



UNIVERSIDADE CATÓLICA PORTUGUESA

# Acquirer – Target Coordination: How IB Literature Could Inform M&A Scholars

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by

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## RESUMO

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Fusões e aquisições são uma estratégia chave de expansão internacional, usada por muitas empresas. No entanto, apesar da sua popularidade e importância estratégica, as aquisições geralmente levam a resultados decepcionantes para os adquirentes, devido principalmente a dificuldades na coordenação e integração da empresa adquirida. Assim, a criação de sinergias e, em última instância, o sucesso da aquisição, dependem da efetividade da integração e coordenação.

A taxa de insucesso em fusões e aquisições pode significar que acadêmicos e profissionais não detêm um completo entendimento acerca do mecanismo de criação de valor. No geral, a literatura de fusões e aquisições oferece importantes conhecimentos, mas amplamente dispersos, sobre este fenômeno.

Gestão internacional é uma área de pesquisa valiosa para complementar a literatura em fusões e aquisições, uma vez que a coordenação por parte da sede de suas subsidiárias (interação entre sede e subsidiárias) é um tópico central de estudo. Assim, este estudo combina a literatura sobre coordenação e integração em fusões e aquisições com o conhecimento de gestão internacional. O conhecimento de gestão internacional é usado para entender a coordenação das aquisições, as sobreposições de tópicos em ambos os campos são realçados, assim como áreas para pesquisas futuras.

Uma das principais conclusões deste estudo é a importância do papel contributivo da subsidiária e da teoria da integração global versus responsividade local de gestão internacional, para entender a integração e coordenação em fusões e aquisições.

**Palavras-chave:** Fusões e Aquisições; Gestão Internacional; Integração e Coordenação.



## ABSTRACT

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Cross-border mergers and acquisitions are a key strategy of international expansion used for many companies. However, despite their popularity and strategic importance, acquisitions often lead to disappointing results for the acquirers, mainly due to difficulties in the coordination and integration of the acquired firm. So, the creation of synergies and ultimately, the acquisition success, depends on the effectiveness of the integration and coordination.

The enormous failure rate in M&As might suggest that academics and practitioners do not have a thorough understanding about value creation mechanism. In sum, the M&A literature offers rich but widely dispersed insights into this phenomenon.

The IB field of research is a valuable complement for the M&A literature since the headquarters' coordination of their foreign subsidiaries (headquarters-subsidiary interaction) is a central topic of study in this field. Hence, the present study combines the literature on coordination and integration in M&As with the knowledge from IB. The IB knowledge is used to understand the M&A coordination and overlaps in the knowledge of both fields are highlighted, as well as areas for further research.

A key finding of this study is the importance of the contributory role of the subsidiary and of the global integration and local responsiveness theory of the IB research to understand the integration and coordination in M&As.

**Keywords:** Mergers and Acquisitions; International Business; Integration and Coordination.



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## **ABBREVIATIONS**

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IB – International Business

M&A – Merger and Acquisition

HQ – Headquarter

EMNC – Emerging Market Multinational Companies

IT – Information Technology

MNC – Multinational Corporation

MNE – Multinational Enterprise

HRM – Human Resource Management

HR – Human Resources

FDI – Foreign Direct Investment

OFDI – Outward Foreign Direct Investment

UK – United Kingdom

US – United States

## CHAPTER 1: INTRODUCTION

---

Globalisation and trade liberalisation have enhanced the worldwide relations and increased the opportunities for international business. Internationalisation represents a key strategic option for firms' competitive advantage in this increasingly competitive business environment since it allows firms to access resources, strategic assets and advanced technologies, increase the market share and obtain managerial expertise (Luo & Tung, 2007). In this way, firms can choose among several different modes to enter a foreign market including exports, contractual agreements, joint ventures, mergers and acquisitions and greenfield investment (Pan & Tse, 2000). This dissertation focuses on cross-border mergers and acquisitions (henceforth M&As or acquisitions) that offer firms' the fastest access to these internationalisation advantages, but that also involve greater difficulty than domestic M&As or other entry modes.

"Cross-border M&As have been motivated by the necessary search for new opportunities across different geographic locations and markets in a turbulent and continuously changing environment" (Shimizu *et al.*, 2004). Cross-border M&As have long been a popular strategy for international expansion between small-, medium- and large-sized organisations. Recently, the size and the number of the M&As worldwide has been growing exponentially. According to data from Statista (2018), in 2017, the value of global M&A deals was 4.74 trillion U.S. dollars.

The rationality behind M&As lies on the fact that "acquisitions have a unique potential to transform firms and to contribute to corporate renewal. They can help a firm renew its market positions at a speed not achievable through internal development" (Haspeslagh & Jemison, 1991, p. 3). In general, acquisitions allow to exploit and create economies of scope or scale (Park & Gould, 2017), gain market power, increase the shareholder value and access new technologies,

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resources and knowledge (Vermuelen & Barkema, 2001 and Birkinshaw *et al.*, 2000). Specifically, overseas acquisitions provide more benefits and opportunities for the acquirer such as quick expansion into foreign markets, allows to overcome barriers to entry (Vermuelen & Barkema, 2001), enhance know-how about new markets and boost their competitiveness at home and abroad (Kale & Singh, 2017 and Haspeslagh & Jemison, 1991).

On the other hand, the M&A process involves high complexity and there are endless reasons for its failure, including the selection of the wrong target, lack of planning, cultural clashes, poor communication, loss of talented employees, mismanagement, over-payment and so on (Papadakis, 2005; Gomes *et al.*, 2013 and Ranft & Lord, 2002). In short, acquisitions often end up being very costly and time-consuming.

Given the huge economic impact of international M&As and its challenges, this phenomenon has been studied by practitioners and researchers in several different academic fields over the past decades such as finance, strategic management and human resources, concerning topics such as the acquisition performance, pre-acquisition issues (e.g. cultural fit, compatibility and relatedness), and post-acquisition issues (e.g. degree of integration, acquisition experience).

Furthermore, despite its popularity and strategic importance, most acquisitions do not produce the expected benefits for the acquirer. Indeed, Papadakis (2005) suggested that the failure rate of acquisitions is between 50 and 75 percent, while more recently, Christensen *et al.* (2011) argued that between 70 and 90 percent of the deals fail. This enormous failure rate might suggest that academics and practitioners do not have a thorough understanding about value creation mechanism in M&As. In fact, the existing literature on M&A is frequently referred as “fragmentated” or as a puzzle due to its nonintegrative

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nature (Capasso *et al.*, 2005; Jemison & Sitkin, 1986 and Papadakis, 2005). According to Capasso *et al.* (2005), this results from the fact that this phenomenon has been analysed with different perspectives and units of analysis. Similarly, Meglio & Risberg (2010) claim that the M&A field “has become marred by a set of bureaucratic method techniques that trivialize research with little organizational relevance”. For this reason, to further the understanding of the M&A process, Meglio & Risberg (2010) suggested that scholars must reconsider how knowledge is being produced in terms of research designs and sources of data and thus, adopt other methodologies such as the use of primary data instead of secondary data, as it is generally used. In sum, despite the growing research efforts over the last decades, the average failure rates have not changed over time (Bauer *et al.*, 2015) which demonstrates that additional theory development and empirical research on M&A activity is needed (King *et al.*, 2004).

Challenges in the post-acquisition implementation, specifically in the coordination and integration of the acquired firm, are known as the main reason for failure. Thus, scholars have recognized the importance of integration and resources reconfiguration to exploit potential synergies and to create value. In detail, acquirers face a dilemma in which they need to determine the extent of autonomy and integration that should be given to the acquired subsidiary. Some degree of integration is required to transfer capabilities and create synergies while preserving these strategic capabilities involves autonomy (Haspeslagh & Jemison, 1991; Puranam *et al.*, 2006 and Zaheer *et al.*, 2013). This means that pursuing capability transfer itself may lead to destruction of those same capabilities. Hence, a loss of autonomy of the acquired firm might compromise the acquisition success (Graebner, 2004).

The aforementioned facts highlight the importance and necessity of understanding the process through which an acquisition delivers value to the acquiring company. In fact, there is a common opinion in the literature that the

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success of the acquisition depends on value creation which in turn depends on integration and coordination (Bauer *et al.*, 2015). Yet, there is no agreement on *how* to achieve a successful coordination of the acquired firm. According to Haspeslagh and Jemison, (1991, p.3) “the key differences between acquisition success and failure lie in understanding and better managing the *processes* by which acquisition decisions are made and by which they are integrated”. Therefore, it is of extreme importance to find a consensus in the international M&A literature and to combine the findings of different fields in order to increase the understanding of this complex phenomenon.

Another literature stream in management that focuses on the coordination can be found in the international business (IB) literature. The IB field has a vast literature regarding the headquarters (HQ) coordination of its subsidiaries. Subsidiaries are defined by Birkinshaw (1997) as “any operational unit controlled by the MNC and situated outside the home country”. In this way, this is a relevant topic to further the understanding of the cross-border M&A process as the post-acquisition implementation requires the coordination of the acquired firm, which represents a new subsidiary for the acquirer. As mentioned before, value can only be created in the post-acquisition and so, the coordination of the acquired subsidiary is crucial for the acquisition success. Indeed, understanding *how* the HQs coordinate their subsidiaries allows to have more insights regarding how the acquirer can successfully coordinate the acquired firm. Thus, this dissertation complements the international M&A field with the existing IB literature concerning the coordination of the target firm. Areas for further research and overlaps in the literature of both fields are highlighted and more importantly, new insights from the IB literature are used to understand how coordination can be successfully achieved.

Up to my best knowledge, no previous study used the findings of the IB literature to study the acquisition integration process by drawing on the insights

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from the headquarter-subsidiary coordination literature. Therefore, this dissertation is novel and important not only from a research perspective but also from a managerial point of view, and certainly contributes for our understanding of cross-border M&As.

In an attempt to shed some light on this coordination debate, I intend to broaden the scope and enrich the M&A literature with the IB knowledge. Therefore, the research question that the current paper aims to answer is “*What are the implications of the headquarter - subsidiary interaction or coordination research from the international business literature for M&A?*”.

For this purpose, this dissertation is organised in five chapters as follows. In the second chapter *-Literature Review-*, a systematic review on the existing literature of cross-border M&As is conducted regarding the various stages of the M&A process, with more focus on the post-acquisition implementation, allowing a better understanding of the M&A phenomenon in general. Key concepts are defined, and relevant theories and frameworks are included. In brief, this chapter provides a comprehensive overview of several approaches to the different M&A topics.

The third chapter *-Methodology-* explains the contribution of this dissertation and includes a justification of the chosen research design used to conduct this study and clarifies the data collection method.

The chapter four *-Empirical Research-* presents and discusses the findings of the M&A literature and of the IB literature regarding the coordination and integration of the subsidiaries. These findings are discussed and compared and subsequently, an integrative perspective is developed. The results are summarized, and the M&A literature is enriched with insights from the IB literature and areas to develop in future research will be posed.

## 1. Introduction

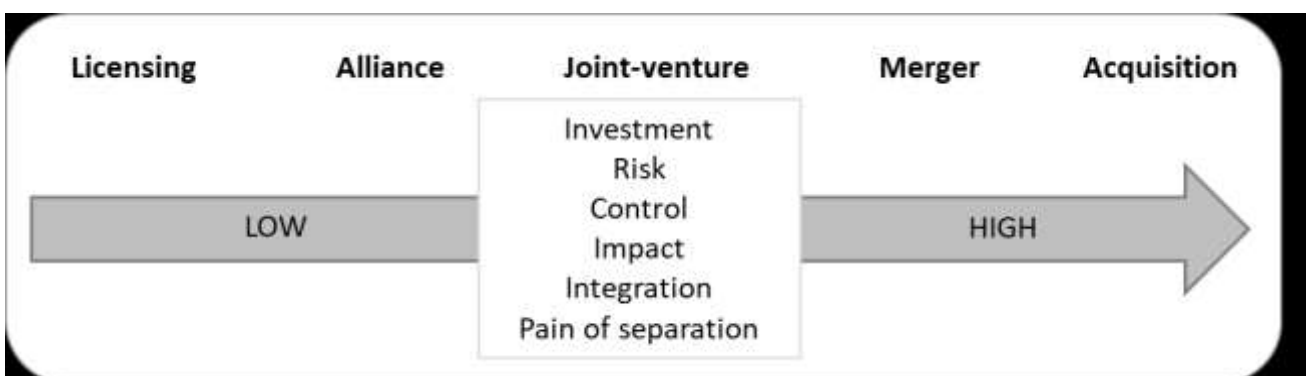
Lastly, the chapter five -*Conclusion*- provides the final conclusions including the managerial and theoretical implications as well as some limitations of this research.

## CHAPTER 2: LITERATURE REVIEW

### 2.1. MERGERS AND ACQUISITIONS

Mergers and acquisitions have been a key internationalisation strategy to companies for decades. It is important to note that mergers are inherently distinct from acquisitions. In an acquisition, an acquirer company takes full control of a target firm through share purchasing. If an acquisition is perceived positively by their employees and shareholders it is named a “friendly” deal, while if its perceived negatively it is a “hostile” takeover. On the other hand, a merger is a “combination of two previously separate organisations in order to form a new company” (Johnson *et al.*, 2017, p. 341).

There are several alternative entry modes that firms can chose, depending on the depth of commitment, level of investment, risk and level of control intended. The figure 1 shows that investment and risk increase along the continuum while at the same time, the control held by the lead company also increases. Hence, acquisitions represent a full commitment internationalisation mode with the highest level of risk, integration and control obtained.



**Figure 1:** Types of Strategic Combinations.  
**Source:** Adapted from Marks and Mirvis (2010).

## 2. Mergers and Acquisitions

Furthermore, researchers have been attempting to study the motives that lead firms to engage in M&As (Walter & Barney, 1990). Literature suggests that managers do not have a single objective, instead they pursue several goals (Brouthers *et al.*, 1998 and Walter & Barney, 1990). Brouthers *et al.* (1998) identified three broad categories of motives as presented in the table below (Table 1).

While acquisitions undertaken with economic or strategic motives intend to maximize the shareholder value, M&As driven by personal interests are known to destroy shareholder value (Haleblian *et al.*, 2009).

| <b>Economic and/or Financial Motives</b>                                                                                                                                                                                                         | <b>Personal Motives</b>                                                                                                                                                                                                                                     | <b>Strategic Motives</b>                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• Increase profitability</li><li>• Tax efficiency</li><li>• Risk-spreading</li><li>• Create shareholder value</li><li>• Economies of Scale</li><li>• Economies of Scope</li><li>• Cost Reduction</li></ul> | <ul style="list-style-type: none"><li>• Personal Ambition</li><li>• Managerial hubris</li><li>• Enhance managerial prestige</li><li>• Increase remuneration through increased sales or profitability</li><li>• Bandwagon effect/mimetic behaviour</li></ul> | <ul style="list-style-type: none"><li>• Extension in a new geographic market</li><li>• Develop capabilities</li><li>• Stretch capabilities</li><li>• Pursuit of market power</li><li>• Increase bargaining power against suppliers</li><li>• Acquisition of a competitor</li><li>• Create barriers to enter an industry</li><li>• Access to new technologies</li></ul> |

**Table 1:** M&A Motives.

**Sources:** Brouthers *et al.* (1998); Johnson *et al.* (2017) and Gomes *et al.* (2011).

As M&As can provide several benefits and opportunities, more and more organisations engage in M&As. Ironically, empirical research suggests that the majority of acquisitions fail to accomplish their purpose (Christensen *et al.*, 2011 and Haspeslagh & Jemison, 1991). Acquisitions, due to their destabilizing character, are synonymous of change (Nikandrou *et al.*, 2000) and effective M&A implementation is crucial for their success (Angwin & Meadows, 2015). A firm engages in M&As with the aim of creating value and this is only possible when the newly acquired firm is integrated with the acquirer. If the firms keep

operating separately value could not be created (Haspeslagh & Jemison, 1991). So, it is widely recognized that integration is a pivotal factor to achieve the acquisition objectives (Paruchuri *et al.*, 2006 and Haspeslagh & Jemison, 1991).

