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Ph.D. in Business Administration and Management

MANAGING THE POST-ACQUISITION INTEGRATION PROCESS. DETERMINANTS AND VALUE CREATION

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INTRODUCTION

Managing the acquisition process is one of the most important and difficult activities actors in charge of the strategic decision making process within the organization might deal with. This assumption is especially true if referred to the post-acquisition integration process involving the acquiring and acquired companies. It represents the last stage of the acquisition throughout specific synergies take place and value related to the corporate growth of the firm is created. Furthermore, it is also important to read this assumption looking at the scenario characterizing the modern economy, in which firms need to grow if they want to face the dynamism of the environment and build those firm specific competences required to gain and sustain a competitive advantage.

Scholars and practitioners are recently questioning themselves about the opportunity of improving the comprehension of the management of the acquisition process and the answer is generally univocal: even if many acquisitions are still completed, many of those operations still fail and value is destroyed because of some mistakes managers, and firms in general, do not fairly take care of. Of course, this answer is another question itself, but it clearly reveals the need for a deeper understanding of the management of the acquisition process. Strategic management literature has only recently enlarged the debate related to this crucial

topic, emphasizing a managerial perspective of the acquisitive growth strategies. In particular, such a managerial perspective has partially ousted a financial perspective through which acquisitions were essentially associated with the economic returns the acquiring companies were able to obtain. What now researchers are focusing on would be the strategic management of the acquisition process that is which the strategic factors affecting the acquisition success or failure are. On this matter, research has taken many steps forward, but more effort is still required to the extent of comprehending the relationship between causes and effects of the acquisition failure.

Given the above considerations, the present study would have the aim of providing new insights for untangling the management of the acquisition process. In particular, it would take into account some strategic factors that prior empirical research has rarely investigated. Looking at the strategic management literature focused on the acquisition process, as well as analyzing the empirical evidence related to the Italian market of the acquisitions provided the opportunity for identifying those factors which this empirical research would be based on, with the extent of stimulating the international debate on the management of the acquisition process. Of course, if new suggestions will be offered, those might be referred to as another advance scholars and practitioners can take into account in order to improve the way through which acquisitions can be managed.

Although this study and everything will be presented in it are my responsibility, I have to thank many people who provided me with many and useful suggestions, ideas and their support.

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I. ACQUISITIONS AND PRACTICE

1. SOME GENERAL CONSIDERATIONS

The economic scenario which has characterized the last two decades can be considered the natural evolution of the last two centuries. During this period people have benefited by an increasing level of general welfare due to the innovations related to many sciences. At the same time, this process has not been lacking of expenditures and difficulties that in some circumstances have not yet found a solution. The above scenario is the same within which entrepreneurs, firms and large organizations have developed their productive processes, having to react to continuous environmental changes. Within such a dynamic context, firms which were able to reach a higher level of "pro-activity" were also allowed to gain a competitive advantage over competitors. In other words, firms have had to develop specific competences to recognize and solve problems before those showed themselves. A primary issue, at this early point, can be twofold: what a firm had and has to do to sustain its competitive advantage over competitors, and what a competitive advantage really is. Both these questions have important implications for practitioners and researchers as well. In particular, the former seems to be directly related to the managerial process through which CEOs, vice-presidents, project

managers or entrepreneurs try to safeguard their own and other stakeholders' interests; the latter is one of the most untangled questions in the strategic management field that is still committing researchers and scholars. However, this partition between practice and theory must not be misunderstood. Both managerial implications and theoretical propositions are critical and fundamental issues for untangling the origins of competitive advantage. As two opposite sides of the same coin, the first can not exist without the second, and vice versa. The above argument is broad but necessary at the same time, because it introduces some of the topics will be treated in this study. In fact, competitive advantage, strategic management, managerial implications are just few terms which will be frequently utilized to the extent to offer some insights on the strategic and managerial processes characterizing small, medium and large organizations as well.

Both managers and researchers, for example, are still questioning about what the best practices and roles are for enhancing such a specific pro-activity. By a managerial point of view, this means firms can analyze and chose different strategies through which obtain above-normal economic performance. In brief, the normal economic performance definition, as well as above-normal or below-normal economic performance, relies on the notion that an organization is an association of productive assets (including individuals) who voluntary come together to obtain economic advantages[1]. Therefore, the owners of these resources expect to receive incomes higher than the price, or in general the value, they paid to provide those assets. If this difference is positive, then the firm is achieving an above-normal economic performance (Table 1.1).

Table 1.1. The relationship between the expected value of a firm's resources, their actual value, and a firm performance

Normal Economic performance	When a firm generates economic value with its resources equal to what owners of those resources expect
Below-Normal Economic performance	When a firm generates economic value with its resources less than what owners of those resources expect
Above-Normal Economic performance	When a firm generates economic value with its resources greater than what owners of those resources expect

Font: Barney, 2002

[1] The notion of normal economic performance presented and utilized in this study is in Barney J. B., 2002, *Gaining and sustaining a competitive advantage*, 2nd ed., Prentice Hall, Upper Saddle River, NJ; pp. 26-28.

Much attention must be posed on the difference between this notion of economic performance and the above competitive advantage. Indeed, a first suggestion can be proposed: a firm able to achieve an above-normal economic performance is not necessarily gaining an advantage over competitors. Such firm is well managing its resources and it is satisfying its stakeholders at least in the short-term; it is different and much more difficult to comprehend whether the same firm will be able to sustain this higher performance level throughout the long-term, and especially whether it will have achieved a dominant position within its core industry. This not to say that competitive advantage is a long-term above-normal economic performance, neither a dominant position (i.e. a higher market share) in a specific industry or market. Competitive advantage, as mentioned above, is not a so easy notion; at the same time, it must be underlined the difference between economic performance and competitive advantage.

