between detailed contracts and lack of trust as suggested by the interviewer) *it's only a technical matter. Trust is different; it's about talking and being open with each other. If you have a problem, you tell me and I see what I can do because it is also my problem. That is how it worked with them, and still does."*

Candy's relationship with its embedded customer in Table 2 had also been ongoing for over 25 years. Although contracts only lasted one year and were very detailed, the relationship was characterized by a long-term perspective on both sides and high levels of trust. These were, in fact, considered necessary elements for the significant adjustments made by Candy to its own operations to meet the demands and expectations of this important customer. A system of just-in-time had been introduced, thereby facilitating coordination and communications, and reducing cost. Moreover, Candy had altered its distribution system to suit the needs of its embedded customer, and had also promoted innovation in its packaging to fit its requirements. One of Candy's managers emphasized how *'trust was a big part of it, it was essential. If we had not trusted each other, we would not have done things such as JIT; we would not have agreed to deliver to their central distribution centre, to our inconvenience; we would not have changed things such as our packaging size and format just to please them*.' This was by no means Candy's only customer, and the company was constantly entering new geographical markets, thereby expanding its customer base and, to a certain degree, shifting its focus from the country of origin to other places. However, exiting from this particular relationship would have been '*almost impossible* (in the words of one of Candy's senior managers). *It is not only that we have been in business together for so long. There are also significant costs associated with losing this customer, whether or not we replace it. Some are clearly visible, in the just-in-time and all the other systems we have that are specifically devoted to them. But some are hidden. It's in the shared history and the understanding, in our shared culture, in the fact that we are from the same place in an expanding world. This matters because it gives you safety and reliance.'*

The dynamics of the target firms' embedded ties

To sum up, *prior* to the acquisition, all target firms' embedded ties in Table 2 were characterized by high levels of trust, mutual adjustments and idiosyncratic investments, intense communications at various organizational levels, and mechanisms for conflict resolution that relied more on discussions than on formalized contracts and procedures. The very same ties two or three years *after* the acquisition offer a somewhat different picture. One – Edis' embedded supplier – no longer exists. Moreover, Edis' relationship with one of its customers would no longer qualify as 'embedded' in the definition adopted for this study (Uzzi 1997). More specifically, the level of trust has reduced dramatically as stated by one of the customer's managers: '*Things are different, "frostier" in a way, from what they used to be. I am dealing with different people, and with a different style. I personally don't like it, but it's still business and we have to do what is best in the situation. Perhaps things will improve with time, when we learn to work together again. But it will take some time and some hard work, especially to build the same trust.'* Moreover, the level of conflict has significantly increased, as testified by a more than threefold increase in the number of formal complaints since the time of the acquisition (source: Customer's company data). According to the manager quoted above: '*We now put things down in writing, to keep a clear trace and set the record straight. It used to be done over the phone, and there was less of it, but now we have to be more careful about how we deal with them.'*

Edis' relationship with the other customer in Table 2 can be, instead, still classified as embedded. Although there has been an increase in the level of conflict, it appears that both parties still regard the level of trust as high and that problems are still dealt with in an informal, ad-hoc basis. All of Candy's embedded relationships in Table 2 are also still classifiable as embedded. These varied patterns raise a series of questions: What can explain these changes? Why did some of the embedded ties dissolve either completely or into more arm's length ones whereas others were preserved? How did these processes of dissolution and preservation unfold?

As expected, in both Edis' and Candy's case the acquisition produced overall uncertainty regarding the future prospects of the target firms and their respective network portfolios, but the two dissolved ties identified above seemed to be affected in unique and different ways. As the preservation of Edis' relationship with a second embedded customer in Table 2 shows, the processes of tie dissolution or preservation are complex and cannot be simply ascribed to changes occurring within the target firm's organization. *Specific tie contingencies* are also involved, as the following analysis aims to show. In order to identify the patterns described below, and schematically summarized in Figure 1, we identified and analyzed series of events, initiatives and actions that, throughout the acquisition process, might have impacted on the target firms' embedded ties in favor of either 'preservation' or 'dissolution'.

Figure 1 about here

We categorized each event or initiative in terms of its focus and intensity and, following extant theory that suggests how managerial practices impact on the level of embeddedness of business ties (Uzzi, 1996), we identified a number of *critical areas* through which tie dynamics could be comparatively observed and presented.