Yet, “the conditions under which M&As enhance or destroy a firm’s value remain unclear” (Weber *et al.*, 2011). It has been found that problems in integration derail acquisitions, but it is not clear what creates a successful integration and acquisition outcomes (Park *et al.*, 2018). Additionally, research regarding the post-acquisition implementation process has yielded paradoxical findings (Graebner, 2004 and Shimizu *et al.*, 2004). For instance, there is evidence of positive results from either a high level of autonomy (e.g. Paruchuri *et al.*, 2006) or a high degree of integration (e.g. Bauer & Matzler, 2014; Larsson & Finkelstein, 1999). This means that despite the efforts to understand the M&A process and all the insights into what needs to be done, researchers and firms do not seem to know *how* to successfully engage in M&As, what is clearly demonstrated by the huge failure rates (King *et al.*, 2004).

Moreover, understanding the M&A phenomenon is best achieved by viewing the integration process through multiple theoretical lenses (Pablo, 1994). Therefore, after giving a general overview of the M&A literature, a systematic literature review is conducted to highlight different theoretical perspectives of the prior research and to integrate results of the IB literature into M&A research.

## 2.2. HISTORICAL DEVELOPMENT

M&As have shown a cyclical behaviour, involving high peaks and deep troughs (Figure 2). These cycles are referred to as waves (Globe & White, 1993). There have been six distinct waves, each with different characteristics and outcomes (Cools *et al.*, 2007; Marks & Mirvis, 2010 and Park & Gould, 2017).

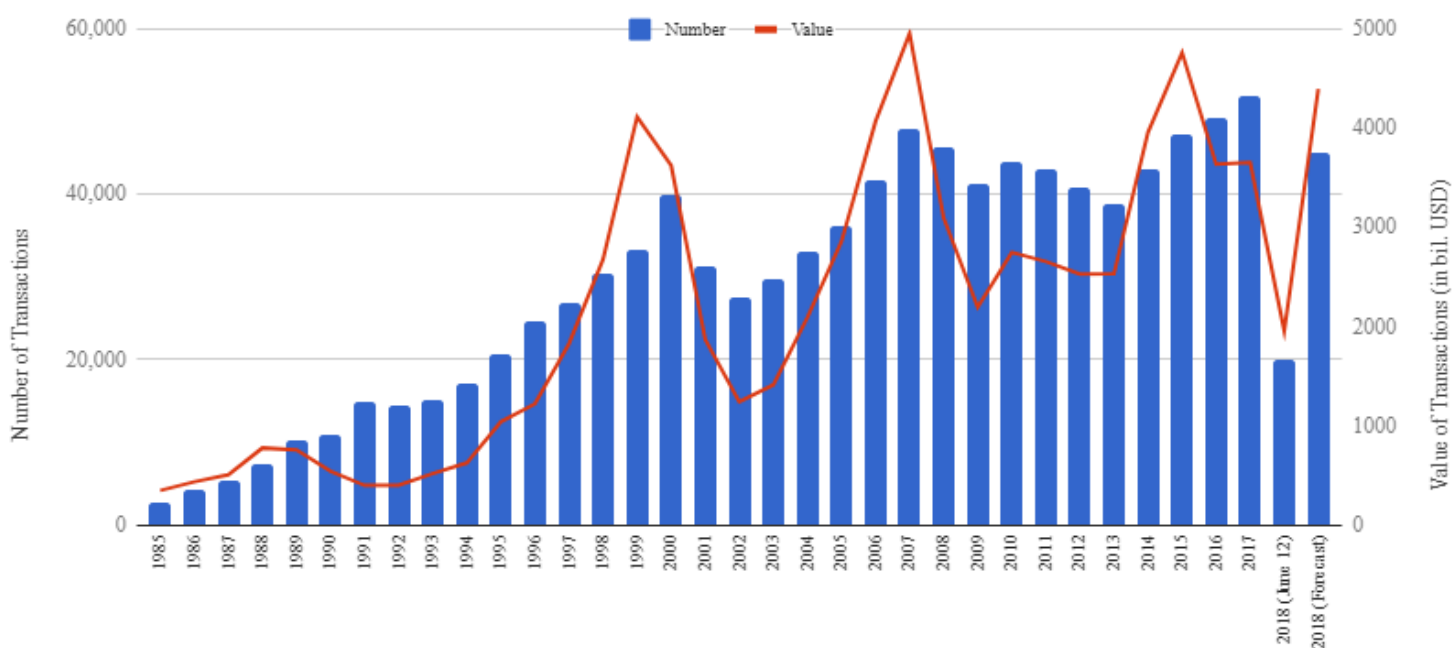
## 2. Mergers and Acquisitions

- **First Wave:** Took place in the period around 1900 and fostered primary horizontal deals. This wave is known as the monopoly wave as it created industrial giants in oil, steel and mining (Park & Gould, *The overlooked influence of personality, idiosyncrasy and eccentricity in corporate mergers and acquisitions: 120 years and six distinct waves*, 2017).
- **Second Wave:** Emerged in the 1920s and ended in with the great depression. This wave is marked by vertical deals (oligopoly wave) (McNamara *et al.*, 2008).
- **Third Wave:** Started in the 1960s and was composed by conglomerate transactions (Lee & Cooperman, 1989).
- **Fourth Wave:** Occurred in the 1980s and was marked by hostile takeovers, junk bond financing and “megadeals” (McNamara *et al.*, 2008).
- **Fifth Wave:** Started in the 1990s and ended because of the millennium bubble and with controversy around some well-known companies such as Enron. This wave was characterized by mega-deals and cross-border acquisitions (Park & Gould, *The overlooked influence of personality, idiosyncrasy and eccentricity in corporate mergers and acquisitions: 120 years and six distinct waves*, 2017). Additionally, important lessons were learnt from this wave that may have resulted in improvements in the quality of acquisition decisions such as lower premiums paid (Alexandridis *et al.*, 2012).
- **Sixth Wave:** Emerged in 2003, after the recovery from the recession of 2001 and ended with the financial crisis in 2008. This wave was boosted by globalisation and accentuated the Private Equity roles. Cross-border transactions increased since companies felt the need to expand their operations to reach global markets (Alexandridis *et al.*, 2012).
- **Seventh Wave:** There is a peak in the volume of waves in 2018. According to a report made by Deloitte (2018), the forecasts indicate a rise in the volume of deals in 2018, but this volume is unlikely to reach the heights of

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2015. However, 2018 may lack the potential to spike and it can initiate a down cycle. The argument is that the current industry forces and policy uncertainty surrounding trade and tax policy are counter balancing forces for deal activity (Deloitte, 2018).

### Mergers & Acquisitions Worldwide



**Figure 2:** M&A Waves from 1985 to 2018.

**Source:** Institute of Mergers, Acquisitions and Alliances (IMAA).

While the first three waves were mainly constituted by US acquirers, the fourth wave onwards were a truly global phenomenon, involving European and Japanese firms (Park & Gould, 2017). In addition, the economic diffusion of power across an increasingly broad range of countries has heightened opportunities for emerging market multinational companies (EMNC) to compete globally (Caiazza *et al.*, 2017; Luo & Tung, 2007 and Park *et al.*, 2018).

Scholars have suggested that waves follow changes in the global economy, being influenced by several factors such as economic, regulatory and technological shocks (Harford, 2005) and stock market valuations (Rhodes-Kropf

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& Viswanathan, 2004). Additionally, these cycles may be driven by managers and shareholders expectations about the future (Johnson *et al.*, 2017).

In brief, M&A waves are more and more an international matter with increasing involvement of developing countries. Clearly, this reflects the growing importance of cross-border acquisitions.

### 2.3. CROSS-BORDER AND DOMESTIC M&AS

Domestic M&As consist in deals where the HQs of both companies involved are located in the same country while cross-border M&As are defined as “those involving an acquirer firm and a target firm whose headquarters are located in different home countries” (Shimizu *et al.*, 2004). Cross-border acquisitions involve more risks than domestic M&As such as the “double-layered acculturation” (Barkema *et al.*, 1996) and the “liability of foreignness” (Zaheer, 1995) or “liability of outsidership” (Johanson & Vahlne, 2009).

Double-layered acculturation refers to differences in both organisational and national culture (Hitt *et al.*, 2006). The larger the national cultural distance, the more dissimilar and incompatible are their organisational practices (Kogut & Singh, 1988), including decision making styles, conflict resolution strategies and human-resource management practices. Interestingly, cultural differences affect the whole M&A process, but are more significant in the integration stage (Bauer *et al.*, 2016 and Weber *et al.*, 2011). In general, as employees are embedded in their own culture, when they are forced to work with other cultures it often leads to misunderstandings or negative feelings that hamper their interaction and consequently, the integration (Slangen, 2006). Moreover, Slangen (2006) showed that culture differences harms performance if the firms are tightly integrated

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because it implies that the acquirer imposes its practices to the acquired subsidiary, what might lead to incompatibilities.

In turn, liability of foreignness concerns costs associated with geographic distance and unfamiliarity with the local environment such as transportation, coordination over distance, regulation, languages and differences in accounting standards (Zaheer, 1995). Hence, these differences increase the difficulty in implementing the necessary organizational changes (Stahl & Voigt, 2008) which can hinder firms from fully realizing their objectives (Shimizu *et al.*, 2004).

Empirical research provides mixed findings regarding the influence of culture on post-acquisition performance. Some researchers found a positive relationship between cultural differences and performance, showing that differences can bring benefits in terms of learning and transferring resources and capabilities (Harrison *et al.*, 1991; Morosini *et al.*, 1998 and Vermuelen & Barkema, 2001). Vermuelen and Barkema (2001) argued that if differences between firms are not too significant, they can be beneficial. In this perspective, greater cultural and institutional distance deliver greater opportunities but obtaining these opportunities entails more difficulties (Shimizu *et al.*, 2004). On the other hand, studies found negative results concerning the influence of cultural distance on performance and on integration success (Slangen, 2006 and Datta & Puia, 1995) as well as on innovative outcome (Bauer *et al.*, 2016). A meta-analysis from Stahl and Voigt (2008) showed that cultural differences affect human integration, synergy realization and shareholder value in different and sometimes opposite ways, being both a liability and an asset. Thus, further theoretical and empirical efforts are needed on how cultural distance affects performance and integration.

There is no doubt in the literature that geography matters. The concept of “psychic distance” between countries refers to factors that increase difficulty in understanding foreign markets (Johanson & Vahlne, 2009 and Kogut & Singh,

1988). Evidently, acquiring a firm in a distant country is significantly more difficult than acquiring a firm in a nearby country (Erel *et al.*, 2012). Geographic proximity means less cultural distance and thus, fewer obstacles to overcome (Johanson & Vahlne, 2009). As a result, firms tend to prefer to expand in near markets (Hitt *et al.*, 2006 and Johanson & Vahlne, 2009). Indeed, Ahern *et al.* (2015) found that the volume of international M&As is lower when countries are more culturally distant.

Although this may be true, Child *et al.* (2001) found that acquisitions of firms with their “headquarters in the same country, although normally classified as domestic, often have cross-border issues of concern when they integrate operations located in different countries”. That is, even though the difference between cross-border and domestic M&As seem intuitive, firms are not truly aware of the implications of the M&A process. The fact that the integration of a domestic acquisition can lead to the same issues found in an international acquisition shows the importance of understanding the HQs-subsidary coordination.

### **2.4. ACQUISITION PROCESS**

The acquisition process is a sequential and a segmented process (Jemison & Sitkin, 1986 and Shimizu *et al.*, 2004). There is a clear consensus about the separation of the pre- and post-acquisition when the ownership is transferred from the target to the acquired firm. However, there is no agreement on the boundaries of an M&A process, more specifically when the acquisition begins or ends, or even regarding the number of phases (Gomes *et al.*, 2013). In this regard, the table below (Table 2) summarizes how different researchers divided the M&A process from two to seven phases.

## 2. Mergers and Acquisitions

| Author(s)<br>Year              | Number<br>of Phases | Phases                                                                                                                                                                     |
|--------------------------------|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Schweiger and Weber<br>(1989)  | 2 phases            | Premerger - Implementation                                                                                                                                                 |
| Marks and Mirvis<br>(2001)     | 3 phases            | Pre-combination - Combination – Post-combination                                                                                                                           |
| Haspeslagh & Jemison<br>(1991) | 4 phases            | Idea - Justification - Integration - Results                                                                                                                               |
| Angwin (2007)                  | 5 phases            | Selection of target – Valuation – The deal – Assessing the outcome of the deal – Managing the outcome of the deal                                                          |
| Farley and Schwallie<br>(1982) | 6 phases            | Integration with the strategic plan - Intelligent screening - Evaluation of targets - Understanding value and price - Anticipating post-acquisition phase - Implementation |
| Kazemek and<br>Grauman (1989)  | 7 phases            | Assessment - Joint planning - Issues analysis - Structure selection - Securing approvals - Final planning - Implementation                                                 |

**Table 2:** M&A Phases.

**Source:** Adapted from Finkelstein & Cooper (2010); Marks & Mirvis (2001); Haspeslagh & Jemison, (1991) and Angwin (2007).

Despite the disagreement on the M&A phases, the pre-acquisition includes tasks such as the selection of potential targets, due diligence, planning, biddings and negotiations. As seen, the realization of these tasks is inherently more complex in cross-border acquisitions. Although the pre-acquisition represents an important phase for the success of the M&A, the post-acquisition implementation is the relevant part for this dissertation.

### 2.5. POST-ACQUISITION

According to Haspeslagh and Jemison (1991), all value creation takes place in the post-acquisition. Indeed, after completing the acquisition, some extent of integration is necessary to realize the potential value of the investment (Shimizu et al., 2004). Integration is defined as “changes in the functional activity

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arrangements, organisational structures and systems, and cultures of combining organizations to facilitate their consolidation into a functioning whole” (Pablo, 1994). Integration is an evolutionary process of adaptation, instead of a fully predictable and planned activity. Also, integration needs to be adapted to the specific deal, as no deal is the same (Bauer et al., 2015). In fact, it involves several challenges such as the ability to transfer capabilities, effective leadership and efficient coordination of the acquired subsidiary (Haspeslagh & Jemison, 1991).

Theory suggests that synergies are exploited through integration, which is the driver for value creation. Value creation is a “long-term phenomenon that results from managerial action and interactions between the firms” (Haspeslagh & Jemison, 1991, p. 22). Additionally, Larsson and Finkelstein (1999) stated that greater coordination leads to greater level of synergy realization. For this reason, a failure in the integration is the major cause of value destruction and so, the acquisition success depends on the effectiveness of the integration and coordination (Angwin & Meadows, 2015).