Therefore, one of the first tasks required to mangers at any level of the organization is to define the strategic orientation of the firm[2]. Broadly, this process consists of the decision making process through which organizations define internal guidelines (i.e. all the rules governing the relations between individuals, teams or, in general, internal stakeholders *intra* the organization) and external guidelines (i.e. all the exogenous rules governing the relations between the organization itself and external stakeholders). For example:

- the market/industry in which to operate;
- the products (goods or services) to offer;
- the target customers to whom offer their products;
- the relationship to develop with their customers.

Once managers have defined the corporate orientation, which may be considered "*what*" firm wants to do, the next step will be to understand "*how*" to do it. In particular, understanding how firms should be allowed to achieve their objec-

[2] Define the strategic orientation of the firm is not just a prerogative of managers. Herein, it is referred to the management as the most comprehensible and broad notion of individuals or teams or units which are in charge of the decisional power within an organization. For example, small and medium enterprises (SME) have a very narrow management; often, it is possible the only owner should have the total control of the decision making process.

tives depends on many factors affecting the decision making process. It should be worthless to make a long and tedious list of those factors, because this is not the main aim of this study. Herein, what is important to know is that greater part of the decision making process relies on the environmental context in which firms operate, and on how the firm specific resources manage themselves and are managed to react proactively to such dynamic environment. In other words, it is not strange that resources have to manage themselves too; organizations, as mentioned above, are an association of productive assets among which human resources play a critical role. For example, managers or employees are repositories of the firm specific knowledge through which the productive process is implemented. For example, tacit knowledge is embedded in individuals and organizations. Therefore, it is of primary importance that individuals should be able to organize themselves if firms do not want to waste the opportunity for gaining a competitive advantage. Such a competitive advantage relies on the ability by organizations to share knowledge, and in general resources, inside and outside their boundaries as well. In other words, managing the relationship between each level of the organization and between every single employee represents the way to build strong linkages within the organization. Such linkages want to be a means to ensure knowledge may be transferred and value may be created. It is clear that different levels of the organization will manage different information; the higher the level, the greater will be the importance of the strategic choice for the decision making process. Furthermore, whether an organization will necessitate of sharing its resources outside its boundaries, it will broadly depend on two different factors. First, the strategic relation that a firm has developed with external shareholders; an example is represented by the customer care service through which companies manage fundamental resources, such as trust, loyalty, or satisfaction of their customers. Secondly, the general strategic orientation of the firm. This means that a company can decide for a particular strategy through which it will safeguard its own interests.

In sum, this study points the attention on the strategic decision making process, that is the way a company can be managed. In fact, it is important to compre-

hend which the strategies are that fit as better as possible the dynamic context in which a firm operates. In particular, the aim is to focus on the analysis of the external growth strategies, and the relationship between these strategies and the opportunity to gain and sustain a competitive advantage.

It's clear that many notions presented in this introduction may seem difficult to comprehend or, at least, they have not yet been examined thoroughly, even by a theoretical point of view. Next paragraphs and chapters will give a deeper representation of what, for instance, competitive advantage, decision making process, external growth strategies, or value creation process are; which the important role of firm specific resources is, and especially how these resources have to be managed *intra* and *inter* organizations for achieving a competitive advantage. This aim shall be gained through an empirical analysis, based on theoretical support.

2. EXTERNAL GROWTH STRATEGIES

2.1. STRATEGIC MANAGEMENT AND CORPORATE STRATEGIES: THE NEED FOR CHANGE

The modern economics is characterized by a greater variance in the needs and opportunities coming from all the actors involved in the market bargaining. Organizations that want to survive must continuously adapt their characteristics to this trend, if they don't want to lose the opportunity to lead on the edge. First of all, organizations' characteristics depend on the strategic orientation chosen by the management. In particular, strategies are defined and implemented looking at internal and external factors affecting the decision making process, such as firm specific resources, customer needs, industry or product innovation rate of growth, time to market, etc. All these conditions are the base on which the corporate strategy can be developed. Secondly, if organizations have to react to the above factors, the problem is to select the best strategic approach.

During the past decades, firms have been required to enhance their grade of flexibility to respond to the increasing innovation, and competitiveness of the

market. On the one hand, flexibility is commonly related to the dimension of the organizations; the larger is the firm, the lower can be the aptitude to rapidly change the organizational structure. This can be true, but on the other hand flexibility has not been the only or the more important and critical tie affecting firms strategic behavior of the firm. Often, many small and medium enterprises (*SMEs*) are not allowed to anticipate, prevent and respond to environmental changes because of the lack of critical resources. Such resources embody the capabilities through which firms can identify the moment to adapt the organizational structure, for example reducing the number of employees or implementing job rotation strategies, or acquiring new technologies or divesting old immobilizations. The smaller are the firms, the more difficult is they might possess strategic resources. The problem can show itself with different connotations: a) firms are too small for already having particular resources; b) firms are too small for comprehending that they already have those; c) firms realize the need for adjusting their resources endowment, but they are not able to do it because of the high cost of this operation.