Processes of dissolution. A first common element in the pattern of dissolution of Edis' relationships with its supplier and with one of the customers in Table 2 is the breaking down of communications between these ties and the target firm. The frequency, intensity and richness of communication exchanges altered considerably following the acquisition. Company documents and interview data show that the news of the acquisition was communicated to Edis' embedded supplier in Table 2 by its account manager only after the official announcement had taken place. It was then followed by a visit from one of the senior managers of the parent firm, but these combined actions did not manage to reassure Edis' supplier about the consequences for its long-term business prospects with the target firm. The parent firm's plans with regards to future relations with this supplier were, in fact, not firmly established, as recalled by one of the target firm's procurement managers: *'They* (i.e., the parent) *did not really know about our most important suppliers. They did not realize that communication was important to them. And I don't mean general information, I mean the attention that you give to people who have been working with you for over twenty years.'* The key area of difficulty concerned whether or not there would be a significant change in the range and extent of the services procured. In the past, Edis had relied on the full spectrum of services offered by the supplier, but this could not be guaranteed for the future, with obvious implications for the supplier's prospects in terms of both volume and mix of sales. Edis' account manager at the time (now covering a different role) recalled how this on-going uncertainty affected his personal relationship with his counterpart at the supplier's end: '*Things had changed but I did not know exactly how. I guess they waited until they could, too see what would happen, but they then decided to put their energies into servicing somebody else. It's an expanding market, and there are plenty of intermediaries like us so it was not too* *difficult for them to replace us, whereas it is proving a lot more difficult for us to get the same somewhere else.'*

This inability to communicate about future business opportunities also characterized the development of Edis' relationships with its no longer embedded customer. Edis' account manager recalled: *'I did not know about it* – the acquisition - , *it all came out of the blue. And sure, we were worried because that is what you do if you don't know what is going on, where you are going. I did not know what to say to my contacts either, whether I should be open about it or not.'* He also experienced a progressive deterioration of his personal relationship with his counterpart, which he described as follows: '*I could see that my reticence was not helpful, and I was losing face. My customers were becoming more and more aggressive and you can only say 'trust me, it's going to be fine' without backing it up with more 'meat' so many times before you lose them. But I did not know where to go, the senior people did not seem to be able to help*.' As a result of these changes in communications and inter-personal relations, Edis' embedded customer reassessed its views on the overall transparency and commitment of the target firm to the existing relationship, and responded by adjusting in turn to the mutated circumstances. A break-up of the overall relationship was not really feasible in the short term, given that Edis was the single biggest supplier for this company, but other actions were, as revealed by interview and company data, rapidly taken. For example, the on-going transfer of sensitive information that had characterized the relationship in the past was interrupted, and a new communication 'policy' was devised, based on a more carefully and formally regulated pattern of interaction.

For both dissolved ties, communication and inter-personal problems were compounded by decisions taken by the new management of the parent firm in other areas, and in particular on the level and nature of the idiosyncratic investments in these relationships. In the case of Edis' embedded supplier, for example, the rationalization plan following the acquisition brought about the partial dismantling of some of the operational systems that had been in the past specifically adapted to tailor this particular relationship. This reinforced the supplier's perception that a reduced level of commitment had to be expected in the future, and encouraged this company to find alternative and more promising long-term outlets for its services. In the case of Edis' no longer embedded customer, managerial decisions affected the relationship by means of drastic cuts to the account managers' financial budgets, which entailed diminished resources for traveling, less frequent visits and reduced face-to-face interactions. These negative side-effects are clearly highlighted by one of the retained sales managers of the target firm: *'We used to be able to work hand-in-hand with our clients, but all that disappeared as soon as money was cut. They* (i.e., the parent firm's managers) *did not seem to understand how we worked, they were not interested'.* The same manager, reflecting on the character and impact of these cost-cutting measures, observed: '*I tried hard to keep up, but it became impossible. What was I supposed to do? I did not have the same money as before, so I could not operate as before. But it was difficult to explain that to people that you knew well and had different expectations. I kept saying, it's not me, it's the situation, but that did not stop them complaining and getting tougher.'* The change in circumstances due to reduced resources and new procedures led people to re-assess their relative positions, and change their behaviors. Personal and informal relations gave way to formally regulated ones, conflicts became more wide-spread and negotiating positions hardened.

Communication and *inter-personal* problems, and levels of *idiosyncratic investment* led, in both cases of dissolved embedded relationships, to increased levels of conflict. This combined with significant changes in the nature of conflict resolution mechanisms, and led to the substantial collapse of joint problem solving, one of the components of embedded ties. In the case of Edis' supplier, tension escalated rapidly. Once it became clear that the long-term business conditions underlying the relationship had changed for the worse, the supplier exited the partnering agreement and switched to one of the target firm's competitors. In the case of Edis' customer there was a clear shift in the *components* of embedded ties: from informal mechanisms of conflict resolution and problem solving to a more formal and contractually based relationship. In the recollection of the parties involved, this shift was generally related to *personnel turnover* within the target firm at different levels. The departure of a number of old middle and senior managers in the aftermath of the acquisition led to a significant reduction in the number of levels for interaction between the target firm and its once embedded customer, thereby limiting the opportunities for higher-level mediation and reducing the scope for joint problem solving. The following analysis by one of the retained account managers illustrates this point: '*Before, if there was a problem between us* (i.e., account managers and business relations)*, our management could help. They were in good terms and knew people. They were involved. Now, if we have a problem it is only us and nobody else can really intervene and mediate.'* The direct involvement of more senior managers, alongside account managers, in the target firm's embedded tie had been an essential element of this relationship prior to the acquisition, as shown in the previous section. The removal of this critical element due to high personnel turnover during the acquisition affected negatively the existing level of trust, and further compromised communications between the parties.