An acquisition can deliver synergies from several sources. Haspeslagh and Jemison (1991) suggested that there are three types of capability transfer: resource sharing, functional skill transfer and general management capability transfer. Firstly, resource sharing requires integration to combine operational levels and eliminate functional duplications. Secondly, functional skill transfer refers to the transference of skills that reside in employees, procedures and practices. Lastly, transfer of general management capabilities create value through enhanced operational coordination. In addition to these types of capabilities transfer, value can be created through the combination of benefits such as increased market power or borrowing capabilities.

Furthermore, there are some factors that affect the acquisition performance such as acquisition experience, speed of integration, degree of integration and

human and task integration. However, research on these factors failed to explain the variance in the post-acquisition performance. The following sections provide an overview of these factors in more depth.

### **2.5.1. ACQUISITION EXPERIENCE**

Organizational learning is defined by Barkema and Schijven (2008) as the “transfer of an organization’s experience from one event to a subsequent one”. Numerous studies have examined how firms can learn from previous deals and how to use that knowledge to succeed in future M&As. The traditional learning curve holds that through experience, knowledge is built, and the outcome improves as the task is repeated over time.

Although it seems intuitive that acquisition experience should positively affect performance, the findings are not consistent (Barkema & Schijven, 2008 and Haleblan et al., 2009). While some researchers have found a nonsignificant relationship between experience and performance (Zollo & Singh, 2004), others found a positive relationship (Fowler & Schmidt, 1999; Hitt et al., 1998 and Bruton et al., 1994); a U-shaped relationship (Nadolska & Barkema, 2007; Galavotti et al., 2017 and Zollo et al., 2010); an inverted U-shaped (Hayward, 2002) and lastly, a negative relationship (Kusewitt, 1985). Additionally, Bauer et al. (2015) found empirical evidence that acquisition experience negatively affects human integration, while it is beneficial for task integration. This is because cultural integration experience is not transferable from one acquisition to another since culture is dependent on the given group of individuals or organisation.

Nadolska and Barkema (2007) suggested that routines formed with experience unconsciously guide firms’ behaviour, making firms use these routines in new situations, even when they do not apply. Indeed, Finkelstein and Haleblan

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(2002) found that usually second acquisitions often underperform first acquisitions since prior knowledge is misapplied, specifically when firms are from different industries. In this perspective, experience is more likely to be beneficial if the past acquired firms are similar with future targets. Additionally, “what drives the success of one acquisition is not necessarily the opposite of what causes the failure of another one” (Park et al., 2018), which means that each acquisition has its own characteristics and the same approach can have different results in each one.

Moreover, Galavotti et al. (2017) pointed out that experienced firms tend to repeat past behaviours, creating a path of dependency that increases inertia. Conversely, Hitt et al. (1998) argued that with experience, firms are more able to break inertia, change organizational structures and improve efficiency with integration.

All in all, understanding how acquisition experience can help acquirers learn and effectively apply such knowledge can have important implications for the acquisition success and for the acquirers’ capacity to coordinate its new subsidiary (Nadolska & Barkema, 2007 and Shimizu et al., 2004).

### **2.5.2. SPEED OF INTEGRATION**

The speed of integration is defined as the period of time that takes from closing the deal to the intended integration level (Homburg & Bucerius, 2006). Speed has received considerable attention but there is no consensus on its findings (Nikandrou *et al.*, 2000).

Research illustrates that most firms strive to achieve a fast integration (Bauer *et al.*, 2015) to prevent managers from getting distracted with integration-related

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tasks and neglecting important business decisions (Ranft & Lord, 2002). Also, quick integration reduces the uncertainty and resistance of employees, reduces the time spend in a suboptimal condition and leads to faster creation of synergies (Angwin, 2004 and Graebner, 2004).

Conversely, authors claim that rapid integration may reduce the acquirer's ability to learn about the acquired firm's operations, destroying value (Haspeslagh & Jemison, 1991). In this view, slower integration allows acquirers to "engage in a period of learning about the acquired firms' technologies and capabilities" (Ranft & Lord, 2002). Additionally, Homburg and Bucerius (2006) suggest that a slower integration might reduce conflicts by enhancing understanding and trust. Moreover, Uzelaca *et al.* (2016) determined that human integration should be faster, but quick task integration can lead to poor performance.

Surprisingly, some researchers overly emphasized the importance of a speedy integration. For instance, Chase (1998) stated that "there are three things that matter the most here, and they are speed, speed, speed", and Angwin (2004) described that some practitioners and researchers consider the actions taken in the first 100 days critical for the acquisition success. Contrarily of what has been stated by these authors, Ranft and Lord (2002) suggest that integration that was too rapid or too extensive might hurt the acquired firm's organizational context and lead key employees to leave.

Probably, a more realistic view is that there may exist a "window of opportunity" for the acquirer to integrate the new subsidiary, neither moving too quickly nor waiting too long (Tyre & Orlikowski, 1994). Hence, speed must be balanced against its costs and there may be situations in which costs outweigh benefits (Bauer & Matzler, 2014). In sum, the integration does not have an optimal

way to be implemented. That is, there is no one-size-fits-all strategy and each M&A deal should have its own speed.

Thus, speed of integration is an important factor for the success of the post-acquisition implementation. More insights in this topic may allow managers to effectively coordinate the acquired subsidiary.

### **2.5.3. DEGREE OF INTEGRATION**

Determining the appropriate level of integration represents a crucial decision for value creation (Zaheer *et al.*, 2013 and Puranam *et al.*, 2006). It is commonly stated that the acquired subsidiary must be integrated in some extent to create synergies and to promote the transferring of knowledge and resources (Zollo & Singh, 2004; Chatterjee *et al.*, 1992; Bauer *et al.*, 2016 and Birkinshaw *et al.*, 2000) while at the same time, its organizational autonomy must be preserved to avoid disrupting its strategic capabilities and innovative capacity (Ranft & Lord, 2002).

Researchers have been debating this dilemma of integration. On the one end of this continuum, scholars advocate that integration leads to positive results (e.g. Larsson & Finkelstein 1999 and Weber, 1996) and hence, it is commonly stated that the acquired subsidiary should be deeply integrated to create synergies (Bauer *et al.*, 2015). The main argument is that deeper integration increases the acquirer capacity to control the acquired unit and transfer routines, resources and knowledge (Puranam *et al.*, 2009 and Ranft & Lord, 2002) and enhance efficiency through resource rationalization (Slangen, 2006).

On the other hand of the continuum, researchers found a negative relation between integration and performance (e.g. Chatterjee *et al.*, 1992 and Ranft and Lord 2002). In this perspective, although integration theoretically increases the

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prospects of synergies creation, it may also have negative results due to the demotivation of employees, increased coordination costs, potential for conflict, and even the disruption of both firms due to the changes in routines or structures (Pablo, 1994 and Datta & Grant, 1990). In fact, empirical research shows that acquirers that follow this deep integration mindset sometimes end up destroying value (Bauer *et al.*, 2015). In this way, a loss of autonomy negatively affects organisational culture, strategic capabilities, knowledge-based resources, routines and processes of the new subsidiary (Nahavandi & Malekzadeh, 1988; Puranam *et al.*, 2009 and Ranft & Lord, 2002). Moreover, evidence suggests that autonomy removal increases employee turnover in the acquired subsidiary (Hambrick & Cannella, 1993). Therefore, it is imperative to preserve some level of autonomy in the acquired firm so it can sustain its own identity (Kale *et al.*, 2009), retain its enthusiasm and ability to innovate (Puranam *et al.*, 2006), reduce the likelihood of disruption (Ranft & Lord, 2002), and enable the coexistence of different cultures (Nahavandi & Malekzadeh, 1988).

As previously seen, a significant body of research has assumed that an increase in integration implies a removal of autonomy. In contrast, Zaheer *et al.* (2013) suggests that “integration and autonomy are not the opposite ends of a single continuum”. Although autonomy and integration may be negatively correlated, integrating the acquired subsidiary does not impede granting them autonomy (Zaheer *et al.*, 2013 and Haspeslagh & Jemison, 1991).

For instance, strategic capabilities can be isolated in the organisation. Specifically, it can be in a particular department and by maintaining the autonomy of that department, capabilities are preserved, and the rest of the firm can be integrated (Haspeslagh & Jemison, 1991). Thus, by adopting a sub-organizational perspective, different parts of the subsidiary can be integrated at different degrees which implies the coexistence of autonomy and interdependence at the organizational level (Ranft & Lord, 2002 and Graebner,

2004). Therefore, it is crucial to understand the acquired firm' strategic capabilities and know exactly which dimensions to integrate and which leave autonomous (Ranft & Lord, 2002). However, a simultaneous combination of total autonomy and total integration is not possible since "the former implies a freestanding entity and the latter defies identification of the target's discretionary domain" (Zaheer *et al.*, 2013).

Moreover, managers often focus on trying to soothe the acquisition and satisfying the employees, not to disturb the normal functioning of the organisation. However, if managers lose focus on the value creation mechanism of acquisitions they may leave synergies unrealized (Haspeslagh & Jemison, 1991) and neglect important strategic decisions (Hitt *et al.*, 1990). Because of that, when deciding the extent of integration, managers should be concentrated on the strategic mission of transferring capabilities to create value.

### **2.5.4. TASK INTEGRATION AND HUMAN INTEGRATION**

Birkinshaw *et al.* (2000) considers the acquisition success a function of human and task integration. Task integration represents the degree in which functional activities of the acquired firm are consolidated into the hierarchy of the acquirer (Zaheer *et al.*, 2013). This requires changes in organizational processes and procedures of the acquired firm, representing a mechanism to coordinate the new subsidiary (Puranam *et al.*, 2009) and to eliminate costs from redundant activities and sharing resources. In turn, human integration is defined as the "creation of positive attitudes towards the integration among employees on both sides" (Birkinshaw *et al.*, 2000).

Bauer *et al.* (2015) found that integration is more likely to result in value creation if the level of task integration is matched by the level of human

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integration. Similarly, Birkinshaw *et al.* (2000) observed that human integration increases the effectiveness of the task integration. In fact, firms that reached high levels of human integration before integrating tasks outperformed firms that started by task integration. Thus, more complications in integration are predicted if the task integration is pursued before human integration.

Furthermore, Bauer *et al.* (2016) found that acquirers that aim to innovate should start by integrating tasks since it is beneficial for resources and know-how transfer. On the other hand, human integration is negatively related with innovation output since it can lead to disruptions due to the autonomy loss. This result is contradictory to the one of Puranam *et al.* (2009) which determined that structural integration disrupts innovative capabilities.

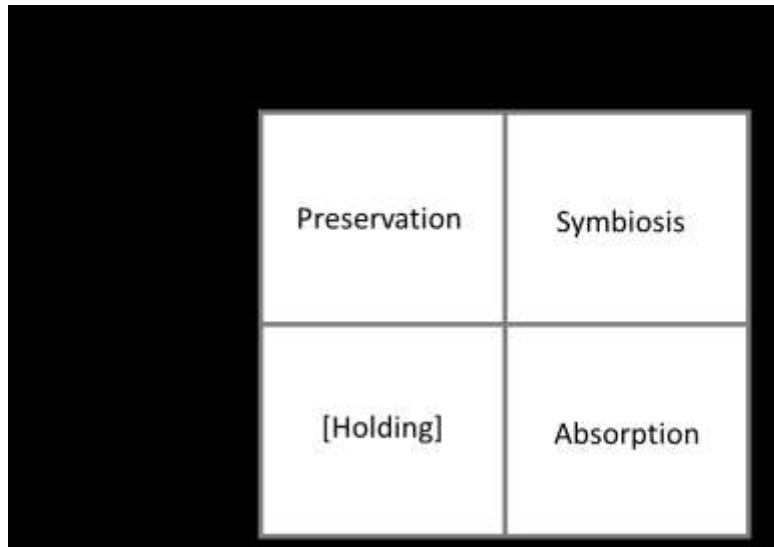
### 2.5.5. INTEGRATION STRATEGIES

As seen, firms choose different levels of integration (Pablo, 1994) and thus, researchers attempted to understand the variation across different integration strategies (e.g. Nahavandi & Malekzadeh, 1988; Marks & Mirvis, 2001 and Siehl & Smith, 1990). However, these categorisations have been criticised due to their lack of comprehensiveness, inconsistent use of dimensions and their little empirical support (Angwin & Meadows, 2015).

The most prominent framework is the one of Haspeslagh and Jemison (1991) which focuses on the strategic interdependence and organisational autonomy dimensions (Figure 3). Strategic interdependence refers to how interdependent firms should be in terms of capabilities and resources (Angwin & Meadows, 2015), while organizational autonomy represents the extent to which organisational culture and strategic capabilities of the acquired firm are preserved.

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As previously mentioned, the acquisition success depends on the acquirer's ability to balance the interdependence necessary for capabilities transfer and the need for autonomy, essential to maintain its strategic capabilities (Haspeslagh & Jemison, 1991). This trade-off determines the best integration approach.



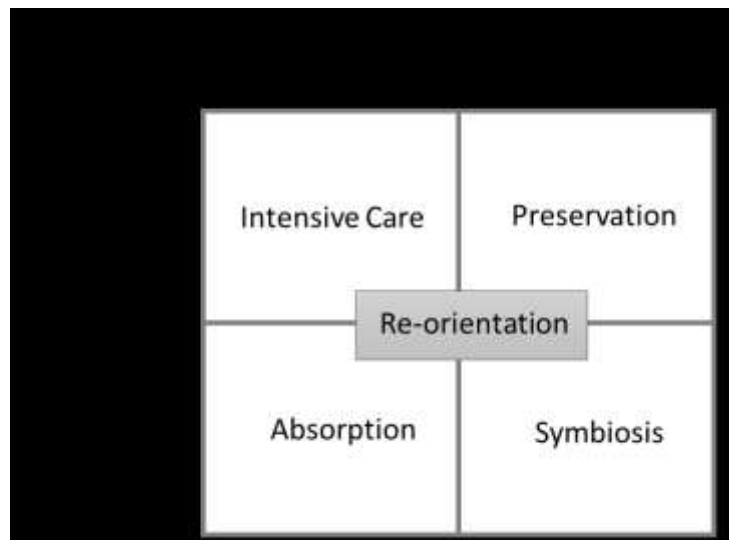
**Figure 3:** Four Integration Strategies.  
**Source:** Haspeslagh and Jemison (1991).

“Preservation” is suitable when the acquired firm is well managed but not compatible with the acquirer and thus, high autonomy is required to preserve the acquired firm's sources of benefits. In the “Absorption” strategy, the boundaries between firms are dissolved and strategy, operations, systems and culture are fully consolidated into the acquirer. “Symbiotic” acquisitions require high interdependence and autonomy to enable co-existence (Graebner, 2004). Lastly, in their study, Haspeslagh and Jemison (1991) did not find any “holding” acquisition. In this approach, firms do not have the intention to integrate (Haspeslagh & Jemison, 1991).

Recently, Angwin and Meadows (2014) reviewed the existing approaches and developed an integrative framework that relies on knowledge transfer and autonomy (Figure 4). This framework confirmed the existence of a fifth typology, “Reorientation”, that does not require the extremes of restructuring and that

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represents a less risky approach. “Reorientation” occurs when the acquired unit is financially healthy and there is a need to integrate systems and functions to rationalize while maintaining the sources of distinctiveness (Angwin & Meadows, 2015). Additionally, “Intensive Care” is appropriate when there is little to be gained with integration, such as when the acquired firm is in poor financial health.