All the above circumstances suggest the requirement for a firm adaptation to the environmental changes. At the same time, this process can be very expensive in terms of time to change as well as financial expenditure. Again, SMEs are in a more critical position then larger companies, because they have not so many financial resources (i.e. cash), or they are much more constrained with the necessity to rapidly adapt their structure. Therefore, time and financial resources can be considered two critical factors affecting the corporate strategy of a firm, especially with reference to the SMEs. SMEs must be able to front these problems whether they would retain their market power and, in general, whether they would achieve performance which allows them to live in such dynamic environment. Time and financial structure, in other words, represent two variables which influence the corporate decision making process and consequently the corporate structure of the firm. Therefore, SMEs have to decide how to react to the above environmental dynamism, that means they must understand what the best strategy might be to make up for their lack of strategic and critical resources. The lack itself of particular resources has to be identified with the necessity to increase the quantity of, or

to verify the characteristics of the resources endowment. This implies at that time firm specific resources are not enough, and something has to change. Looking at the economic scenario on the one hand, and the above arguments on the other, it seems these conditions have been reasoning for the development and dominance of the larger companies upon the smaller. More specifically, larger companies already own specific resources which allow them to face the environmental change. This is why more often SMEs are implementing strategies through which it might be possible to enlarge and adjust their resource endowment, that can be said they are trying to become larger. Such strategies are typically labeled as *growth strategies*.

Growth strategies are strictly related to a firm's performance, as revealed by analysts and managers in the last years. In particular, growth has been considered a critical issue allowing organizations to compete on the edge. More over, growth is influenced by four factors which are essential for implementing such a strategy (Conca, 2001). First, a firm is able to grow if the increasing level of its market share is related to the increasing level of the industry in which it operates. This means growth strategies are also important because firms are more likely to quickly exploit the market expansion, reducing the risk of a delayed entry (Pivato, 2003). Second, growth strategies are strictly related to a firm's *Research and Development (R&D)* expenditures (Baysinger and Hoskisson, 1989; Hoskisson and Johnson, 1992; Hitt, *et al.*, 1991; Hill and Snell, 1988; Hakanson, 1995): the greater the R&D investments, the higher the chance to grow. Third, firms who really want to grow have to develop specific capabilities typical of a *fast follower*. In other words, firms have to learn how to identify as fast as possible which organizations were able to comprehend the market evolution, and consequently replicate their strategies. In particular, this is a peculiarity of SMEs, which can exploit their higher flexibility to follow larger companies and try to grow as well (Conca, 2001). Finally, but most important, growth should be better implemented even through external strategies; external growth strategies, in fact, allow a firm to obtain the resources and capabilities related to the above three points.

2.2. THE ALTERNATIVE PATHS: INTERNAL OR EXTERNAL GROWTH STRATEGIES

Growth strategies have many specific characteristics, but at the same time it must be understood that growth is just one of the strategic options managers, and firms in general, can take into account during the decision making process. Many other strategies can characterize a firm's strategic orientation, but corporate growth wants to be the topic of the present study. This is because of the above mentioned reasons, that in one word can be argued as one of the most actual, effective and efficient ways mangers have for achieving the organization's interests and for reacting to the external factors affecting the decision making process.

At the same time, growth strategies might be explored by multiple points of view. Growth, in fact, is not a unique strategy, and managers are allowed to select between different alternatives fitting the idiosyncratic characteristics of the firm. Referring to the huge literature that has analyzed this topic, growth strategies are usually classified in (Faulkner, 1995):

- *internal growth strategies*: firms grow exploiting internal specific resources. These resources can be considered both firm's specific capabilities and assets;
- *external growth strategies*: firms do not possess specific resources through which it should be possible to grow. The available solution is to *acquire* such resources (i.e. capabilities and assets) on the external market;
- *contractual* (or *collaborative*) *growth strategies*: firms do not possess specific resources and they may obtain those through contractual alliances, or in general accords, with other companies.

The most important partition is between internal and external growth strategies, that are considered as the "real" way to grow. Furthermore, although similarities between external and contractual growth strategies do exist, it is important to comprehend and underline which the differences are. In particular, the discriminating factor can be thought as the shift in the property rights of the resources gained through one of these strategies. The external growth strategies are based on the *acquisition* of other firm's resources, whereas the implementation of a specific operation implies the change of the owner of such assets; on the other

hand, contractual growth strategies are based on the existence of an agreement between the counterparts for exploiting particular resources. Indeed, it is not required that the property rights of particular assets should be sell to the counterpart.

In general, internal growth strategies present the following advantages. The decision making process is recognized as very simple and flexible; in fact, it is possible to easy select the optimal combination of resources to be exploited, in terms of strategic and financial resources as well. It is very difficult there should be any integration problems; in other words, the pre-existing organizational structure will be easily integrated after the internal growth strategy will be realized. Moreover, internal growth strategies are generally more efficient in terms of transactional cost savings. At the same time, the above internal growth strategies advantages reflect those that are the external growth strategies problems and limitations. For example, it is often difficult to comprehend if the financial structure of an acquisition will reflect the effective potentialities of the bidder company, that means if that company will be able to gain positive returns after the operation. More complicated are the post-acquisition integration problems. In fact, the integration between two different realities, as the companies involved in the acquisition process may be, has generated strategic, organizational, and financial difficulties literature has tried and is still trying to analyze and solve.

More deeply, this study would point the attention on the external growth strategies. In particular, the analysis will take into account how external growth strategies can be implemented through acquisitions, whereas acquisitions represent one of the most popular modes that managers can consider to allow a firm to grow (Barney, 2002). However, internal or contractual growth strategies will be briefly considered in the following paragraphs to compare which advantages or disadvantages may exist in spite of the external growth strategies in general, and the acquisitions in particular.