Processes of preservation. The analysis of the processes of preservation focuses on changes occurring in the critical areas individually considered to highlight in more detail their impact on the components of the embedded ties. In the majority of the cases where embedded ties were preserved during the acquisition, *communications* between the target firm and its embedded relations were not significantly affected. Information exchanges did not alter in intensity, nature, level of 'richness' or indeed sensitivity. The only exception is Edis' preserved relationship with one of the customers in Table 2. During the negotiation stage of Candy's acquisition, all the target firm's embedded ties received some form of communication from the parent firm. These exchanges had been 'tailored' to the specific parties involved, with the specific objective of reassuring them regarding the long-term direction of business relations. Initial contacts were followed up by a series of phone calls and visits from the target firm's old top managers and some of the new members of the management team, during which, as recalled by one of the managers involved: '*We clearly explained what our company stood for and where we wanted to go, and how the acquisition would achieve all this. They asked questions and we did all we could to answer and reassure them. We had, actually several meetings, depending on individual cases.*' This promoted openness and contributed to dispel the embedded ties' natural worries about the future of their business operations. The target firm's long-term commitment to these relationships was also reinforced through other communication mechanisms, including the use of the local language by the new owners. One of the key relations in Table 2 recalled: '*You saw them* (i.e. the new managers) *and could talk to them. They were making an effort to reassure us, by being there, and also spoke our language, which made an impression. I remember everybody talked about it, the language, and we even made jokes about it. But it was good, very good*.' Communications between the parent firm, the target firm and its embedded ties continued regularly after the acquisition.

In the case of Edis' only preserved relationship (one of the embedded customers in Table 2), levels of uncertainty following the acquisition remained, on the contrary, quite high. Communication problems similar to those observed for the dissolved ties described earlier developed in this case as well, but the situation developed in a different direction. Other circumstances intervened to reduce the overall impact of both uncertainty and communications problems. First of all, this particular customer did not rely exclusively on Edis for its supply but had a more dispersed and diversified supply base. At a time of potential crisis for the relationship, this allowed this company to take, in the words of one of its managers, '*a more long-term view of the potential problems but also the potential benefits'*. The acquisition had, in fact, brought uncertainty but had also inspired some cautious satisfaction in view of the future opportunities of business expansion that might be realized by the customer through its connection with a larger supplier. This more optimistic interpretation of the mutated circumstances transpires from the following statement by one of the managers of Edis' preserved customer: '*We did not know what the future would bring, if they (the parent) wanted big changes. But for us it could be an opportunity and we tried to see it that way and make things work as before.'* The possibility to move on to bigger business in the future generated, in this case, the necessary goodwill on the part of Edis' customer to try and solve the current problems.

In all cases where embedded ties were maintained, decisions taken by the new management with regard to the level and nature of the *idiosyncratic investments* in these relationships did not have disrupting effects. In the case of Candy's embedded suppliers, every effort was made to maintain stability of operations, given the importance of a constant and reliable level of quality supply for the target firm's own success. One of the target firm's senior managers recalled how the integration plan explicitly comprised its firm's embedded suppliers: '*Keeping operations smooth was priority number one; the rest would follow. With interruptions, people start arguing about whose fault it is, and this creates divisions and hostility. But we knew very well how each other worked – no surprises there – and if it had worked in the past, why should it all go wrong now?*' Candy's parent firm developed an integration plan that prioritized a number of key integration issues, each delegated to a dedicated, especially appointed committee. Strict deadlines were set. The target firm's account managers in charge of the ties in Table 2 were directly involved in some of these committees. Their responsibilities included '*continuation of operations*' and, specifically, the maintenance '*of good business relations with our customers and suppliers*' (from an internal document). The pressure to achieve fast results pushed them to increase their efforts, so that more resources were actually invested in the embedded ties than before, and closer co-operation was actively promoted. For example, visits were specifically organized with the declared intent to reinforce commitment and trust levels, and a press bulletin on the acquisition was distributed regularly to the target firm's embedded ties.