**Figure 4:** Five Integration Strategies.  
**Source:** Angwin and Meadows (2014).

These different approaches reflect the degree of integration implemented, which is related to the necessary coordination of the acquired subsidiary. Specifically, deeper integration requires increasing coordination efforts. For instance, when using an “Absorption” integration strategy, coordination will be significantly more complex than when using a “Preservation” approach.

### 2.6. REFLECTION

The prior review of the cross-border M&A literature demonstrates that a substantial body of research has addressed the integration issue, offering rich but widely dispersed insights into this phenomenon. Indeed, there are several studies concerning the success factors of acquisitions, but their conclusions are usually contradictory, and also the findings have captured just the essence of part of the phenomenon and not the whole phenomenon. This means that, despite the enormous research efforts and developments that have broadened our understanding of M&As, they have been largely segmented, involving unrelated subtopics and perspectives.

Hence, we still do not have a complete understanding of the integration process. Particularly, we still do not know what drives acquisition success, but we know that what drives acquisition success or failure are not necessarily opposite things (Campbell et al., 2016). For instance, the acquisition experience subchapter shows that one of the reasons why acquisition experience does not bring benefits when applied in different acquisitions is because what drives success in one acquisition is not the opposite of what causes failure in another acquisition.

Furthermore, there is an agreement that integration and coordination of the acquired firm is a key driver for synergy creation and consequently, for the acquisition success. Thus, understanding how to coordinate the acquired subsidiary is crucial to unlock the value creation mechanism in M&As. However, there is little research explaining how the acquirer can successfully coordinate its new acquired subsidiaries. Because of that, the IB literature is a good complement to enrich the M&A field since the HQs' coordination of their foreign subsidiaries represent a key topic of study in this stream.

## CHAPTER 3: METHODOLOGY

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The present dissertation aims to find the implications of the headquarter-subsidiary interaction or coordination research from the IB literature for cross-border M&As. The literature about cross-border M&As is fragmented and does not present a common agreement on its findings which demonstrates the clear need for an integrative approach.

For this purpose, a systematic literature review using academic literature was conducted and afterwards, an integrative perspective was developed. This chosen approach fits the research question since the goal is to synthesize the dispersed perspectives on M&A integration and coordination and combine them with the literature of international business management in order to find its overlaps and missing topics.

The selection of eligible literature for the research is performed with a systematic selection process similar to the process conducted by Pukall & Calabrò (2014) and Dinh & Calabrò (2018) but with some adaptations. In this way, the data collection was performed in three stages.

In the first stage, the relevant literature related to the research question was identified. Therefore, the research was restricted to a combination of the keywords: 'subsidiary-headquarter coordination'; 'subsidiary-headquarter interaction'; 'subsidiary-headquarter relationship'; 'subsidiary-headquarter integration'; 'subsidiary-headquarter knowledge transfer'; 'mergers and acquisitions integration'; 'M&A coordination' and 'M&A knowledge transfer'.

To provide a comprehensive review of the literature, the following electronic bibliographic databases were used: Wiley Online Library, Business Source Complete (EBSCO), ScienceDirect and ProQuest. The selection was restricted to IB journals with a peer review of 4\* and 3\* in the ABS Journal Guide 2015. The

### 3. Methodology

peer reviewed articles of international business are: the Journal of International Business Studies; Journal of Common Market Studies; Journal of World Business; International Business Review; Management and Organization Review; Management International Review and Journal of International Management.

This first selection of the literature was based on the titles of the articles. Articles with keywords in the title that were not relevant to answer the research question were excluded. Using this research procedure, a sample of 109 articles written in English language was obtained, without imposing any year restrictions. From that sample, the duplicates were excluded, and only 97 articles remained in the consideration set.

In the second stage, the articles whose abstract was relevant to the research question were included in the sample while the ones who did not meet this condition were excluded.

In the last stage, the selected literature was carefully analysed, and the findings of the relevant articles were organized in a table. Furthermore, during the reading process, 8 additional articles, who were cited in the sample articles, were identified and included in the consideration set. These articles had not been included in the main search results and were relevant for the research. Hence, to ensure the use of all the relevant literature, a residual search (Pukall & Calabrò, 2014) was conducted. The final sample covers 49 contributions.

### 3. Methodology

One of the main challenges of this research method was to ensure that no relevant articles were missing from the sample. The following table (table 3) gives an overview of how the data collection was organized.

| <b>Database Results</b>                          | <b>Wiley<br/>Online<br/>Library</b> | <b>Business Source<br/>Complete<br/>(EBSCO)</b> | <b>ScienceDirect</b> | <b>ProQuest</b> | <b>Total</b> |
|--------------------------------------------------|-------------------------------------|-------------------------------------------------|----------------------|-----------------|--------------|
| After keyword<br>searching and reading<br>titles | 19                                  | 15                                              | 57                   | 18              | 109          |
| After removing the<br>duplicates                 |                                     |                                                 |                      |                 | 97           |
| After reading the<br>abstracts                   |                                     |                                                 |                      |                 | 60           |
| After reading the<br>article                     |                                     |                                                 |                      |                 | 41           |
| Number of articles in<br>the residual search     |                                     |                                                 |                      |                 | 8            |
| <b>Final Sample</b>                              |                                     |                                                 |                      |                 | <b>49</b>    |

**Table 3:** Database Search Results.

**Source:** Own elaboration.

## CHAPTER 4: EMPIRICAL RESEARCH

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### 4.1. DESCRIPTION

After taking all of this into consideration, the literature clearly indicates that integration and coordination of the acquired firm are the key drivers for value creation in cross-border M&As. In particular, the choice of the degree of integration represents a key strategic decision that strongly influences the extent of coordination required. This is a complex decision given the existence of a trade-off, since high levels of integration are needed to exploit synergies, but excessive reconfiguration of the subsidiary often leads to negative consequences (Weber et al., 2011). Hence, HQs faces the complex task of managing the interdependencies with their newly acquired subsidiaries to create synergies, which results in coordination costs (Zhou, 2011). Deeper integration requires greater coordination efforts and as a result of that, organisations need to trade off costs of coordinating integration against its benefits (Bauer et al., 2017). In turn, more coordination leads to higher levels of integration (Cray, 1984). Thus, to create synergies and ultimately, to achieve a successful acquisition, it is imperative to understand how the acquiring firm can successfully coordinate its newly acquired subsidiary.

Yet, literature in the M&A field regarding this phenomenon is still very limited. On the other hand, in the IB stream of research there has been an increasing interest in the roles, strategies or characteristics of multinational subsidiaries, aiming to demonstrate how HQs can successfully integrate and coordinate their subsidiaries.

In this regard, this chapter aims to review the knowledge on coordination in the M&A field and combine it with the knowledge of international business

management regarding the HQs' coordination of their subsidiaries in order to find new insights and areas for development.

#### **4.2.1. LITERATURE ON COORDINATION FROM AN M&A PERSPECTIVE**

Coordination enables the creation of a common organisation, representing the basis for the effectiveness of an acquisition. In particular, coordination is not characterized by a one-time transfer of resources or inputs but instead, "it is an ongoing process of making joint decisions and investments to generate, maintain, and exploit synergy among multiple users of the indivisible inputs or indivisible firm-specific resources that the inputs need to be combined with to generate value" (Zhou, 2011).

Mechanisms of coordination include aspects of control to regulate the organisational activity and aspects of communication to share information (Nobel & Birkinshaw, 1998). Indeed, economies of scale and synergies creation are achieved through control and coordination of the activities and through standardization of the end products, which involves integration (Colman & Grøgaard, 2013). Specifically, according to Colman and Grøgaard (2013), this usually requires HQs' centralized decision-making and formal coordination mechanisms.

The following table (table 4) reviews and synthesizes the key existing findings in international M&As coordination and integration research. This table is organized alphabetically.

#### 4. Empirical Research

| Author(s)<br>Year                 | Object of Research                                                                   | Sample                                                                                                                                         | Methodology                                                                                                                                                                                                                                                                                                                                                                                     | Key Findings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Aklamanu, <i>et al.</i><br>(2016) | Impact of HRM and social capital on knowledge sharing in M&A integration             | Literature on HRM and social capital                                                                                                           | Literature review                                                                                                                                                                                                                                                                                                                                                                               | <ul style="list-style-type: none"> <li>Integration team members' ability for sharing knowledge can be improved by: staffing integration members based on recommendations and on their competence, skills and expertise; and implementing formal training and informal learning (one-on-one coaching and learning-by-doing).</li> <li>Team meetings, shared language and integration teamwork facilitate knowledge sharing.</li> </ul>                                                                                                                                                     |
| Bauer <i>et al.</i><br>(2017)     | Study the integration approach according to the industry lifecycle                   | 1 survey in 2012 and 1 survey in 2014, constructed from Zephyr database of the Bureau van Dijk - acquirers from German-speaking part of Europe | <p><u>Dependent Variable:</u> Internal reorganization goal achievement</p> <p><u>Independent Variables:</u> Degree of integration, formal and informal coordination and industry context</p> <p><u>Control Variables:</u> Relative size, annual sales, type of transaction and acquisition experience</p> <p><u>Method:</u> Ordinary least squares (OLS) regression analysis (primary data)</p> | <ul style="list-style-type: none"> <li>Formal coordination mechanisms are most beneficial to decrease fear and resistance of subsidiary employees when acquirers are in declining industries.</li> <li>High integration leads to higher coordination costs and employee's disruption.</li> <li>Stipulating clear and precise means for integration implementation reduce uncertainty.</li> <li>In mature industries, formal and informal coordination mechanisms do not play a major role.</li> <li>In growing industries, only informal coordination mechanisms are valuable.</li> </ul> |
| Colman and Grøgaard<br>(2013)     | Study the post-acquisition integration process in an MNE following a global strategy | Interviews to a cross-border acquisition (Subsidico Nordic IT consulting firm) between 1997–2008                                               | Exploratory single case study with multiple data sources                                                                                                                                                                                                                                                                                                                                        | <ul style="list-style-type: none"> <li>Ambiguities constrain HQs' integration efforts and create contingencies for subsidiary integration.</li> <li>Subsidiary managers and key personnel facilitate task integration at an operational level, as they have in-depth knowledge about key resources and capabilities of the subsidiary.</li> </ul>                                                                                                                                                                                                                                         |

#### 4. Empirical Research

|                                    |                                                                                            |                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                            |
|------------------------------------|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                    |                                                                                            |                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>Human integration is more difficult to execute in subsidiaries with different identities from HQs.</li> </ul>                                                                                                                                                                       |
| <b>Datta and Grant (1990)</b>      | Relation between autonomy and acquisition success                                          | 191 surveys to executives of U.S. manufacturing firms between 1980-1984                          | <p><u>Dependent Variable:</u> Autonomy</p> <p><u>Independent Variables:</u> Acquisition success and type of acquisition</p> <p><u>Method:</u> Bivariate regression analysis (primary and secondary data)</p>                                                                                                                                                                                                                                                                                             | <ul style="list-style-type: none"> <li>Autonomy is beneficial in unrelated acquisitions but not significant in related ones since more autonomy should be provided when the acquired firm brings new unfamiliar characteristics.</li> </ul>                                                                                |
| <b>Larsson and Lubatkin (2001)</b> | Effect on acculturation when buying firms rely on social controls                          | Survey of 50 M&As: 23 US domestic, 15 Swedish domestic and 12 Swedish cross-national (1959-1988) | <p><u>Dependent Variable:</u> Achieving acculturation</p> <p><u>Independent Variables:</u> Autonomy removal, relatedness, relative size, social controls, nationality and cross-nationality</p> <p><u>Control Variables:</u> Year</p> <p><u>Method:</u> OLS regression (primary data)</p>                                                                                                                                                                                                                | <ul style="list-style-type: none"> <li>Autonomy removal contribute to the formation of a jointly determined culture only with high level of informal control.</li> <li>Less autonomy requires additional control mechanisms (transition teams, senior management involvement and temporary personnel rotation).</li> </ul> |
| <b>Paruchuri et al. (2006)</b>     | Relationship between productivity of corporate scientists of acquired firm and integration | 3,933 inventors in pharmaceutical firms                                                          | <p><u>Dependent Variable:</u> post-acquisition productivity.</p> <p><u>Independent Variables:</u> R&amp;D integration, characteristics of individual inventors, inventor's divergence from the acquirer's expertise and the inventor's post-acquisition social embeddedness</p> <p><u>Control Variables:</u> Year, size, technology dissimilarity, prior alliances, acquired subunits, technological motivation, among others</p> <p><u>Method:</u> Regression analysis (primary and secondary data)</p> | <ul style="list-style-type: none"> <li>Integration negatively affects inventor productivity and decreases the performance of acquired technical workers.</li> <li>Integration is most disruptive for inventors who have lost social status and centrality in the firm with the M&amp;A.</li> </ul>                         |
| <b>Quah and Young</b>              | Impact of national and organisational                                                      | Interviews in European M&As undertaken by an                                                     | Longitudinal case study                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <ul style="list-style-type: none"> <li>Lack/low levels of resistance result from clear communication and immediate goals for the subsidiary.</li> </ul>                                                                                                                                                                    |

4. Empirical Research

|                         |                                                                                               |                                                                 |                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (2005)                  | cultures on the post-acquisition management process                                           | American automotive MNE in the first half of the 1990s          |                                                                                                                                                                                                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>• Resistance peak occur in the phase with increased interactions (active change implementation and reorganisation).</li> <li>• Levels of resistance are lowered by: 1. Gaining acceptance among management and employees by assuring that there would be no changes in their business in the short-term. 2. Replacement of senior executives. 3. Reinforcement of new patterns of working by hiring new local employees for the subsidiary.</li> </ul>                                                                                                  |
| Vasilaki, et al. (2016) | Effect of transformational leadership on human integration and organizational identification. | Literature on the effect of HRM practices on employee behaviour | Literature review                                                                                                                                                                                                                                                                                                                                                        | <ul style="list-style-type: none"> <li>• Communication, employee involvement, teamwork, training and development have positive effects on employee behaviour.</li> <li>• Transformational leadership behaviours moderate the implementation of HRM practices, leading to positive employee behaviour and identification.</li> </ul>                                                                                                                                                                                                                                                            |
| Zaheer et al. (2013)    | Acquirer strategies to leverage complementarities, similarities, or both                      | Survey of 86 acquisitions                                       | <p><u>Dependent Variable:</u> Integration and Autonomy</p> <p><u>Independent Variable:</u> Similarity and complementarity</p> <p><u>Control Variable:</u> Geographic complementary, vertical integration, acquisition experience, relative size, acquisition size, organizational fit, among others.</p> <p><u>Method:</u> Unrelated regression (SUR) (primary data)</p> | <ul style="list-style-type: none"> <li>• Similarity acquisitions are expected to be highly integrated with low autonomy to rationalize resources. Benefits of autonomy are uncertain as the knowledge required to manage the subsidiary is already owned by the acquirer.</li> <li>• Complementary acquisitions need high levels of autonomy and integration since the acquirer wants to access the subsidiary' resources but is unfamiliar with its business.</li> <li>• When both similarity and complementarity are present, similarity dominates concerning autonomy decisions.</li> </ul> |
| Zhou (2011)             | Relation between coordination                                                                 | 1,599 publicly traded and diversified U.S.                      | <p><u>Dependent Variable:</u> Entry</p> <p><u>Independent Variables:</u> Complexity and input similarity</p>                                                                                                                                                                                                                                                             | <ul style="list-style-type: none"> <li>• Related diversification is costlier to coordinate than unrelated diversification since more inputs sharing requires more interdependencies.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                |