2.3. THE FOCUS ON ACQUISITIONS

Often, acquisitions are associated with merger operations, even if some differences do exist. Acquisitions can be considered as the first step through the inte-

gration between two or more parties; acquisitions imply that the property structure of the involved companies tends to change because of the shift in the ownership of specific assets. Mergers, on the other side, represent the effective and formal integration between these two or more entrepreneurial entities. Mergers, in other words, are the formal conclusion of the acquisition, although merger in practice is not necessarily required[3]. In sum, this study wants to focus on the acquisitions as an instrument through which it should be possible to achieve the strategic objective of growth. Acquisitions, in fact, anticipate mergers within the complex decision making process leading to the growth of the firm.

Acquisitions have been studied for long time because of the great importance they have detained during the past decades. In particular, during the last century these operations have followed an alternating path which has showed different expansion periods, each of those being characterized by different peculiarities. Literature usually divided the last century in several waves of acquisitions (Bryer and Simensky, 2002; Haspeslagh and Jemison, 1991; Ravenscraft and Scherer, 1987). For example, the early years of the twentieth century have been labeled as the wave of "*mergers for monopoly*". During this period many industries have been dominated by the amalgamation of several competitors which have created few monopolistic companies. Such industries were steel, electrical products or the oil industry. During the thirties, a second wave has highlighted the shift to a "*mergers for oligopoly*". Companies being the number two of several industries have started a process of aggregation to react to the monopolistic power deriving from the

[3] The separation between mergers and acquisitions has not always to be emphasized; it especially depends on the different regulations existing in each country. For example, within Anglo-Saxon countries the terms "*merger and acquisition*" are usually considered as equivalent, so that the acquiring and the acquired companies are respectively labeled as *incorporating* and *incorporated* companies (Gaughan, 1991). Moreover, the term *merger* is used referring to the combination of equal-sized firms, while *acquisition* tends to be used for the takeover of one firm by the other (Haspeslagh and Jemison, 1991). The Italian context presents another case, whereas the legislator distinctly separates between *acquisition operations* and *merger operations*. In particular, acquisitions consist of the transfer of the property of a company, or of the total assets utilized for the productive process from an actor to another. Mergers, on the other hand, can be realized through two distinct ways: a) *incorporation*: if *Company A* incorporates *Company B*, the former will continue to exist, nor the latter; b) *consolidation*: if *Company A* merges *Company B*, it shall be born *Company C*, nor *Company A* neither *Company B* will exist anymore. However, if there is no reference to the juridical differences between the two forms of operations, the terms merger and acquisition can be utilized as synonymous (Haspeslagh and Jemison, 1991; Conca, 2001).

precedent wave. A third wave has been revealed during the sixties. This wave has been characterized by a "*conglomerate*" stream of acquisitions. In particular, companies have started a deep flow of *unrelated acquisitions*[4] by acquiring businesses operating in different industries. This is the period of a huge development of diversification and refocusing strategies that will characterize the next years. During the eighties, a fourth wave has been emphasized. Following the diversification mode of the previous wave, and exploiting the ebb of the antitrust enforcement, larger horizontal acquisitions were concluded. This has also been the period during which financial intermediaries have started to appreciate acquisitions and have became more expert of the kind of operations they would support. In particular, this has been a period of great acquisitions mainly financed by leveraged transactions. Great part of those leveraged transactions has relied on the financing provided by the *junk bond* market that has risen throughout all the decade, only to fall down at the end of this period (Bryer and Simensky, 2002). The fifth and last wave, started almost on the early nineties (Hitt *et al.*, 1998), has played an important role because of the advance of the European market of acquisitions; until that period, in fact, the American market of acquisitions has dominated the global scene and the idea of cross national acquisitions has been long thought as a trans-oceanic prerogative. It is reasonable, instead, that the increasing lower level of the European Union nationalistic frontiers and the enhancement of a unified market have shifted the attention on the organizations operating within the old continent. During the last two decades European companies have concluded many of the biggest deals ever seen before[5], suggesting the interest by the most important organizations about the growth strategies through acquisitions. At the same time, the increasing number of operations can be thought as a rising interest by the smaller,

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[4] *Unrelated acquisitions* and their critical importance for the managerial acquisition process will be treated more deeply in the following chapters. See *infra*, Chapter III, § 3.1.

[5] The most representative example is the *Vodafone-Mannesmann* $183 billion hostile takeover during the 2000, which showed the greatest deal ever seen until that moment.

or at least not larger, companies which have started to consider the opportunity to grow[6].

Whatever the historical or strategic reason at the base of an acquisition, such operations present specific advantages that lead organizations to prefer them in spite of other growth strategies. Haspeslagh and Jemison (1991) argued that these operations [...] *can help a firm renew its market positions at a speed not achievable through internal development. They can provide an ability to gain all the benefits from combining assets and sharing capabilities in a way not obtainable through partnerships. More profoundly, however, acquisitions can bring into a company capabilities a firm can find hard to develop, or they can provide the opportunity to leverage existing capabilities into much more significant positions.* In sum, this is how literature always highlights the benefits related to acquisitions, considering the opportunity to implement alternative growth strategies, such as internal development or partnerships. In fact, internal development and partnerships are the most popular example of the above mentioned internal and contractual growth strategies. It is also recognizable acquisitions are not so perfect as they should seem herein; of course, acquisitions reveal their limitations and weaknesses, as well as internal growth strategies present other advantages. The choice between the former and the latter will always depend on a very long, organization specific and environmental related list of factors that probably will never be possible to generalize[7].