In the case of Edis' embedded customer whose relationship was preserved, the acquisition integration plan, as stated earlier, included a significant reduction in the account manager' financial budget thereby reducing the level of idiosyncratic investments for this particular relationship. In this case, however, the impact of diminished resources for traveling, less frequent visits and reduced face-to-face interactions, was not as traumatic as in the case of the embedded customer analyzed above. A radically different interpretation given by this customer to the nature, relevance and time-scale of the difficulties following the acquisition combined with a long term view of the potential gains attached to this business partnership. Instead of shifting towards a more formal and less 'personally based' relationship, this customer made a positive effort to maintain and support its existing tie. This process was facilitated by the fact that there was no change in another critical area for embeddedness, *personnel turnover*. The group of people directly involved in the relationship was not modified and the old account manager maintained his position. In his recollection of events, the embedded customer actually increased its level of commitment by '*switching a gear. There were so many problems that I thought we might lose them at some stage. But they stuck with us, and I think that our relationship is actually stronger now. At least, I feel I trust them more.'* And also: '*They could have created a lot of fuss, because we were treating them so badly, but they were patient and carried talking to us, to me, and discussed ways to move things forward. I will never forget that. It was a joint effort, between me and them, and now things are slowly getting better again.'*

In this particular case, disrupted communications and decreased levels of idiosyncratic investments generated an increase in the level of complaints. This, however, did not affect existing methods of joint problem solving, nor did it lead to a prevalence of contractual relations over personal one or to a more cautious approach with regard to the exchange of fine-grained information. Quite the opposite, the specific tie-contingencies of the relationship between Edis and this embedded customer seemed to promote an intensifying of joint problem-solving and informal mechanisms for communications, with positive implications for the level of trust and the maintenance of the tie as embedded.

In the case of Candy’s preserved embedded ties, personnel turnover, both at the ties interface and at more senior levels within the target firm, was very low. For example, generous retention packages for all managers and employees involved in relations with the network, irrespective of their hierarchical level, were put in place. These conditions seemed to reinforce prior levels of trust, feeding a virtuous cycle of mutually reinforcing dynamics.

Discussion

The research findings above highlight the complexity of the dynamics of the target firm’s embedded ties in acquisition contexts. In the presence of high levels of uncertainty and ambiguity, processes of tie dissolution and preservation are affected by a complex web of managerial decision and actions in a number of critical areas. These actions and decisions operate at different organizational levels, sometimes in different directions. They can also lead to different results in terms of the dissolution or preservation of a given embedded tie depending on its specific tie-contingencies. It is, as a result, difficult to derive general conclusions on the direction and 'sign' of these interactions, but important considerations can nonetheless be put forward as to what matters and when.

First of all, it appears that the processes of tie preservation and dissolution observed in this study are associated with managerial decisions and actions in *four critical areas*, namely communication, level of idiosyncratic investments, inter-personal relations and personnel turnover. Changes in these four critical areas, occurring at different levels of the organization, can be systematically associated with the following *components* of the target firm's embedded ties: changes in the level of trust of the target firm's embedded ties, as well as in the type of information exchanged and in the nature of the conflict resolution mechanisms and problem solving solutions adopted.

Our findings, however, indicate that the exact nature and direction of these associations, and the ultimate effect in terms of either the preservation or the dissolution of the embedded ties involved are not easy to generalize. Three problematic aspects can be identified. First, similar conditions in one of the four critical areas above help discriminating between patterns of dissolution and preservation in some cases but not in others. For example, communications are clearly different in the case of the dissolved tie between Edis and its supplier on the one hand (communications deteriorated) and in the case of the preserved ties between Candy and its suppliers on the other (communications were maintained). They do not, however, discriminate between the former and the case of Edis' preserved customer where communications were equally disrupted. This apparent inconsistency points to the presence of mixed interactions, which can in principle be explained in systemic terms.

A second problematic aspect is connected to the fact that changes in the same critical area can operate at different organizational levels in opposite directions, with, ultimately, diverging results. An example is personnel turnover. In Edis' ties with its embedded customers, low personnel turnover at the operational level of tie interface (in both cases the same account managers were maintained) combined with high personnel turnover at the levels of middle and senior managers (senior managers who, prior to the acquisition were directly involved in joint-problem solving with these embedded ties were replaced by newcomers who did not engage in the same activities). This set of circumstances also applied to Edis' embedded customers, but was associated with very different tie dynamics, combining in one case with the dissolution of the relationship and in the other with its maintenance.