#### 4. Empirical Research

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|--------------------------|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                          | costs and diversification                                                                   | companies whose primary industries are in SIC 34–38 (1993–2003)                                                  | <p><u>Control Variables:</u> Firm-level variables: size, age, R&amp;D, capital intensity, firm scope, geographic dispersion, among others.</p> <p><u>Method:</u> Logit model (secondary data)</p>                                                                                                                                                                           | <ul style="list-style-type: none"> <li>• Coordination costs counterbalance the potential synergistic associated with related diversification. This is more evident when the firm’s existing business already have complex interdependencies.</li> <li>• To save coordination costs, a firm can diversify into a highly related business but not integrate it with the existing business.</li> </ul>                                                                                                                  |
| <b>Zhu et al. (2015)</b> | Effect of systematic differences in post-acquisition value creation in different industries | 847 related cross-border acquisitions: 359 in the hardware manufacturing sector and 488 in the IT service sector | <p><u>Dependent Variable:</u> Tobin q</p> <p><u>Independent Variables:</u> Institutional distance, language differences and diplomatic relationship</p> <p><u>Control Variables:</u> host country acquisition experience, number of acquisitions, percentage cash payment, acquirer performance, among others.</p> <p><u>Method:</u> Hierarchical Linear Modeling (HLM)</p> | <ul style="list-style-type: none"> <li>• Manufacturing industries have internal pressures for integration to create value through production efficiency.</li> <li>• Firms in the IT sector have external pressures for autonomy to have flexibility to capitalize on location-specific endowments in response to local demands.</li> <li>• Acquirers in service IT industry outperform those in manufacturing industries.</li> <li>• Institutional and language differences strengthen this relationship.</li> </ul> |

**Table 4:** Summary of Studies Investigating Coordination and Integration in M&A.

**Source:** Own elaboration.

## **4.2.2. DISCUSSION**

Table 4 reviews the existing knowledge about coordination and integration in cross-border M&As. This overview of the existing knowledge in M&As shows that the current research does not provide a clear guidance for managers on how to coordinate or even integrate the acquired firm. In fact, a substantial body of research addresses the integration issue, despite the existence of little research regarding the coordination of the acquired firm. In general, the existing research displays a very limited understanding about the coordination process in M&As and concerns very specific topics, which demonstrates the fragmented nature of the literature. Consequently, the existing knowledge does not allow to fully understand the whole integration process and coordination of the newly acquired subsidiary. For this reason, it is vital to complement the M&A literature with inputs regarding the coordination and integration from the IB stream of research. Thereby, the next session presents a review of the literature on coordination from the IB perspective.

At the end of this chapter, a more detailed analysis of the M&A literature is provided.

### **4.3.1 LITERATURE ON COORDINATION FROM AN IB PERSPECTIVE**

The study of HQ-subsidary relationships or, in other words, the coordination and control of MNCs' subsidiaries, is a central topic in the IB field (Kostova *et al.*, 2016). Specifically, literature within this stream focus on how to integrate a portfolio of subsidiaries in order to maximize the value of the MNC. This debate includes issues related to centralization, formalization, coordination and control (Cavanagh *et al.*, 2017).

Coordination represents an enabling process that allows the relationship between previously separated organisations with different systems, resources and capabilities (Cray, 1984). In this regard, coordination mechanisms are administrative tools used to achieve integration among different units within an organization (Martinez & Jarillo, 1989). These are commonly classified into two categories: structural or formal, and informal mechanisms (see Appendix I). Formal mechanisms include rules, policies and procedures whereas informal mechanisms represent socialization activities, committees and teams (John & Youngt, 1995). According to John and Youngt (1995), complex environments require considerable informal mechanisms. However, as complexity increases, besides the presence of informal mechanisms, the use of formal mechanisms becomes the critical factor for an effective coordination.

Interestingly, researchers suggested that subsidiaries may have considerable autonomy and influence within the MNC (Paterson & Brock, 2002). For this reason, researchers introduced four generic subsidiary 'roles' based on the strategic importance of the local environment and competences of the subsidiary (see Appendix II). Several researchers attributed different categorizations to the subsidiary roles, but the work of Bartlett and Ghoshal (1986) is the most prominent. In this way, scholars advocated that the MNC' structure reflects the degree of autonomy that certain subsidiaries receive according to its contributory role within the MNC. Indeed, some subsidiaries are given the autonomy for innovating or pursuing initiatives, while others only have implementational roles. For instance, the 'strategic leader' subsidiary has both high local importance and competences and due to that, represents a partner of the HQs in developing and implementing the strategy, while the 'implementer' subsidiary is in a market with low local strategic importance and has just enough competence to maintain its local operations (Bartlett & Ghoshal, 1986). Conversely, the 'black hole' subsidiary is the least favourable strategy since it requires a heavy investment. However, this differentiation of the subsidiary roles has increased the

difficulty of the HQs to control their subsidiaries through traditional mechanisms of coordination and control, forcing them to resort to other informal coordination mechanisms (Martinez and Jarillo, 1991 and Martinez and Jarillo, 1989).

Moreover, when deciding the degree of integration desired, the HQs' managers face a dilemma in which they need to confront the priorities between local responsiveness and global integration (Doz & Prahalad, 1984 and Taggart, 1997). This decision impacts the configuration of the MNC since global integration involves integration of operations and centralization of decisions while national responsiveness is related with subsidiary autonomy in strategic decisions (Roth & Morrison, 1990). Indeed, local environment factors such as location-specific advantages are a key determinant of the level of autonomy (Cavanagh *et al.*, 2017). The appendix III presents a summary of the major sources of these two distinct needs.

Furthermore, this paradigm is strongly related with the role that the subsidiary plays within the MNC. In this regard, the appendix IV illustrates a recent extension of the integration-responsiveness framework (I-R framework) that consists in four different classifications, given to the subsidiaries according to the different needs of integration and responsiveness. For instance, a receptive subsidiary, characterized by a higher pressure for global integration and a lower pressure for local responsiveness, is associated with increased coordination. Additionally, Birkinshaw and Morrison (1995) argued that the relationship between subsidiary roles and the structural context of the subsidiary are reciprocal and thus, the subsidiary role can also shape the subsidiary's structural context (see appendix V).

In general, subsidiaries seem to be autonomy-seeking, while HQs seek for more centralization (Paterson & Brock, 2002). The appendix VI includes a summary of the advantages of autonomy versus the advantages of centralized structures, that helps managers in their decision depending on the MNC context and its objectives.

Additionally, this decision is not so linear, and, in some cases, the subsidiary can develop itself. Hence, researchers have been investigating the process through which the subsidiaries obtain and extend their role within the MNC and suggested that a subsidiary can have a level of autonomy that has been formally and explicitly assigned by its HQs (assigned autonomy), and the subsidiaries may also engage in autonomous actions beyond the extent of their authority (assumed autonomy) (Cavanagh *et al.*, 2017). However, the HQs still maintain some level of monitoring and control when the subsidiary assumes autonomy (Cavanagh *et al.*, 2017).

The autonomy given to the subsidiary is influenced by HQs' factors such as corporate culture, management style, planning and control mechanisms, and attitudes to centralization/decentralization (Young & Tavares, 2004). Nonetheless, HQs' lack of knowledge about their subsidiaries' operations and their subsidiaries' local networks hamper the creation of a common organizational system. In addition, it is argued that the HQs might find ways to acquire knowledge, but they might not know what specific knowledge is essential to acquire (Vahlne *et al.*, 2012).

The IB knowledge brings some important contributions for the M&A understanding that were not previously used. The following table (Table 5) reviews and synthesizes the key existing findings of the IB literature regarding the coordination research. This table is organized alphabetically.

#### 4. Empirical Research

| Author(s)<br>Year          | Object of Research                                                                                              | Sample                                                 | Methodology                                                                                                                                                                                                                                                                                                                                                                                              | Key Findings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------------|-----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ahlvik and Björkman (2015) | Examine antecedents of implementation, integration and internalization transferred from the HQs to subsidiaries | Survey to 105 subsidiaries from 11 Nordic corporations | <p><u>Dependent Variables:</u> Implementation, Integration and Internalization</p> <p><u>Independent Variables:</u> Formal HRM control, interaction ties, trust and operational HRM capabilities</p> <p><u>Control Variables:</u> Subsidiary influence on global policies, cultural distance, subsidiary size and acquired subsidiary</p> <p><u>Method:</u> General linear regression (primary data)</p> | <ul style="list-style-type: none"> <li>• Structural social capital (interaction ties between actors responsible for HRM) is an important antecedent of relational social capital (personal relationships).</li> <li>• Relational social capital facilitates integration and implementation of practices.</li> <li>• Internalization (management attitudes towards HRM initiatives from HQs) requires building relational social capital.</li> <li>• Formal HRM control is positively related to implementation and integration of HRM practices, whilst unrelated to internalization.</li> <li>• Practices can be transferred from HQs or the HQs can give detailed instructions into how the transferred practices should be integrated with the existing practices.</li> <li>• Tools to clarify different steps of the process can be used (e-HRM or check lists).</li> </ul> |
| Ambos <i>et al.</i> (2010) | Consequences of subsidiary initiatives                                                                          | Foreign-owned subsidiaries in Australia, Canada and UK | <p><u>Dependent Variable:</u> Subsidiary initiatives</p> <p><u>Independent Variables:</u> HQs' monitoring, HQs' attention, subsidiary autonomy and influence</p> <p><u>Control Variables:</u> Subsidiary performance, age and value scope</p> <p><u>Method:</u> Structural equation modeling (SEM) and LISREL model (primary and secondary data)</p>                                                     | <ul style="list-style-type: none"> <li>• Subsidiary initiatives have a direct effect on subsidiary autonomy, but that initiatives also evoke HQs monitoring, which in turn decreases subsidiary's autonomy.</li> <li>• But the positive direct effect of initiatives has a stronger effect on autonomy increase for the subsidiary.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Andersson <i>et al.</i>    | Study what factors affect subsidiary                                                                            | Dataset of 140 MNC subsidiaries (79)                   | <p><u>Dependent Variable:</u> Subsidiary local embeddedness, subsidiary knowledge creation</p>                                                                                                                                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>• Subsidiary's local embeddedness is influenced by HQs' use of different control mechanisms. In turn, subsidiary local network</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

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|--------------------------------------|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (2005)                               | local embeddedness                                                                          | Finnish and 61 Chinese)                                           | <p><u>Independent Variables:</u> Direct control and knowledge development and net/operating profit as performance evaluation criteria</p> <p><u>Control Variables:</u> Value chain integration, size, form of establishment, breadth of the subsidiary's operations and location</p> <p><u>Method:</u> Two-stage least square regression technique (2SLS) (primary data)</p> | <p>embeddedness enhances the subsidiary's level of knowledge creation.</p> <ul style="list-style-type: none"> <li>• The HQs often use expatriates as a control mechanism to facilitate subsidiary-HQs knowledge flows but the knowledge about specific customer/supplier relationships, and about subsidiary' needs, tends to reside among local subsidiary employees rather than among expatriates.</li> <li>• Expatriates reduce uncertainty but also decrease flexibility.</li> </ul>                                                                                                                       |
| <b>Andersson and Forsgren (1996)</b> | Effect of subsidiary embeddedness on HQs' control perceived by the subsidiary               | Survey to 78 subsidiaries of 15 business areas in 11 Swedish MNCs | <p><u>Dependent Variable:</u> Perceived control</p> <p><u>Independent Variables:</u> Embeddedness, form of establishment and organisational context</p> <p><u>Method:</u> Regression analysis (primary data)</p>                                                                                                                                                             | <ul style="list-style-type: none"> <li>• Stronger embeddedness in external customers, suppliers and other counterparts, decrease the HQs' control perceived by the subsidiary.</li> <li>• Stronger embeddedness within corporate relationships increase the control of the HQs, perceived by the subsidiary.</li> </ul>                                                                                                                                                                                                                                                                                        |
| <b>Beugelsdijk and Jindra (2018)</b> | Determine how subsidiary autonomy affects the probability of generating product innovations | Survey to 563 subsidiaries located in Central and Eastern Europe  | <p><u>Dependent Variable:</u> Product innovation</p> <p><u>Independent Variables:</u> Subsidiary decision-making autonomy</p> <p><u>Control Variables:</u> R&amp;D dummy, subsidiary size and age, Entry mode full acquisition, share of highly educated employees, one foreign shareholder, among others.</p> <p><u>Method:</u> Regression analysis (primary data)</p>      | <ul style="list-style-type: none"> <li>• Subsidiaries need decision-making autonomy to tap into local external knowledge pools.</li> <li>• Higher decision-making autonomy increases the probability of a subsidiary developing a product innovation. This effect is particularly pronounced in R&amp;D and adoption of technologies, but it also extends to functional areas such as investment, finance, supplier, marketing and sales.</li> <li>• Higher degrees of product innovation still benefit from subsidiaries' autonomy but may require higher degrees of managerial involvement by HQ.</li> </ul> |

#### 4. Empirical Research

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|----------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Birkinshaw et al. (2000)</b></p>       | <p>Examine consequences of HQ-sub subsidiary perception gaps</p>                     | <p>Survey to 89 HQ-sub subsidiary dyads</p>                                                             | <p><u>Dependent Variable:</u> Subsidiary role overestimation<br/> <u>Independent Variables:</u> HQ control and HQ-sub subsidiary cooperation<br/> <u>Method:</u> LISREL analysis (primary data)</p>                                                                                                                                                                                                             | <ul style="list-style-type: none"> <li>• Subsidiary role overestimation increases HQ control since they attempt to 'enforce' their view of the role that the subsidiary should have. High control decreases HQ-sub subsidiary cooperation.</li> <li>• Low subsidiary role overestimation decreases HQ control and enhance HQ-sub subsidiary cooperation, leading to further reduction in subsidiary role overestimation. Autonomy increases cooperation.</li> <li>• To reduce subsidiary role overestimation: discussions about the subsidiary role, select subsidiary managers whose characteristics match HQ managers' ambitions for the subsidiary, effective socialization mechanisms (control systems) and give more autonomy to subsidiaries.</li> </ul> |
| <p><b>Birkinshaw and Morrison (1995)</b></p> | <p>Study how subsidiary 'structural context' varied across subsidiary role types</p> | <p>Questionnaire to 126 subsidiaries, in six countries (U.S., Canada, U.K., France, Germany, Japan)</p> | <p><u>Dependent Variable:</u> Subsidiary Roles<br/> <u>Independent Variables:</u> Strategic autonomy, operational autonomy, managers share a common mission/set of goals, the extent to which managers share a common organizational culture, among others<br/> <u>Control Variables:</u> Global business environment, need for integration and for responsiveness<br/> <u>Method:</u> ANOVA (primary data)</p> | <ul style="list-style-type: none"> <li>• Strategic leader subsidiaries are highly autonomous in terms of product flows but configured internationally.</li> <li>• Contributors are integrated in terms of both product flows and configuration of value-adding activities.</li> <li>• Implementers are integrated in terms of product flows but configured domestically.</li> <li>• Autonomy is highest in strategic leader subsidiaries and lowest in implementer subsidiaries.</li> </ul>                                                                                                                                                                                                                                                                    |
| <p><b>Björkman et al. (2004)</b></p>         | <p>Determinants of knowledge flows in MNCs</p>                                       | <p>Interviews to 134 Finnish and Chinese MNC subsidiaries in 2000-2002</p>                              | <p><u>Dependent Variable:</u> Outward transfer of subsidiary knowledge<br/> <u>Independent Variables:</u> Subsidiary knowledge transfer as performance evaluation criterion, subsidiary management compensation, number of expatriate managers and corporate socialisation mechanisms</p>                                                                                                                       | <ul style="list-style-type: none"> <li>• MNCs' HQs can influence inter-unit knowledge transfer by specifying the objectives of the subsidiary and by utilising corporate socialisation mechanisms.</li> <li>• HQs can increase knowledge sharing through international training programmes, by establishing international task forces and committees and by encouraging visits across MNC units.</li> </ul>                                                                                                                                                                                                                                                                                                                                                    |