3. Acquisition performance

3.1. The post-acquisition integration process

During the past years different research streams have emphasized the importance of deepening the comprehension of the acquisition process. In particular,

[6] Great attention would be posed on these last suggestions. In particular, the cost of the operations and the size of the companies involved in the acquisitions will be of crucial interest for the analysis presented in this study. See *infra*, Chapter III, respectively § 1.2 and § 3.2.
[7] Internal and external growth strategies have been briefly presented above. See *supra* § 2.2.

both financial and strategic management perspectives have been taken into account by researchers, in order to identify the critical factors affecting these operations. More deeply, empirical researches on the financial aspects of mergers and acquisitions have been typically based on the shareholder's returns, gained through the positive variation of the share-prices (Jensen and Ruback, 1983). These studies have dedicated much more attention to the market for corporate control and its influence on the operations. More recent empirical work showed evidence that average abnormal returns to the acquiring firm are either statistically equivalent to (Loderer and Martin, 1982) or lower than zero (Agrawal *et al.*, 1992).

On the other hand, the strategic management perspective has pointed the attention on the factors which might influence the acquisition performance. In particular, researchers have studied the impact of resources and capabilities within the firm on the acquisition performance (Chatterjee, 1986; Singh and Montgomery, 1987; Lubatkin, 1987; Seth, 1990; Dyer *et al.*, 2001). Within this field, several theories have supported the analysis of the acquisitions. An example is the *Resource based view of the firm (RBV)* which highlighted that benefits of the acquisition do not derive just from economy of scale, but also from strategic synergies (Larsson and Finkelstein, 1999). The same strategic synergies seem to influence not all the acquisitions, but just acquisition performance and corporate strategies in declining industries (Anand and Singh, 1997). Although these researches contributed to develop the explanation of the external growth strategies, they pointed out especially the reasons which lead to choice acquisitions, mergers or alliances. Instead, much less attention has been dedicated to the post-acquisition integration process, that is much important to understand how create value, or why value is destroyed (Jemison and Sitkin, 1986a; Haspeslagh and Jemison, 1987 e 1991; Singh and Zollo, 1999).

The post-acquisition integration process can be considered the most important phase of the overall acquisition, through which firms are able to create value. The contributions by Jemison and Sitkin (1986a), and Haspeslagh and Jemison (1991), for example, can be considered the source of a new literature on the external

growth strategies (with special attention to the acquisitions), from which many other contributions have been developed. These authors have clearly highlighted two fundamental aspects: the integration between acquirer and target firms as a process, and the long term as landmark for the value creation. In particular, the *process perspective* recognizes the acquisition process itself as a potentially important determinant of activities and outcomes. It can supplement a choice perspective adopted by acquisition scholars and practitioners, which considers acquisition opportunities as a rational decision maker (Jemison and Sitkin, 1986a). Haspeslagh and Jemison (1991) have later emphasized the importance of the post-acquisition integration process, resuming Jemison and Sitkin's intuition. They also introduced the distinction between *value capture* and *value creation* through the acquisitions: the shareholders of the acquiring firm can capture value in the short term, but the value creation through an acquisition must necessarily be considered a different condition. In particular, value can be created through the ability to form and consequently manage the operation. This is why the ability to manage the acquisition process and especially the post-acquisition process can be considered the source of a competitive advantage over competitors. Indeed, acquisitions create value for both the involved firms if they will continue in the long-term.

Many other contributions have been developed in the past years, highlighting the importance of the post-acquisition process, and the role of the resources and competences within the firm. It has been found that the extent of resource redeployment and knowledge transfer among the acquiring and the target firms is significantly related to increased performance (Capron, 1999). Similar to this contribution, the literature has also identified two key factors which influence the post-acquisition integration process (Pablo, 1994; Datta and Grant, 1990): the degree of integration between the firms, and the degree of replacement of key strategic resources within the acquired firm. According with some authors (Hitt *et al.*, 1998; Singh and Zollo, 1999), although these factors can be considered as important variables in the construction of a theory of the management and economic performance of acquisition process, empirical researches can offer something else.

3.2. FACTORS AFFECTING THE ACQUISITION PERFORMANCE

Given the above managerial and financial literature on the post-acquisition integration process, what has to be clear is that greater work is required by both researchers and practitioners if a deeper comprehension of the acquisition process wants to be achieved. In general, prior research has investigated several aspects of the acquisition process, trying to identify the factors affecting that process as well as the managerial best practices through which organizations might be able to maximize their corporate objectives. In particular, what researchers are trying to comprehend is whether both endogenous as well as exogenous variables associated with the acquisition process might be referred to as crucial components of the acquisitive strategy. Some examples of these factors researchers are focusing on are the economic performance the involved companies are able to achieve after the focal acquisition, the dimension of the acquisition, the similarities related to the industries or markets which firms pursue in, the learning and experiencing processes managers live throughout an acquisition, the mode of payment managers exploit to the extent to obtain the financial resources required to complete the acquisition, the role some external consultants can play in order to facilitate the acquisition process, etc. Of course, prior research has given more emphasis to some of those factors, whereas in my opinion more consideration must also be given to alternative features of the acquisition process which rarely received enough attention.