A third problematic aspect is that entirely similar sets of circumstances, namely, similar changes in the four critical areas in terms of both levels and directions, can be nonetheless associated with different results in terms of tie dissolution and preservation. This suggests that the process of either preservation or dissolution of an embedded tie are likely to occur under a given set of circumstances (that is, when changes in the four critical areas occur during the acquisition) but are ultimately determined by the *specific contingencies of the tie* involved. Two such specific tie contingencies are apparent in our findings. The first is the nature of the interdependence between the target firm and the embedded tie itself, which reflects their relative balance of power. The second is the interpretation given by the actors directly involved in the specific relationship to the mutated circumstances, which leads them to re-orient (or maintain unaltered) their behaviors. In the case of Edis' embedded customers, very similar changes in the four critical areas throughout the organization combined with profoundly different tie contingencies. The customer whose embedded relationship dissolved was highly dependent on the supply of the target firm. Prior to the acquisition the balance of power was in favor of the target firm, but a long-term stability had been achieved through the development of 'embeddedness'. With the new circumstances brought about by the acquisition, this long-term equilibrium in the mutual inter-dependence between Edis and its embedded customer was broken, and this imbalance was amplified when the latter interpreted the situation as a potential threat to its own survival. The relationship could not be entirely severed in the short term, but a balancing act was achieved by adjusting – that is, by reducing - the level of 'embeddedness' to reflect the new circumstances. The context was different in the case of Edis' preserved embedded customer. This was less dependent on the supply of the target firm as its supply base was more diversified. As the acquisition took place, the existing balance of power between the two was modified, but Edis' customer interpreted the situation in terms of an opportunity to increase the companies' mutual interdependence. This enhanced inter-dependence combined with the more optimistic interpretation given by the actors involved to promote the maintenance, if not the actual deepening, of the pre-existing level of embeddedness.

These considerations lead to the generic conclusion that the processes of preservation and dissolution of the target firm's embedded ties cannot be easily modeled, but several contributions can be nonetheless highlighted. The first is the identification of the *four critical areas* of communication, idiosyncratic investments, inter-personal relations and, personnel turnover, which are consistent with the social structural antecedents of embedded ties in Uzzi's model (1996, 1997: see also Appendix A). Changes in these four critical areas due to managerial actions and decisions during the acquisition process can impact, as Uzzi anticipated and our findings confirm, on the actual *components of the embedded ties*, namely trust, joint problem-solving and exchange of fine-grained information. However, our findings expand on Uzzi's model by showing how these changes by themselves are not enough to explain whether an embedded tie actually dissolves or is preserved. Two *specific tie-contingencies* prove decisive in our cases: the mutual interdependence between the target firm and its embedded relation - with its associated balance of power, and interpretive processes occurring at the inter-face between the two.

The role of specific tie-contingencies is key in the transformation of an embedded tie into a more arm's length one, or in its dissolution. In analysing processes of embeddedness formation, Uzzi noted that a primer or trigger – for example, third party referral - is needed to instigate the transformation of a market relation into an embedded one. Our findings indicate that a *trigger* is also needed for the *reverse process*, and the two identified tie-contingencies play this role. Our findings are also consistent with prior research on the dissolution of market ties (Baker et al. 1998), as the four critical areas are associated with the social and institutional forces that, according to this line of inquiry, are relevant for the stability or dissolution of market ties. But our findings also point to significant differences. More specifically, the literature on the dissolution of market ties suggests that institutional and social forces tend to promote tie stability (Granovetter 1985; Seabright et al. 1992) whereas competition and power asymmetry (Burt 1992; Fligstein 1996) promote dissolution. Our analysis reveals a more complicated set of relations. Social and institutional forces, operating in our case through changes in the four critical areas, do not appear to have a decisive impact on the preservation or dissolution of the target firm's embedded ties, which is ultimately affected by specific tie-contingencies, one of which is indeed mutual interdependence with its associated balance of power. This means that, in our cases, social and institutional forces, competition, and power asymmetry have *different roles* in the processes of maintenance or dissolution of the embedded ties.

Finally, our findings highlight the critical role played by *interpretive processes* in explaining phenomena that, so far, have been addressed in overly rationalistic fashion by researchers involved in both in the study of embeddedness (Uzzi 1996, 1997) and the dissolution of market ties (Baker et al. 1998, Granovetter 1985; Seabright et al. 1992; Burt 1992; Fligstein 1996). The processes of dissolution and preservation of the target firm's embedded ties observed in our study cannot be satisfactory entirely explained through rationalistic considerations, whatever their nature (economic, strategic, organizational or cultural). They rely on the participants' interpretations of new sets of circumstances and situations and on their adaptive responses and behaviors. In other words, they rely on sensemaking (Weick 1995). Recent contributions in acquisition studies have shown that acquisitions processes, with their intrinsic complexity and ambiguity, are especially affected by the co-existence of rationality and irrationality in decision-making (Vaara 2002, 2003). Our findings expand on these earlier contributions by suggesting that interpretive processes occurring outside the organizational boundaries of the parent-target dyad are also important for understanding acquisitions and their effects.