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|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                       |                                                                                                                                                        |                                                         | <p><u>Control Variables:</u> Stock of subsidiary knowledge, subsidiary scope of operations, mode of establishment, MNC home region, subsidiary location and subsidiary size</p> <p><u>Method:</u> OLS regression analysis (primary data)</p>                                                                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>The use of expatriate managers is not significantly related to knowledge transfer from subsidiaries to other parts of the MNC.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <p><b>Ciabuschi et al. (2012)</b></p> | <p>Effect of HQs involvement on efficiency of subsidiary innovation</p>                                                                                | <p>71 subsidiary innovation projects</p>                | <p><u>Dependent Variables:</u> Operationalization of innovation development and transfer processes</p> <p><u>Independent Variables:</u> HQ involvement in innovation development process, in innovation transfer process and in innovation transfer process efficiency</p> <p><u>Control Variables:</u> Subsidiary size, age, activities and innovativeness, innovation type and 'tacitness' of knowledge</p> <p><u>Method:</u> Variance-based structural equation modeling (SEM) (primary data)</p> | <ul style="list-style-type: none"> <li>HQ involvement in innovation development and transfer has a negative impact on efficiency in both processes.</li> <li>HQ involvement in innovation transfer is positively influenced by subsidiary size (larger subsidiaries are more likely to attract attention of HQ).</li> <li>However, an authority relationship may still be efficient by the HQs.</li> </ul>                                                                                                                                                                                                                                                                                                                                    |
| <p><b>Cray (1984)</b></p>             | <p>Relation between control and coordination with organizational structure, technology, foreign commitment, financial performance, and nationality</p> | <p>Interviews to 57 subsidiaries of 34 American MNC</p> | <p><u>Dependent Variable:</u> Control, coordination and coordination breadth</p> <p><u>Independent Variables:</u> Size, location and function</p> <p><u>Control Variables:</u> Technology, foreign commitment, profitability and nationality</p> <p><u>Method:</u> Regression analysis (primary and secondary data)</p>                                                                                                                                                                              | <ul style="list-style-type: none"> <li>The central issue of the HQs is the degree of coordination utilized and not so much the type of coordination.</li> <li>To decide the degree of integration it is important to consider the number of units in the network and the number of functions coordinated by the HQ.</li> <li>A large subsidiary, technologically complex, located in a product division, and highly profitable is likely to be integrated in the MNC through extensive coordination but retain some control over its decisions.</li> <li>A small subsidiary, located at a long administrative distance from the HQs, and sharing a simple technology with the MNC will have higher control and lower coordination.</li> </ul> |

#### 4. Empirical Research

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| <p><b>Crespo et al. (2014)</b></p>    | <p>Determinants and effects of coordination and control mechanisms, of horizontal and vertical MNC subsidiary knowledge outflows</p> | <p>Survey and archival data from over 200 MNC subsidiaries in 2010</p> | <p><u>Dependent Variable:</u> Knowledge outflows<br/> <u>Independent Variables:</u> Explicitness, frequency of communication, measure of performance, national cultural distance, centralization, formalization and specialized resources<br/> <u>Control variables:</u> Subsidiary size and industry<br/> <u>Method:</u> Structural equation modeling (SEM) (primary and secondary data)</p> | <ul style="list-style-type: none"> <li>• Explicitness and communication positively influence vertical and horizontal subsidiary knowledge outflows and national cultural distance, centralization, formalization, and specialized resources moderate these influences.</li> <li>• Formalization exerts a negative influence on horizontal knowledge transfers within the MNC.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <p><b>Doz and Prahalad (1984)</b></p> | <p>Analyses the management of the HQ-subsidiaries relationships within MNCs</p>                                                      | <p>5 case studies</p>                                                  | <p>Competitive case study</p>                                                                                                                                                                                                                                                                                                                                                                 | <ul style="list-style-type: none"> <li>• Appropriate balance between responsiveness and integration keeps changing and needs to be reassessed, which involves managing managers' perceptions and data, managers' priorities, culture, sense of personal, corporate interest, and structuring decision processes.</li> <li>• Delegating decision making without structuring processes and rules reduce its effectiveness.</li> <li>• Management tools are classified into 3 categories: data management, managers' management, and conflict resolution tools.</li> <li>• Companies with too narrow or too wide repertory of tools and companies that fail to blend tools consistently face difficulties in trading off needs for responsiveness and integration.</li> <li>• Difficulties of centralized decision-making lead management to delegate decision-making directly to subsidiary managers and product executives at HQs.</li> </ul> |

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|                                         |                                                                                                                                                                                                 |                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                    | <ul style="list-style-type: none"> <li>• Coordination is closely related with integration, but local responsiveness also requires a significant degree of coordination.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <p><b>Gates and Egelhoff (1986)</b></p> | <p>Examines how centralization varies in response to a variety of company-wide and subsidiary level condition</p>                                                                               | <p>50 US, UK and European MNCs – published company documents and 3 interviews at each company’s HQs</p>               | <p><u>Dependent Variable:</u> Centralization<br/> <u>Independent Variables:</u> Marketing decisions, manufacturing decisions and financial decisions<br/> <u>Contingency variables:</u> Subsidiary and company level variables measuring size, complexity and environmental change<br/> <u>Method:</u> Regression analysis (primary and secondary data)</p>        | <ul style="list-style-type: none"> <li>• MNCs’ strategic changes such as introduce product lines, foreign markets or modify products to fit differing local environments, require more decision-making decentralization.</li> <li>• MNCs that allow substantial outside ownership foreign subsidiaries or attempt to grow through acquisitions are likely to decentralize decision making.</li> <li>• The longer MNCs have had significant foreign operations, the more decentralized is the HQ-subsidiary relationships.</li> </ul>                                                                                                                                                                                                                                                                                              |
| <p><b>Lazarova et al. (2017)</b></p>    | <p>Examine the relationship between subsidiary HR autonomy and subsidiary performance, the mediating role of absenteeism, and the moderating effect of cultural and institutional distance.</p> | <p>Sample drawn from the 2010 Cranet (Cranfield Network on Comparative Human Resource Management) project dataset</p> | <p><u>Dependent Variable:</u> Absenteeism and subsidiary performance<br/> <u>Independent Variables:</u> Subsidiary HR autonomy, cultural distance, institutional distance<br/> <u>Control variables:</u> organizational size, age and industry<br/> <u>Method:</u> Meta-Analytic Structural Equation Modeling (MASEM) and multilevel modeling (secondary data)</p> | <ul style="list-style-type: none"> <li>• Subsidiary HR autonomy leads to lower absenteeism and higher performance. This relationship is stronger when HQ and subsidiary countries are more culturally and institutionally similar.</li> <li>• Autonomy in dissimilar environments enables subsidiaries to adapt HR policies and practices, based on the claim that they are inappropriate to implement locally. However, subsidiaries may adapt practices to a local market without understanding the relationships between those practices and performance, which decrease success.</li> <li>• Subsidiary autonomy allows managers to act out of their own interests rather than the MNC’ interest.</li> <li>• HQs need to examine HR integration mechanisms and determine the right mix of control and coordination.</li> </ul> |

4. Empirical Research

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|-------------------------------------------|----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Martinez and Jarillo (1991)</b></p> | <p>Relationship between MNC strategy and the use of different mechanisms of coordination</p>             | <p>Survey on 50 subsidiaries of foreign MNCs in Spain during the first four months of 1988</p> | <p><u>Dependent Variable:</u> Level of integration and differentiation<br/> <u>Independent Variables:</u> Set of strategy variables<br/> <u>Dependent Variable:</u> Coordination mechanisms<br/> <u>Independent Variables:</u> Set of coordination variables<br/> <u>Method:</u> Factor analysis (primary data)</p>                                       | <ul style="list-style-type: none"> <li>Subsidiaries more integrated with their HQs make a more extensive use of both "formal" and "informal" coordination mechanisms than other firms.</li> <li>Local market-oriented subsidiaries tend to have greater autonomy (national responsiveness).</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <p><b>Persson (2006)</b></p>              | <p>Explain the outbound knowledge transfer at subsidiary level in MNCs</p>                               | <p>Interviews to 74 subsidiaries in 2002</p>                                                   | <p><u>Dependent Variable:</u> Knowledge transfer<br/> <u>Independent Variables:</u> Product flows, liaison mechanisms, permanent team structures, temporary team structures, incentives and socialization<br/> <u>Control Variables:</u> Context specificity, knowledge novelty and subsidiary size<br/> <u>Method:</u> OLS regression (primary data)</p> | <ul style="list-style-type: none"> <li>The operational structure, HQs use of incentives for knowledge sharing, and subsidiary socialization, have a positive influence on outbound knowledge transfer.</li> <li>Permanent teams as lateral integrative mechanism negatively influences knowledge transfer, while the use of simple communication mechanisms and temporary teams have a positive influence.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                    |
| <p><b>Roth and Morrison (1992)</b></p>    | <p>Determine specific subsidiary characteristics that are associated with global subsidiary mandates</p> | <p>Foreign subsidiaries located in France, Germany, Japan, UK, US, and Canada</p>              | <p><u>Dependent Variable:</u> Global Subsidiary Mandate<br/> <u>Independent Variables:</u> Configuration, product dependence, research independence, relative subsidiary competence, manufacturing and R&amp;D competency and relative managerial expertise<br/> <u>Method:</u> ANOVA (primary data)</p>                                                  | <ul style="list-style-type: none"> <li>Global subsidiary mandate ('strategic leader'): subsidiary works with HQs to develop and implement strategy, having worldwide responsibility to complete a set of activities. Subsidiary manages research and development, production and marketing activities but this does not imply total autonomy.</li> <li>A subsidiary is more likely to have a global strategy mandate as: (1) primary activities are dispersed, (2) support activities are configured within single locations, (3) percentage of products similar to those produced elsewhere in a corporation decreases, (4) managerial expertise in terms of managing interdependencies decreases, and (5) managerial expertise of managing strategic flexibility increases.</li> </ul> |

#### 4. Empirical Research

|                                  |                                                                                |                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------|--------------------------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Wang et al. (2014)</b></p> | <p>Study subsidiary autonomy when the MNE faces home-country disadvantages</p> | <p>Survey to HQ' senior executives of 240 Chinese MNEs</p> | <p><u>Dependent Variable:</u> Subsidiary autonomy<br/> <u>Independent Variables:</u> Springboard intent, Perceived domestic institutional constraints, government OFDI assistance, inward FDI cooperative experience and M&amp;A entry mode<br/> <u>Control Variables:</u> Parent firm ownership, parent firm age, parent firm size, subsidiary size, subsidiary cost advantage, investment stage and subsidiary relatedness<br/> <u>Method:</u> Hierarchical regression analysis (primary data)</p> | <ul style="list-style-type: none"> <li>• Overcoming home country-based disadvantages can be an antecedent of subsidiary autonomy.</li> <li>• Subsidiary autonomy is higher among firms relying on foreign markets to obtain strategic assets, whose HQs perceive high domestic institutional constraints, and which do not count on government assistance to expand internationally.</li> <li>• These relationships are strengthened with the use of M&amp;A.</li> </ul> |
|----------------------------------|--------------------------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**Table 5:** Summary of Studies Investigating Coordination and Integration in International Business.

**Source:** Own elaboration.

### **4.3.2. DISCUSSION**

The coordination literature from an IB perspective demonstrates that this stream of research has an extensive knowledge regarding the HQ-subsiary interaction. This knowledge can be used by managers of the acquiring firms, allowing them to have more insights into how to integrate and coordinate the acquired unit, which represents a new subsidiary.

In general, the IB literature provides a differentiation of the existing types of coordination mechanisms and advocates that HQs needs to combine a vast array of tools to have a consistent management process. Additionally, the IB literature addresses a dilemma, consisting of the choice between local responsiveness and global integration of the subsidiaries, and also highlights the importance of considering the different roles attributed to the subsidiaries for the MNC strategy. These subsidiary roles, and the responsiveness-integration trade-off, facilitate the decision regarding the degree of integration that the acquired firm needs to make which, in turn, enables it to decide about the degree of coordination necessary and the mechanisms of coordination suitable.

The next session provides a more detailed analysis of the IB literature and studies its impact on the knowledge of the M&A field.

#### **4.4. INTEGRATIVE PERSPECTIVE**

In the previous sections, two different tables summarized and reviewed the available literature on the HQ-subsidary coordination and integration, both from a M&A perspective and from an IB perspective. The IB knowledge represents a valuable complement for the M&A literature since this field has an extensive body of research that focuses on the HQ-subsidary interaction (as can be seen in the session 4.3.1 and 4.3.2), which allows a greater understanding regarding the integration and coordination of the MNC's subsidiaries. Hence, this chapter presents an integrative perspective of both fields based on the aforementioned literature review and advances the understanding of this phenomenon in several important ways.

Firstly, the IB field demonstrates that integration, coordination and control are three closely related concepts. Specifically, integration requires coordination and in turn, coordination requires some form of control. It is also important to note that this relationship is reciprocal, and more coordination also leads to more integration (Cray, 1984). In this way, researchers in the IB field advance a distinction between the different types of coordination mechanisms that can be used to achieve the expected extent of coordination (see appendix I). With this in mind, subsidiaries that are more integrated into the MNC require a more extensive use of formal and informal coordination mechanisms (Martinez & Jarillo, 1991). In turn, Cray (1984) raises the importance of the degree of coordination utilized for the success of the HQ-subsidary relationship, while arguing that the type of mechanisms of coordination used is not the central issue of the HQs.

This integration versus autonomy paradox in M&As is an important topic for this dissertation since such decision influences the degree of coordination required. Therefore, the insights of the IB research concerning these three concepts and the relationships between them can be used in the strategic planning of the M&A

integration process. In particular, acquirers that aim to create synergies through acquisitions need to integrate, in some extent, the acquired subsidiary into the MNC. The IB literature shows that acquiring firms' managers need to impose some level of control to achieve an effective coordination and in turn, this coordination is imperative to achieve the desired level of integration. For this reason, managers that are planning to implement a deeper integration will require more coordination efforts with informal mechanisms and an increased use of formal mechanisms as the complexity increases (John & Youngt, 1995). Indeed, M&As research is in accordance with this conclusion by suggesting that more integration requires additional control mechanisms such as transition teams, senior management involvement and temporary personnel rotation (Larsson & Lubatkin, 2001) and also by suggesting that a higher level of integration leads to higher coordination costs (Bauer *et al.*, 2017).