The aim of the present study is to investigate the acquisition process trying to deepen some of those aspects literature is still lacking and which can offer more insights about the management of the acquisitions. At the same time, some of those consolidated variables research has already investigated will be also taken into account to the extent of supporting or denying previous considerations associated with the acquisition process. In the following pages a specific research model will be presented, which considers some of the above variables as well as a new perspective emphasizing the measurement of the acquisition performance[8]. In

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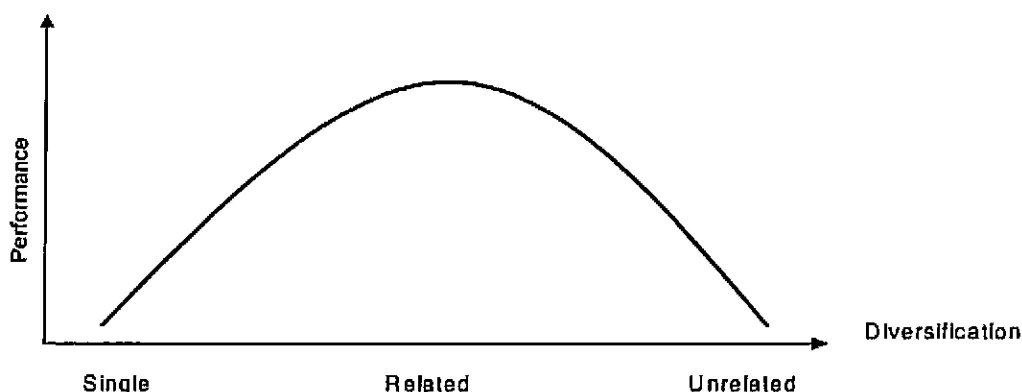
[8] See Chapter III, § 1.

particular, a managerial perspective will be followed in order to extend the comprehension of the managerial process characterizing an acquisition.

This concern is based on the consideration that sometimes prior research offered not unique results about the role specific factors can play with reference to the acquisition outcome. For example, the relatedness of the acquisition that is the degree of similarities characterizing the different industries or markets the acquiring and acquired companies are pursuing in can be considered as a good representation of the limits literature on the post-acquisition integration process still presents. In fact, although great attention has been posed on the analysis of the level of diversification characterizing the bidding companies' activity, empirical studies were not able to show unique findings. A good example is the inverted U-shaped relationship (see Figure 1.1) which recently has been suggested between the performance of the acquisition and the level of diversification of the involved companies (Palich *et al.*, 2000; Hitt *et al.*, 1990). An explanation can be that top managers often have strong knowledge of their firm's original center of gravity, but may not have the same understanding of the operations of the new industry or market (Hitt *et al.*, 1990).

Figure 1.1. The inverted-U model



Font: Palich *et al.*, 2000

Moreover, additional work is required with reference to the size of the acquisition. Looking at the relationship between the dimensions of the companies involved in the acquisition and their performance, positive as well as negative results have been provided. In general, it is not yet clear if large companies will better performance when the target firm is similar in terms of size or this factor does

not really have implications on the acquisition success or failure. Furthermore, the acquisition process needs greater emphasis with reference to the presence of an external advisor which might contribute to the acquisition outcome. I was able to find few empirical studies considering this factor and its influence on the acquisition process, even if researchers and scholars are showing greater attention for this issue (Hunter and Walker, 1990; McLaughlin, 1990; Kesner *et al.*, 1994; Servaes and Zenner, 1996; Hayward, 2002; Bergh and Wrafter, 2003).

In sum, these variables are just an example of the factors researchers and practitioners as well might consider in order for achieving a deeper comprehension of the acquisition process. Those variables will be treated in the following pages where the empirical analysis related to this study will be presented. As mentioned before, other variables will be investigated to the extent to offer new insights on the managerial process characterizing acquisitions. Such an objective will be pursued through what I consider an advantage of the present study that is the possibility and intent of focusing the analysis on the Italian business model. In fact, both the Italian market in general as well as the Italian companies in particular holds specific characteristics which make them a particular example within the economic scenario all over the world. These characteristics can be summarized, for example, in the average small dimension of the firms, in the low flexibility of the structure of corporate governance, in the high propensity to finance the activity through debt instead of private equity.

Of course, this work doesn't want to be a complete analysis of the acquisition process because of the difficulties related to this topic. The aim would be to stimulate the debate on the strategic management of the acquisition process trying to provide empirical findings which might support an alternative approach to the management of the acquisitive strategies. This approach will be presented in the following chapters of this study.

II. THE THEORY: THE RESOURCE-BASED VIEW AND AGENCY THEORY OF THE FIRM

1. FROM RESOURCES TO KNOWLEDGE: THE RESOURCE-BASED VIEW OF THE FIRM

One of the most interesting topic researchers have focused on and are still analyzing is the economic performance of the firm, and in particular the competitive advantage some companies gain over competitors. During the past years many attempts have been done to the extent to deepen the comprehension of the sources and antecedents of firm's performance, trying to understand which factors might influence the strategic and managerial decision making process. The present study is based on the *resource-based view of the firm* because we believe it contributed to identify some of the variables upon which the theory of the firm can be built. Of course, we recognize this view has been criticized (Priem and Butler, 2001a and 2001b), but at the same time the present work may offer new insights to strengthen prior and future research aiming to follow such a perspective.

Resource-based view was born in reply to the Industrial Organization view, which emphasized how industry's structure should influence the way organizations must be managed (conduct of the firm), and consequently how those could

achieve higher performance (Learned *et al.*, 1965; Ansoff, 1967; Porter, 1980 and 1981; McGahan and Porter, 1997). In fact, resource-based view suggested the focal role of the firm itself, instead of the industry's structure; therefore, firms' economic performance will depend on their specific characteristics. In particular, the attention has been pointed on the role firm specific resources play in the decision making process through which companies define their strategy (Wernerfelt, 1984; Rumelt, 1991). On this matter, resource-based view suggested that although different companies might hold similar resources, few are able to achieve a competitive advantage. Therefore, it was important to answer different questions: why it happens, which the firm specific resources allowing organizations to outperform competitors are, that is which the firm specific resource endowment should be, which the characteristic of those firm specific resources should be (Wernerfelt, 1984; Rumelt, 1984; Barney, 1986; Dierickx and Cool, 1989; Peteraf, 1993). In particular, the resource-based view has suggested the rarity and inimitability of firm specific resources upon which it might be possible to build a competitive advantage (Dierickx and Cool, 1989; Rumelt, 1984; Peteraf, 1993).