Conclusions

Before summing up the contribution offered by our findings on the dynamics of embedded ties to both theory and practice, we would like to reflect on the key limitations of the study and their potential significance. Two main problems relate, respectively, to the small number of embedded relationships analyzed and to the particular nature of the acquisition cases selected as contexts for our investigation. As for the small number of embedded ties under study, we believe that the need to increase their number was counterbalanced by the equally legitimate need, given the exploratory stages of this research, to develop appropriate methodological tools and to guarantee depth in analysis. In preferring depth to breadth, we have exposed ourselves to criticism, but we have also strengthened our chances to provide a methodological and conceptual platform for further, larger-scale, studies. With regard to the decision to limit our investigation to acquisitions motivated by growth and expansion, we acknowledge that this might pose some issues of generalizability. Again, however, the exploratory nature of the research and the need to pay significant attention to issues of methodological development and depth of analysis constitute, in our view, legitimate reasons for our decision to curtail in some ways the complexity of the empirical setting for the study.

Despite its inevitable and obvious limits, we believe that our research offers new insights for both theory development and managerial practice, and represents a useful starting point for future research in many directions. First, our findings corroborate and expand extant theory on embeddness (Uzzi 1996, 1997) in two main areas. First, they complement it by concentrating on the overlooked processes of embeddedness dissolution and by identifying the dynamics that underlie the transformation of an embedded tie into an arm's length one. Second, they expand it by highlighting the decisive role in this transformation, besides changes in the social structural antecedents and the components of embeddness, of specific tie-contingencies. Our study partially corroborates the literature on the dissolution of market ties (Baker et al. 1998, Granovetter 1985; Seabright et al. 1992; Burt 1992; Fligstein 1996) by confirming the importance of social and institutional forces, power asymmetries and competition in the study of tie dynamics. Our findings, however, point to different roles played by these forces when applied to the processes of dissolution and preservation of embedded ties, thereby raising new questions to be addressed in future research. Our research also promotes theory development in the field of acquisition studies. At a broader level, it supports the view that acquisition studies can benefit from incorporating a sensemaking and interpretive perspective (Weick 1995; Vaara 2003, 2003) within more rationalistic considerations relating to strategic, organizational, human and cultural aspects. The importance of interpretive processes also mitigates the over-rationalistic approach that characterizes extant literature on embeddedness and on the dissolution of market ties. At a more specific level, our study opens new lines of enquiry within this field by showing how interpretive processes occurring beyond the boundaries of the parent-target dyad have an impact for the target firm's network portfolio.

Finally, we believe that our study clearly supports the importance of *relational elements* in acquisition studies. Starting from the methodological and conceptual platform provided here, future research could explore a number of potentially interesting issues. We would like to highlight a few. An important development could be the application of extant ideas on the value of external and internal knowledge (Menon and Pfeffer 2003) to acquisitions and, in particular, to the parent firm's attitude to knowledge embedded in both the parent firm and its network portfolio before and after integration. Future research could also connect our study with theory developments on the social capital of brokerage (Burt 1992, 2000, 2002). Bridges across structural holes provide advantages in terms of information arbitrage and the early detection and development of opportunities (Burt 2004). We suggest that the target firm's embedded ties provide this function for the parent firm, and their dissolution or preservation might affect its innovative potential in significant ways. Other important developments lie in connecting the dissolution or preservation of the target firm's embedded ties with a number of critical organizational dimensions already identified in the literature review, such as, for example, knowledge and learning (Kogut 2000; Uzzi and Lancaster 2003; Hansen 1999), absorptive capacity (Van den Bosch et al. 1999; Jansen et al. 2005), the quality of strategic decision making (Beckman and Haundschild 2002). Finally, although we concentrate on acquisitions motivated by growth and expansion, the study of other types of acquisitions should not be overlooked. For example, in R&D acquisitions, research has concentrated on knowledge exchange mainly between parent and target firms with a focus on the factors that facilitate effective knowledge transfer - such as, communication, time elapsed since acquisition, and the knowledge articulability (Håkanson 1995; Bresman et al. 1999). But, as the literature on knowledge exchange between corporate and subsidiary levels in the context multinational companies already suggests (Andersson et al. 2001), relational aspects might be an important element to add to the discussion.

As for *managerial implications*, we would like to emphasize the following points. First and foremost, managerial decisions taken during the acquisition process have effects that go beyond those immediately intended. A deeper understanding of these direct and indirect consequences might prevent managers from running into unnecessary risks, such as that of disrupting a potentially valuable source of competitive advantage embedded in the target firm’s network portfolio. Moreover, when engaging in acquisition processes, managers should be more aware of the importance of relational elements and should paid to them the same attention they usually pay to strategic, organizational and process considerations. Finally, managers should also recognize the importance of interpretive processes, alongside rationality, in many dimensions of organizational life. In the course of acquisition processes, interpretive processes that occur at the inter-face between the target firm and its network portfolio are decisive in determining the future of these important relations, with all that ensues in terms of the potential benefits (or losses) for the parent and target firms. This paper clarifies some of the complexities associated with the challenge to manage parallel integration processes, and invites both managers and researchers to pursue further the key issue of integration with one important suggestion: integration does not only occur within the organizational boundaries of the target-parent dyad, but includes parts of its external environment. It is, indeed, triads - if not entire networks - that matter.