Secondly, the subsidiary integration-responsiveness dilemma is another important theory in the IB field. In this regard, the appendix III specifies the factors that contribute to the need of a higher level of either local responsiveness or global integration. A pressure for local responsiveness involves the need to attribute more autonomy to the subsidiary, allowing it to be able to adapt and respond to local demands (Martinez & Jarillo, 1991). On the other hand, the need for global integration obviously requires more integration efforts and consequently, more coordination and control (Martinez & Jarillo, 1991). However, the appropriate integration-responsiveness balance keeps changing and needs to be reassessed. This involves managing managers' perceptions and data, managers' priorities, culture, sense of personal, corporate interest, and structuring decision processes (Doz & Prahalad, 1984). In general, companies with a too narrow or too wide repertory of tools and companies that fail to blend tools consistently face difficulties in trading off needs for responsiveness and integration (Doz & Prahalad, 1984).

#### 4. Empirical Research

This theory can be used in M&As as it allows an understanding of what is the most appropriate setting in order to implement more integration or more autonomy in acquisitions. The IB literature provides useful information to understand the integration and responsiveness needs and which one is the most suitable considering the current context of the MNC. The integration-responsiveness trade-off is directly linked with the configuration of the MNC. To have local responsiveness, the subsidiary needs more autonomy (decentralized structure) while to have global integration, a more centralized structure is required. Interestingly, the integration-responsiveness model at the subsidiary level (see appendix IV) considers the possibility of both high integration and high local responsiveness ('constrained independent' subsidiary).

Nevertheless, a similar result was found in the M&A literature. Zhu *et al.* (2015) advocated that as manufacturing industries face pressures for standardization, their need for integration increases, while firms in the IT sector face pressures for autonomy given their necessity for a higher flexibility, so they can respond to local demands. In this regard, managers should find the balance between integration and responsiveness that better fits the company's business needs. Therefore, this I-R framework represents an important tool for the strategic decision between integration-autonomy in M&As, which influences degree of coordination needed. As mentioned before, more integration will require more coordination efforts. However, according to Doz and Prahalad (1984), local responsiveness also requires a significant degree of coordination.

Thirdly, the IB literature presents a relevant debate about the strategic contribution of the subsidiary to the MNC. Specifically, researchers in this field suggested that the subsidiary role within the MNC depends on their capabilities and local importance (see appendix II). Hence, the role that the subsidiary plays within the MNC influences

its structure (centralized or decentralized structure), representing a key strategic decision.

This is an important theory that can be applied to M&As, given that an understanding of the competences and local importance of the subsidiary allows the acquirer to attribute a contributory role to the acquired subsidiary. Thus, having defined the subsidiary's role, the HQs are in a better position to decide the degree of autonomy and integration that should be given to the subsidiary and subsequently, the extent of coordination necessary to effectively achieve such degree of integration. In this way, a subsidiary that plays a proactive role in the MNC requires more autonomy to innovate or to pursue initiatives, while a subsidiary that is not so proactive in terms of innovation and initiatives requires more integration within the MNC. Specifically, a subsidiary with both high competences and high local importance will have the most active role in the MNC ('strategic leader' subsidiary) and consequently, will be highly autonomous in terms of product flows, despite being configured internationally. On the other hand, subsidiaries with both low competence and low local importance ('implementer' subsidiaries) are integrated in terms of product flows even though they are configured domestically. Another example is the case of a subsidiary with reduced local strategic importance but with high competences ('contributor' subsidiary), which are integrated in terms of both product flows and configuration of value-adding activities (Birkinshaw & Morrison, 1995). In sum, the degree of autonomy is highest in 'strategic leader' subsidiaries and lowest in 'implementers' (Birkinshaw & Morrison, 1995). Therefore, it can be concluded that a 'strategic leader' subsidiary will need more coordination efforts, using more informal and formal coordination mechanisms while the 'implementer' subsidiary needs informal coordination mechanisms with increasing use of formal mechanisms as the complexity increases.

Moreover, Roth and Morrison (1992) suggested that a subsidiary is more likely to be a 'strategic leader' when the primary activities are dispersed, the support activities are configured within single locations, the percentage of products that are similar to those produced elsewhere in a corporation decreases, the managerial expertise with respect to managing interdependencies decreases, and the managerial expertise of managing strategic flexibility increases. This contribution is valuable for M&As since it helps the managers of acquiring firms to understand when the acquired subsidiary should play a 'strategic leader' role.

Taken together, the 'strategic leader' subsidiary allows local responsiveness and leads to the 'preservation' integration strategy, as it requires a high level of autonomy and a low level of integration. On opposite side, the 'implementer' subsidiary provides global integration instead of local responsiveness, corresponding to an 'absorption' approach to integration, in which the subsidiary is highly integrated into the MNC (Haspeslagh & Jemison, 1991).

To summarize, the appendix V presents a comprehensive framework that relates the I-R dilemma with the subsidiary roles and with the structural context of the subsidiary.

Fourthly, regarding the integration versus autonomy trade-off, the IB literature advances the advantages of autonomy versus centralized structures (see appendix VI). Managers in acquiring firms can resort to this framework and adapt its integration decision with the acquisition motives, context and with the firm's strategy. For instance, centralized structures (more integration) allow an easy change and coordination of the subsidiary strategy. Conversely, more autonomy is appropriate when there are difficulties in managing a global organisation, when global strategies are wasting subsidiaries' potential, or when there is a need for local adaptation. Indeed, Gates and Egelhoff (1986) suggested that introducing product lines or

modifying products to fit differing local environments, requires more decision-making decentralization. In concordance with this finding, the M&A literature highlights the importance of autonomy to tap into local external knowledge pools and to increase the probability of developing product innovation (Beugelsdijk & Jindra, 2018 and Paruchuri *et al.*, 2006). The latter represents the need for local responsiveness and the 'strategic leader' role of the subsidiary. Indeed, HQs' involvement in innovation development and transfer has a negative impact in the efficiency of both processes (Ciabuschi *et al.*, 2012).

This is important from an M&A perspective as it allows to understand the contexts in which more autonomy or more integration have the most positive outcomes. For instance, a manager of the acquiring firm should attribute more autonomy to the subsidiary when he has difficulties in managing the global organisation.

Fifthly, a clear overlap in the literature of both fields consists in the importance of the HRM practices for the success of the integration and coordination process, such as the role of promoting communication, building personal relationships, integration teamwork, team meetings and so on, in order to increase the knowledge transfer, reduce the resistance among employees and facilitate the integration and implementation of practices (Aklamanu *et al.*, 2016; Colman & Grøgaard, 2013; Vasilaki, *et al.*, 2016 and Quah & Young, 2005). However, the IB literature has some important contributions that can be added to the M&A knowledge. For instance, tools to clarify the steps of the integration process should be used, such as e-HRM or check lists (Ahlvik & Björkman, 2015). The use of permanent teams as an integrative mechanism affects knowledge transfer negatively, while the use of simple communication mechanisms and temporary teams affects the knowledge transfer positively (Persson, 2006). Knowledge transfer can increase with the use of corporate socialisation mechanisms aiming to specify the objectives of the subsidiary by the HQs, and also through international training programmes, by establishing international task

forces and committees or even by encouraging visits across the MNC (Björkman *et al.*, 2004).

Moreover, subsidiary HR autonomy leads to lower absenteeism and to higher performance. Autonomy to subsidiaries in dissimilar environments allows them to adapt HR policies and practices to the local market without understanding the relationships between those practices and performance, which can decrease their effectiveness (Lazarova *et al.*, 2017). Additionally, formal HRM control is positively correlated with implementation and integration of HRM practices (Ahlvik & Björkman, 2015).

Furthermore, HQs often use expatriates to control the subsidiary, however, the use of expatriate managers is not related with knowledge transfer (Björkman *et al.*, 2004) since knowledge about specific relationships and about subsidiary's needs tends to reside among local subsidiary employees rather than among expatriates (Andersson *et al.*, 2005). In fact, the use of expatriates reduces uncertainty, but at the same time decreases the flexibility of the subsidiary (Andersson *et al.*, 2005).

Thus, these diverse insights should be used by managers of acquiring firms as they allow the implementation of a more effective human integration and a decrease of the resistance among managers and employees of the subsidiary, favouring knowledge transfer. Additionally, this knowledge sheds some lights into how to coordinate the acquired subsidiary.

A seventh contribution of the IB literature is that subsidiaries are autonomy-seeking (Paterson & Brock, 2002) and because of this, they may try to develop themselves and obtain and extend their role within the MNC. This means that subsidiaries may engage in autonomous actions beyond their extent of authority by assuming some level of autonomy (Cavanagh *et al.*, 2017). The M&A literature does not consider the possibility

of the subsidiary to assume autonomy which might be critical to understand and predict future changes in the autonomy that was attributed to the subsidiary.

In addition, the M&A literature uses the industry lifecycle to understand which is the most appropriate setting to use either formal or informal coordination mechanisms. Specifically, in acquisitions with buyers in declining industries, formal coordination mechanisms are most beneficial to decrease resistance among subsidiary employees. In mature industries, formal and informal coordination mechanisms do not play a major role. In growing industries, only informal coordination mechanisms are relevant (Bauer *et al.*, 2017).

Lastly, table 4 and 5 include additional findings about coordination and integration that are not discussed in this chapter.

In conclusion, figure 5 presents a summary of the main contributions of this study. This figure helps understanding the links between the main findings presented in the integrative perspective.

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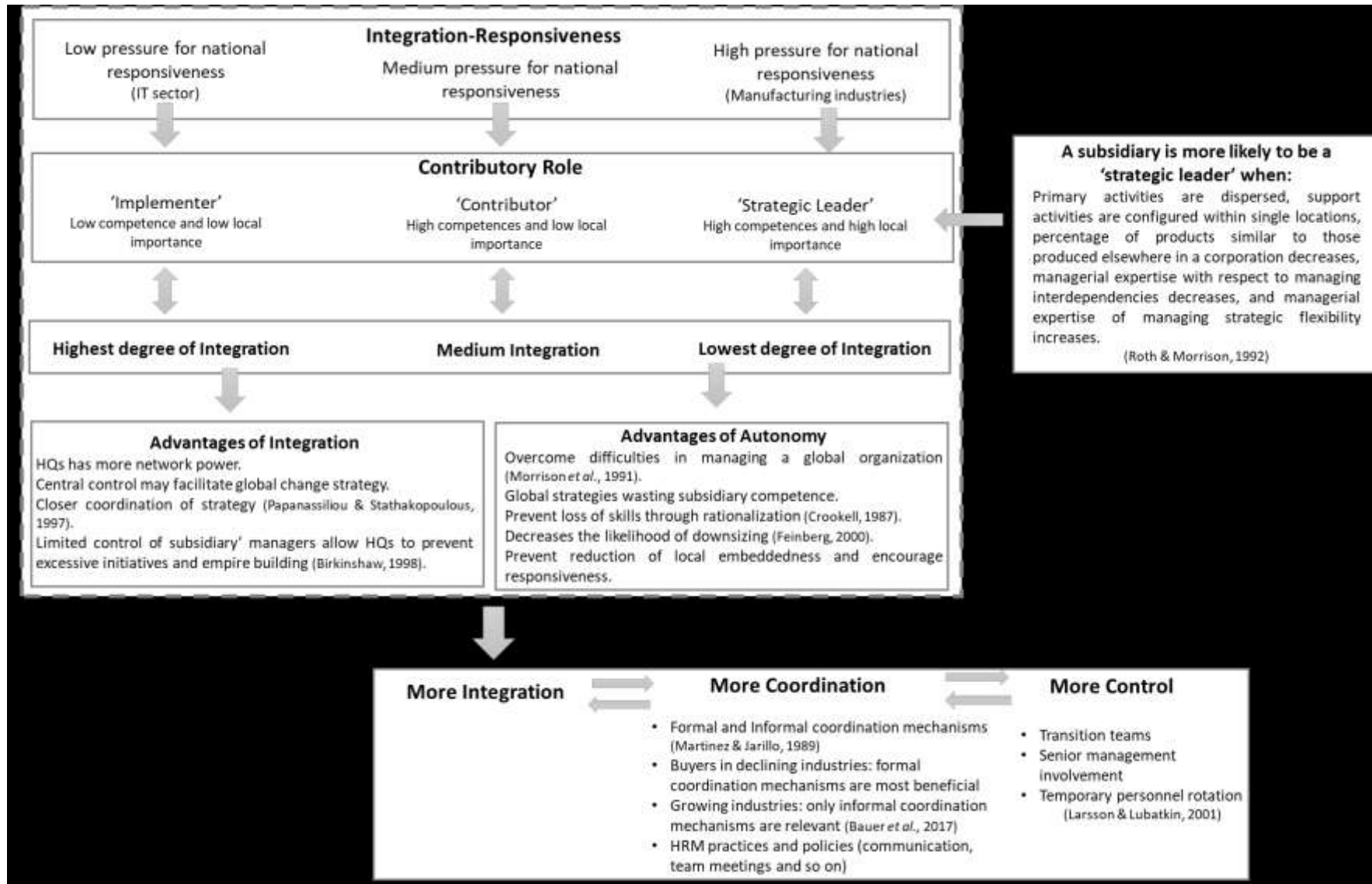


Figure 5: Summary of the Integrative Perspective.

Source: Own elaboration based on the contributions of the researchers mentioned on the integrative perspective.

## CHAPTER 5: CONCLUSION

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The present research intends to broaden the scope of the post-acquisition integration and coordination literature in cross-border M&As and enrich it with the IB knowledge regarding the HQ-subsidary relationship. For this purpose, an integrative perspective based on the knowledge of both fields was developed. The combination of the IB and M&A bodies of literature allowed to find overlaps, areas for further research and more importantly, allowed the inclusion of new insights from the international business stream, which were paramount to increase the current understanding on how the HQs can successfully coordinate their subsidiaries.

The topic of this dissertation is of utmost importance since the success of an acquisition depends on synergy creation which in turn depends on the effectiveness of the integration and coordination of the acquired subsidiary (Bauer *et al.*, 2015 and Angwin & Meadows, 2015). In detail, acquirers face a dilemma in which they need to determine the extent of autonomy and integration that should be given to the acquired subsidiary. Some degree of integration is required to transfer capabilities and create synergies while preserving these strategic capabilities involves autonomy (Haspeslagh & Jemison, 1991; Puranam *et al.*, 2006; Zaheer *et al.*, 2013 and Graebner, 2004). The degree of integration of the acquired firm will influence the extent of coordination needed. Specifically, deeper integration requires greater coordination efforts (Bauer *et al.*, 2017). As a result, it is imperative that managers of acquiring firms carefully analyse the trade-off between the costs of coordinating integration against its benefits (Bauer *et al.*, 2017).

Moreover, the current state of knowledge in M&As is extensive in some topics, but there are still several key areas for development. In fact, the existing literature is frequently referred as being “fragmentated” or seen as a puzzle given its nonintegrative nature (Capasso *et al.*, 2005; Jemison & Sitkin, 1986 and Papadakis,

2005). Additionally, there is no general agreement on how to coordinate and integrate the acquired subsidiary. Thus, it remains fundamental to understand the drivers of success of M&As (Campbell *et al.*, 2016 and King *et al.*, 2004).

Therefore, given the results of the integrative perspective, this chapter addresses the limitations of this study, some theoretical and managerial implications, as well as areas for further development.

### **5.1. LIMITATIONS**

As with any research, this study has some limitations. The review of the current knowledge in the IB management field regarding the HQs' coordination of its subsidiaries was based on peer reviewed journal publications, which implies that books and non-academic papers were not reviewed and that articles with less than 3\* were not included. Additionally, only articles belonging to the IB field were included, as such field was the focus of this research. However, there might be other research streams that could provide important contributions for the HQs-subsidary coordination discussion. Lastly, the conclusions of this study require empirical validation.