Once the crucial role of firm specific resources has been pointed out, researchers have comprehended that something was needed for achieving a good description of the firm. Then, whether resources are important, it is required to know how to manage firm specific resources. Different perspectives have been suggested focusing on the accumulation of strategic asset stocks (Dierickx and Cool, 1989) and on the importance of the managerial process (Prahalad and Hamel, 1990; Cockburn *et al.*, 2000). For example, Prahalad and Hamel (1990) highlighted that the real sources of advantage are to be found in management's ability to consolidate corporate technologies and production skills into competences that empower individual businesses to adapt quickly to changing opportunities. Therefore, increasing attention is given to the distinction between resources

and competences[9], whereas the latter represent the ability to manage and organize the former (Grant, 1991; Amit and Shoemaker, 1993).

The focus on competences and managerial process led to the proposition of a new perspective which is considered alternative but not unrelated from the resource-based view. This perspective emphasizes the role of *dynamic capabilities* (Teece and Pisano, 1994; Teece *et al.*, 1997) in a same dynamic environment. Within such a dynamic context, firms which have been able to reach a higher level of pro-activity might also been allowed to gain a competitive advantage over competitors. In other words, management has had to develop a specific capability for recognizing and solving problems before those showed themselves. In summary, the term dynamic reflects the above managerial capability to adapt the firm specific resource endowment in response to the environmental change, that is the crucial role strategic management plays in the learning, integration and changing processes leading to create, organize and adapt internal and external resources of the firm[10].

Furthermore, dynamic capabilities allowed researchers to make the last step started with the firm specific resources and arrived to the firm specific knowledge, regarded as an idiosyncratic competence of the firm. Research has also empirically emphasized the linkage between competences and knowledge (Henderson, 1994b; Iansiti and Clark, 1994). Iansiti and Clark (1994), for example, suggested that knowledge and knowledge creating process are the antecedents upon which build firm specific competences. In particular, the *concept development* allows managers to define the strategy, conceptualize the objectives, and build the architecture for creating specific knowledge; then, it will be possible to *implement* op-

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[9] Attention has been also given to the similarities or differences between capabilities and competences. We agree with who suggested the likeliness of those constructs, whereas the most important distinction must be considered with reference to the resources and competences within the firm (Hamel and Prahalad, 1994; Verona, 2000). Those authors highlighted that resources that create value for a firm are the *knowledge-based* resources, because those generate the firm specific competences.

[10] It is easy to comprehend the importance of dynamic capabilities within the acquisition process, given the unstable contest leading managers to pursue external growth strategies to develop their business, as well as the advantages related to acquisitions; the more unstable is the environment, the stronger and faster must be firm's ability to respond to the external *stimuli*.

erations that are based on the competences managers developed, that is to build resources and routines basing the process on firm specific knowledge. In other words, if competences are built through knowledge, then the antecedent of competences is the learning process (Iansiti and Clark, 1994; Pisano, 1994; Verona, 1999). In particular, learning process allows mangers to respond to the external dynamism because it may be considered dynamic itself. Then, the related knowledge can be translated in new value-creating strategies which allow organizations to respond to the external dynamism (Eisenhardt and Martin, 2000). Eisenhardt and Martin suggested that dynamic competences change as the market change. For instance, in moderately dynamic markets, dynamic capabilities are detailed, analytic, stable processes with predictable outcomes. In contrast, in high-velocity markets, they are simple, highly experiential and fragile processes with unpredictable outcomes.

Following this suggestion, it should be easy to comprehend the importance of the post-acquisition integration process. Acquisitions, in fact, are operations strictly related to the dynamism of the market acquiring and acquired companies are engaging in. In other words, firms implement external growth strategy through acquisitions to face the high instability of the market and to gain quickly and easily the specific resources which might allow them to obtain positive economic performance. Therefore, if acquisitions occur in a highly dynamic context, then managers must own dynamic competences to the extent to manage the acquisition process. In particular, some authors also suggested the existence of specific *integrative capabilities* (Singh and Zollo, 2000; Verona, 1999; Kogut and Zander, 1992) which relay on the learning process characterizing the acquisition and the previous acquisition experience of the acquiring company (Haunschild, 1993; Ingram and Baum, 1997; Haleblian and Finkelstein, 1999), as well as on the path dependence describing the resource accumulation process of the firm (Dierickx and Cool, 1989; Eisenhardt and Martin, 2000).

The knowledge crating process, therefore, depends on the learning process organizations are able to implement. In particular, learning makes capabilities consistent with the properties of rent generation (Verona, 1999), allowing compa-

nies to improve their resource endowment with competences and knowledge through which gaining and sustaining a competitive advantage. It is also important that organizations should identify the core competences among the competences created through the learning process. Leonard-Barton (1992), for example, defined the core competences as the knowledge set that distinguishes and provides a competitive advantage. She also suggests the existence of four dimensions to this knowledge set: 1) employee knowledge and skills, 2) technical systems, 3) managerial systems, and 4) the values and norms embedded in the process of knowledge creation and control.

In conclusion, the resource-based view highlighted on the one hand the way firm specific resources might contribute to create knowledge and competences within the firm; on the other, how knowledge built through the learning process might provide organizations with competences. Finally, how competences should represent one of the most important factors affecting the strategic management of those organizations which are oriented to a corporate growth strategy. At the same time, research focusing on knowledge and knowledge creating and managing processes is still far from being completed. In particular, it is not yet clear whether the competences themselves may be considered as a source of competitive advantage, nor what the best way for managing those competences is if firms want to achieve the expected results (Bergh, 1997; Verona, 1999).