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Table 1. Case studies: Key characteristics

	EDIS	CANDY
Industry	Travel - Electronic global distribution services	Food
Organizational fit:		
• **Size (relative)**	• Parent is much bigger than target (Parent is twice the size in terms of n. of employees)	• Parent is slightly bigger than target
• **Cultural distance**	• Domestic (both North-American)	• International (both European)
• **Similarity:**	• Medium-low	• Medium-high
- Structures	- Parent is big multinational operating in several business areas each organized as independent business divisions. Target is operating internationally but concentrated in one business area.	- Both firms have a long history (60+ years) and operate internationally. Organizational structures are similar and the degree of complementarity in product lines, markets and marketing/distribution is high.
- Processes	- Parent is holding: financial reporting and control systems are critical High degree of formalization and structuring of organizational processes. Target is a focused operation. Financial controls are less important than operational ones. Medium formalization and structuring of organizational processes.	- The degree of formalization and structuring of organizational processes is quite high in both firms, although higher in parent. Target is more flexible in adapting to market changes Operational controls are more important than financial ones for both.
Type of acquisition	Hostile (no prior history)	Friendly (long partnership)
Communications in courtship (*):		
• **Range of issues**	• Narrow (strategic)	• Very broad (strategic, organiz. & process)
• **Intensity**	• Very low	• Very intense
• **Duration**	• Short	• Very long
Intended strategy of integration	Absorption	Preservation
Performance 5 years prior to acquisition (**)		
• **Parent firm**	• Good profitability and financial position	• Good profitability and financial position
• **Target firm**	• Good profitability and financial position	• Good profitability and financial position

(*) This is based on Greenwood et al.'s distinction (1994) between courtship, consummation and post-acquisition stages.
(**) Source: Company documents (internal and external). Performance was tracked over a period of five years prior to the acquisition and evaluated with industry experts. 'Good' in this context means above industry average.

Table 2. Check-list matrix: Target firm's embedded ties BEFORE and AFTER acquisition*

		EDIS		CANDY	
	Key embedded customers	Travel agencies (2)		Grocers (1)	
		BEFORE	**AFTER**	**BEFORE**	**AFTER**
Social Structural Antecedents	*Length*	Long (10+ years)		Long (25+ years)	
	Process adjustments	Extensive	Medium	Extensive and reciprocal	Extensive and reciprocal
	Favors/Reciprocity	High	Low	High	High
	Face-to-face interaction	Frequent (over twice a week)	Infrequent	Frequent (over twice a week)	Frequent
	Expert division of labor	Yes	Yes	Yes	Yes
	Exit option	Available	Available	Available	Available
	Level of detail in contract	Very high	Very high	Low + 1 year only	Low
Components	*Level of trust*	High	Very low	High	High
	Exchange of fine-grained information	High and extensive	Minimal	High and extensive	High and extensive
	Joint problem solving	Extensive	Low	Extensive	Extensive
	Key embedded suppliers	Airliners (1)		Producers of sugar & glucose (2)	
		BEFORE	**AFTER**	**BEFORE**	**AFTER**
Social Structural Antecedents	*Length*	Long (25+ years)		Long (25+ years)	
	Process adjustments	Moderate and reciprocal	**ENDED**	Extensive and reciprocal	Extensive and reciprocal
	Favors/Reciprocity	Yes		Yes	Yes
	Face-to-face interaction	Frequent (over twice a week)		Frequent (over twice a week)	Frequent
	Expert division of labor	Yes		Yes	Yes
	Exit option	Not available		Available	Available
	Level of detail in contract	High		High	High
Components	*Level of trust*	High		High	High
	Exchange of fine-grained information	High		High and extensive	High and extensive
	Joint problem solving	Extensive		Extensive	Extensive

Sources: Informal conversations; open and semi-structured interviews; documents (internal and external); archival records; direct observation.

(*) Based on Uzzi's model of structural embeddedness (1997) and on the operationalization in Appendix A.