### **5.2. THEORETICAL IMPLICATIONS**

From a theoretical perspective, the comprehensive review of the M&A and IB literature allowed the formulation of an integrative perspective combining these two different fields. The IB literature is a valuable complement of the M&A literature as this stream is historically known for studying the HQ-subsidary relationship, and

more specifically, the coordination and control of MNCs' subsidiaries (Kostova *et al.*, 2016). Through the integration of these two bodies of literature, this study extends the previous literature and provides additional insights about the most suitable approach to coordinate and integrate the acquired subsidiary. Furthermore, while not seeking to provide an exhaustive coverage of all of the existing knowledge surrounding the topic of subsidiary coordination, the most prominent frameworks were included in this study.

In this regard, this paper provides several key contributions. Firstly, it shows that complementing the M&A knowledge with findings from different fields of research might enrich the literature and lead to new important conclusions. Thus, researchers should use this alternative approach more often and complement the M&A literature with insights from different fields of research.

A second contribution was the clear overlap in the literature of both streams of research regarding the importance of HRM practices and policies for the integration and coordination of the MNCs' subsidiaries. This common topic addressed in both literatures allowed the IB research to enrich the M&A knowledge with several important insights that further the understanding of some coordination issues.

The main finding of this study was the importance of using the contributory subsidiary roles of the subsidiaries within the MNC (Bartlett & Ghoshal, 1986) and the integration-responsiveness framework (Doz & Prahalad, 1984 and Taggart, 1997) to understand the integration and coordination in M&As. The decision on the degree of integration of the subsidiary should be made according to the role that the MNC wants the subsidiary to play, without neglecting the need of local responsiveness or the pressure for global standardization.

Therefore, the findings of this study may provide a useful basis for future empirical investigation into the coordination and integration in M&As. In this regard, future

empirical research is essential to know whether the theoretical connections proposed can be established. Hopefully, future research will develop a more accurate and in-depth understanding of the acquired firm coordination and integration.

Lastly, future research could use the approach adopted in this study and combine the HRM research about the coordination of the HR with the M&A research regarding the human integration. This could also bring important insights on how to successfully integrate the human resources in acquisitions avoiding resistance to change, reducing the likelihood of disruption and decreasing employee turnover.

### **5.3. MANAGERIAL IMPLICATIONS**

This dissertation has far-reaching practical implications for managers who seek to create value through international M&As. To achieve this main goal, managers need to carefully choose an appropriate post-acquisition approach (Haspeslagh & Jemison, 1991). This requires integrating the newly acquired subsidiary or alternatively, providing autonomy (Zaheer *et al.*, 2013). Hence, managers should be aware that synergy realization and ultimately, the success of the acquisition, are entirely dependent on the effectiveness of the coordination of the acquired subsidiary (Graebner *et al.*, 2004). In this regard, for managers, the most critical findings of this study consist in the fact that the analysis of the role of the subsidiary and also, the pressure for global integration or local responsiveness can provide enriching insights on the need for coordination and integration of the acquired firm.

The integration-responsiveness theory helps managers understand what is the most appropriate setting to implement more integration or more autonomy according with the HQ's strategy responsiveness (Doz & Prahalad, 1984 and Taggart, 1997). To

## 5. Conclusion

achieve a higher level of local responsiveness, HQs need to give more autonomy to the subsidiary while to achieve global integration, the acquiring firm needs to have a more centralized structure (Taggart, 1997; Roth & Morrison, 1990 and Martinez & Jarillo, 1991). If managers of acquiring firms plan to integrate the acquired firm so that the first ones can have a more standardized strategy, they will need more control and coordination. Conversely, to respond to local demands, managers of acquiring firms need to have a more decentralized structure, which is also an appropriate strategy when managers do not know how to coordinate a global organisation (Paterson & Brock, 2002 and Martinez & Jarillo, 1991).

Additionally, by understanding the competences and local importance of the subsidiary, the acquiring firm's manager can attribute a contributory role to the acquired subsidiary (Bartlett & Ghoshal, 1986). Thus, having defined the subsidiary's role, managers are more able to decide the degree of autonomy and integration that should be given to the subsidiary and subsequently, the extent of coordination necessary to effectively achieve that degree of integration. In this way, a subsidiary that plays a more active role in the MNC requires more autonomy to innovate or to pursue initiatives while a subsidiary that does not have such an active role requires more integration within the MNC (Birkinshaw & Morrison, 1995).

These findings are significant, as they provide more detailed insights regarding the integration and coordination in M&As, than the overly broad view employed by most studies in this field.

Overall, this study will hopefully provide a relevant contribution to this stream of research, a stream that is claiming for a more thorough approach. Additionally, this work will hopefully inspire future researchers and academics to continue to enrich and contribute to the development of such an interesting, critical and useful topic in M&A literature.

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## APPENDIX

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### APPENDIX I

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#### **Structural and formal mechanisms**

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1. Departmentalization or grouping of organizational units, shaping the formal structure.
  2. Centralization or decentralization of decision making through the hierarchy of formal authority.
  3. Formalization and standardization: written policies, rules, job description, and standard procedures, through instruments such as manuals, charts, etc.
  4. Planning: strategic planning, budgeting, functional plans, scheduling, etc.
  5. Output and behaviour control: financial performance, technical reports, sales and marketing, data, etc., and direct supervision.
- 

#### **Other mechanisms, more informal and subtle**

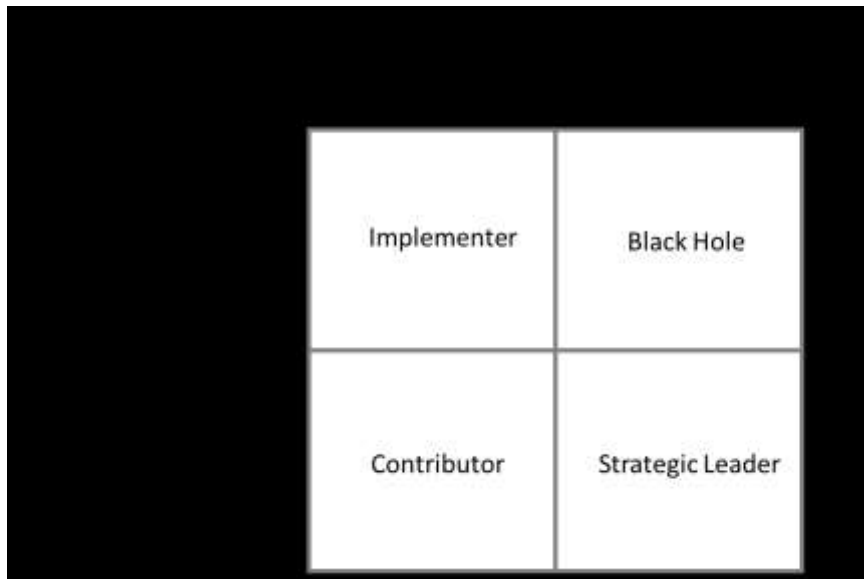
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6. Lateral or cross-departmental relations: direct managerial contact, temporary or permanent teams, task forces, committees, integrators, and integrative depart.
  7. Informal communication: personal contacts among managers, management trips, meetings, conferences, transfer of managers, etc.
  8. Socialization: building an organizational culture of known and shared strategic objectives and values by training, transfer of managers, career path management, measurement and reward systems, etc.
- 

**Table 6:** List of Most Common Mechanisms of Coordination.

**Source:** Martinez and Jarillo (1989).

## APPENDIX II



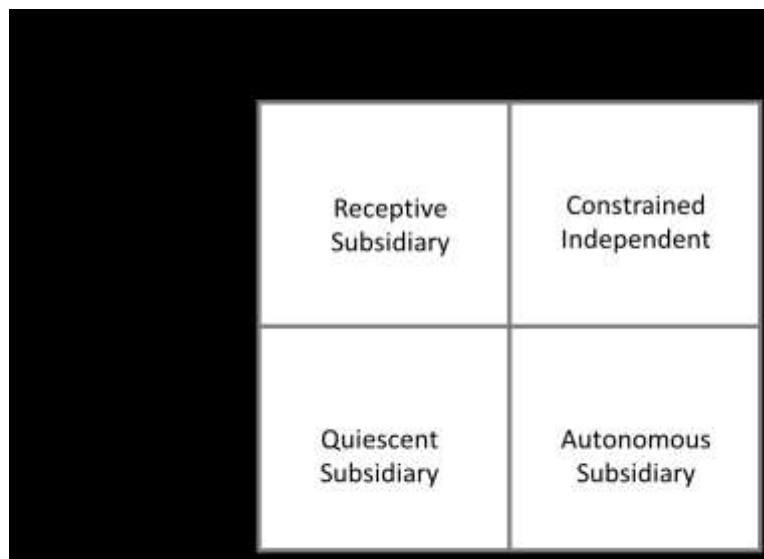
**Figure 6:** Subsidiary Roles.  
**Source:** Bartlett and Ghoshal (1986).

## APPENDIX III

| National Responsiveness                     | Global Integration                                         |
|---------------------------------------------|------------------------------------------------------------|
| <b>Diversity among national markets in:</b> |                                                            |
| Market structures                           | Multinational customers                                    |
| Industry structures                         | Global competitors                                         |
| Distribution channels                       | High technology                                            |
| Manufacturing process                       | Scale and experience in manufacturing                      |
| Customer needs                              |                                                            |
| <b>Host government demands:</b>             |                                                            |
| Norms and standards                         | Investment intensity and access to raw material and energy |
| Trade barriers                              | Universal product needs                                    |
| Importance of public sector market          |                                                            |
| Regulation of MNC activity                  |                                                            |

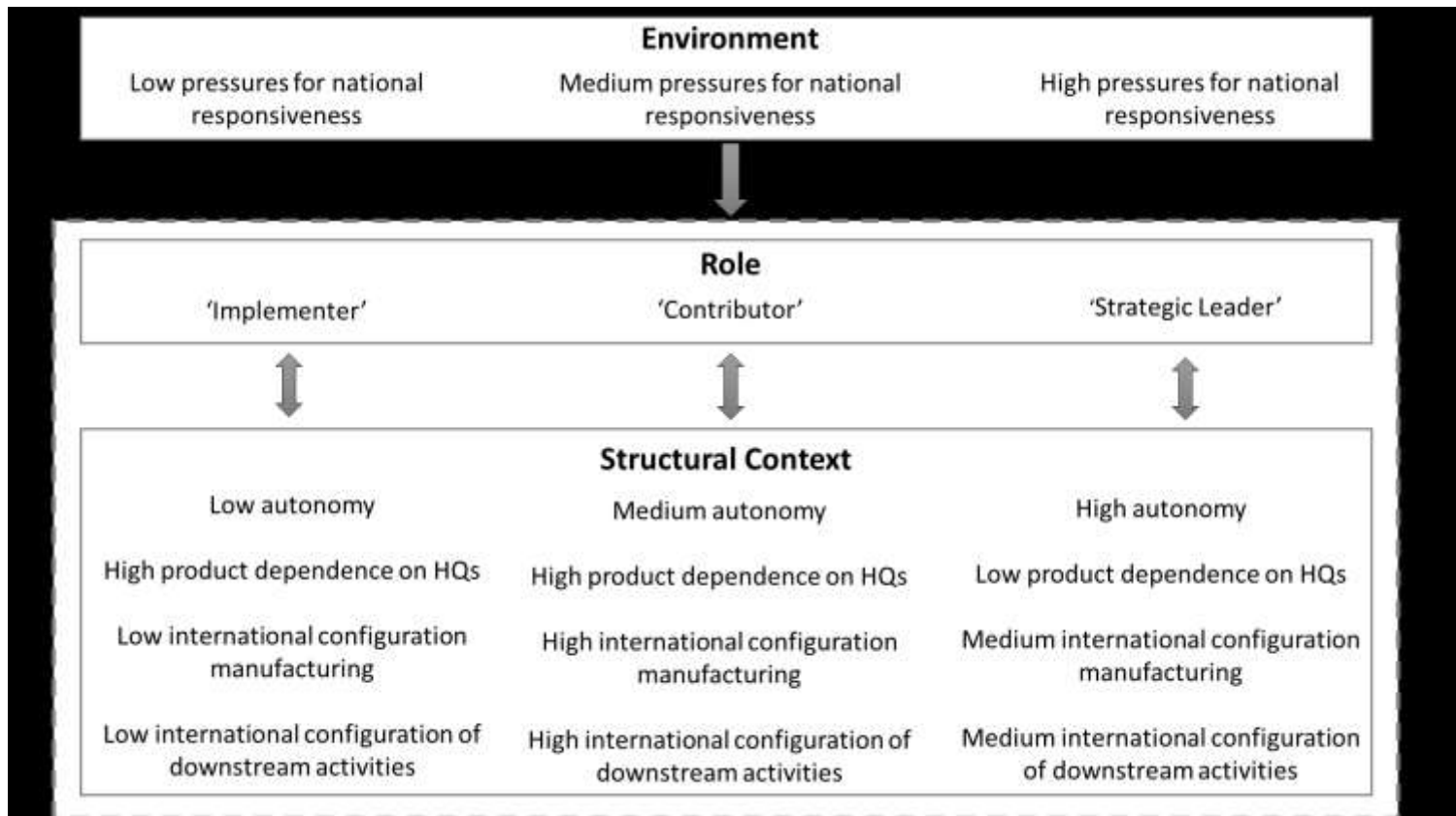
**Table 7:** Factors Contributing to Responsiveness and Integration.  
**Source:** Doz and Prahalad (1984).

## APPENDIX IV



**Figure 7:** Integration-Responsiveness at the Subsidiary Level.  
**Source:** Taggart (1997).

## APPENDIX V



**Figure 8:** Relation between subsidiary environment, role and structural context.

**Source:** Adapted from Birkinshaw and Morrison (1995).

## APPENDIX VI

| <b>Autonomous and decentralized structures</b>                                                 | <b>Centralized structures</b>                                                                                 |
|------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Consumer demand for locally differentiated products (Morrison <i>et al.</i> , 1991).           | Having a single image in the whole organisation.                                                              |
| When there are difficulties in managing a global organization (Morrison <i>et al.</i> , 1991). | HQs has more network power.                                                                                   |
| Global strategies wasting subsidiary competence.                                               | Decrease costs; for instance, of monitoring.                                                                  |
| Significant benefits of being an 'insider' (Morrison <i>et al.</i> , 1991).                    | Central control may facilitate global change strategy.                                                        |
| Prevent loss of skills through rationalization (Crookell, 1987).                               | Closer coordination of strategy (Papanassiliou & Stathakopoulous, 1997).                                      |
| Decreases the likelihood of downsizing (Feinberg, 2000).                                       | Stable subsidiary roles, for example avoiding resource reallocation costs (as mentioned in Birkinshaw, 1995). |
| Allows quick response to local opportunities or threats (Birkinshaw & Hood, 1997).             | Limited control of subsidiaries allows                                                                        |
| Prevent reduction of local embeddedness and encourage responsiveness.                          | HQs to prevent excessive initiatives and empire building (Birkinshaw, 1998).                                  |
| Local development agencies may provide incentives (Hood & Taggart, 1999).                      |                                                                                                               |

**Table 8:** Advantages of autonomy versus advantages of centralized structures in the literature.

**Source:** Adapted from Paterson and Brock (2002).