APPENDIX A: Operationalization and measurement of target firm's embedded ties

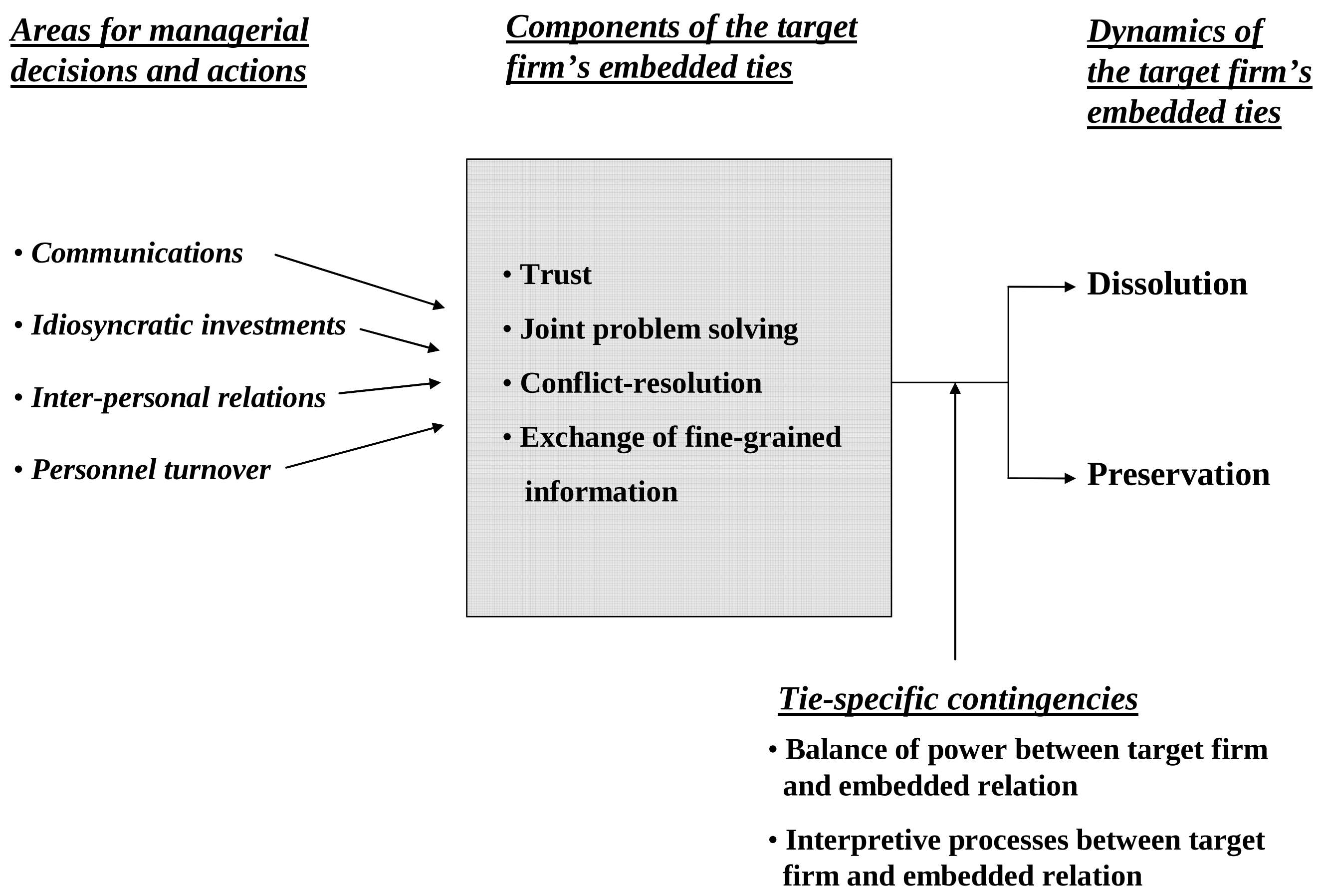
Construct measurement dimensions (*)	Data sources (**)	Illustrative questions (***)
Social structural antecedents: • *Length* • *Process adjustments* • *Favors/Reciprocity* • *Face-to-face interaction* • *Expert division of labor* • *Exit option* • *Level of detail in the contract*	Semi-structured interviews with key informants such as Account managers, Procurement managers and Sales representatives. Company documents (such as contracts, policy statements; reports and other archival records). Informal contacts with contractors (either suppliers or customers)- limited	• Did you (or the contractor) adapt your processes to strengthen the relationship? In what way? • Was the relationship characterized by voluntary contributions and special concessions such as, for example, shorter waiting times or improved service? • Were written contract used and when?
Components of embedded relations: • *Level of trust* • *Exchange of fine-grained information* • *Joint-problem solving*	Semi-structured interviews with key informants such as Account managers, Procurement managers and Sales representatives. Company documents (such as contracts; policy statements; reports and other archival records). Informal contacts with contractors (either suppliers or customers)- limited	• Was opportunism a problem? How did you protect yourself? • How did you respond to poor performance? • Did you share information about trends, customer demands, new R&D? • How were disagreements resolved? How did you react if another contractor offered you better conditions?

(*) The construct of embedded ties is operationalized according to Uzzi's model (1997) by distinguishing between social structural antecedents and components of embedded ties.

(**) Data sources were substantially similar across cases, with the exception of informal contacts with contractors (only possible in Candy's case)

(***) Measures for each item were based on Uzzi's interview instrument and detailed descriptions of individual items (1997).

Figure 1: An interpretive framework of the dynamics of the target firm's embedded ties in acquisitions



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