2. THE CONTRACT BETWEEN PRINCIPAL AND AGENT: THE AGENCY THEORY OF THE FIRM

Many perspectives have been proposed in order to identify which factors could affect the management of the organizations. Some part of strategic and organizational literature has focused on those factors governing the relationship between different parties which often hold divergent interests. Because of these divergent interests, organizations can suffer from the opportunistic behavior that some individuals in charge of managing the decision making process of the firm might have to the extent to achieve their personal objectives. Which those actors

can be, what organizations can do in order to avoid that opportunistic behavior, what the consequences of that opportunistic behavior can be on the strategies and consequently on the performance of the firm are just few examples of how strategic management research questions are characterizing the evolution of the theory of the firm.

The most important research stream emphasizing the importance of the potential conflict existing between different parties within and outside an organization is well known as the *agency theory of the firm*. Agency theory was born during the first half of the past century, when thanks to the research by Berle and Means (1932) strategic management and organizational researchers started to take into account the problems arising from the separation between owners and managers within the firm. In particular, the increasing development of large corporations was the factors emphasizing that separation, whereas always more often owners were less interested in managing the firm, preferring to delegate the management of their companies to external actors; the latter, on the other hand, were usually interested in achieving their self interests instead of contributing to gain and sustain above-normal economic performance of the firm. This divergence of interests, as mentioned, has stimulated the attention of researchers who have started to deepen the analysis of the strategic implications that conflict could have on the management of the firm and its performance. In fact, agency theory has been used by several scholars in several disciplines as well; it has contributed to offer an alternative perspective through which the comprehension of the organizations has been improved and enlarged.

In sum, the emphasis on the separation between ownership and control within the firm has been later improved by the proposition of a new construct, the so-called agency problem. An agency problem occurs when cooperating parties have different goals from which an agency relationship originates. In particular, an agency relationship is defined as a relationship in which one party (the principal) delegates work to another (the agent), who performs that work (for a deep review on the agency theory, see Eisenhardt, 1989).

More specifically, the agency relationship can generate two different problems. First, the agency problem mentioned above, and strictly related to the divergent goals owners and managers or in general principal and agent might have, whereas it can be very difficult and expensive at the same time for the principal to verify what the agent is actually doing. Second, the problem of risk sharing occurring when the principal and agent have different attitudes toward risk. Usually the principal and agent have different strategic orientations which are generally associated with different risk preferences as well. It will depend on several factors having a direct influence on the strategies the firm will realize. An example can be the size and relatedness of the firms influencing the strategic orientation of those companies being about to implement diversification strategies. It has been verified that managers and owners will decide for divesting or retaining the target companies which present different size and operate in different industries or markets. In particular, ownership concentration has been found to be positively associated with the sale of unrelated and small units (Bergh, 1995). Given these two problems, the agency theory tries to investigate the way the relationship between principals and agents can be managed. In other words, if the presence of a contract between principal and agent can be hypothesized, the focus of the agency theory is on determining the most efficient contract governing this relationship (Eisenhardt, 1989). Eisenhardt (1989) suggested a twofold question, considering the dilemma of the agency theory as a behavior-oriented contract or an outcome-oriented contract. The problem can be which of these two orientations can be the more efficient, and consequently whether individual-related factors can be more influencing than corporate-related factors on the conclusion of the agency contract.

Looking at prior research, agency theory has been especially developed along two lines: positivist and principal-agent. The positivist research stream can be directly related to that prior research which has been emphasized in this study as the first stream focusing on the agency relationship (Berle and Means, 1932). In fact, positivist research stream gave almost exclusively great attention to the principal-agent relationship between owners and managers of large, public corporations. Referring to that agency relationship, positivist researchers have been most con-

cerned with describing the governance mechanisms that solve the agency problem. Looking at the corporate governance of large corporations, Jensen and Meckling (1976), for example, emphasized the need for linking the management of the firm to its ownership. If managers have a direct connection to the ownership of the firm their managerial opportunism will decrease. In general, that is a good example of how governance mechanisms associated with the structure of corporate governance might influence the agency relationship in a way that incentives the resolution of the agency problems. Secondly, the positivist research stream focused on the crucial role information systems play if the principal is trying to control what the agent is actually doing and curb his or her opportunism. Positivists regarded the information systems as any mechanism through which principals can be allowed to control agents' opportunistic behavior. For example, information systems can be the information effects of efficient capital and labor markets (Fama, 1980), as well as the information deriving from the role that boards of directors play in controlling managerial behavior (Fama and Jensen, 1983).

On the other hand, the principal-agent perspective represents a broader explanation of the agency relationship. In other words, if the positivist research stream emphasized the specific case in which principal and agent operate within large, public corporations, the principal-agent perspective extended the agency relationship to other and more general categories; for example, it has been applied to employer-employee, lawyer-client, and buyer-supplier. In general, the focus of the principal-agent literature is on defining the more efficient contract between the principal and the agent. Following this perspective, it is clear that the agency relationship is basically governed by a twofold conflict between the principal and agent. On the one hand, these actors usually have opposite interests that lead to different goals. Consequently, their divergent position in terms of objectives they identify with reference to the management of their companies has a specific repercussion on the level of risk propensity both the principal and agent show. Furthermore, many are the factors literature highlighted which might influence the goals and risk propensity of the principal and agent; those are related to the kind of contract surrounding the agency relationship. As mentioned before, the con-

tracts which the agency relationship is generally based on can be behavior-oriented or outcome-oriented contracts; some examples of factors influencing the contracting between principal and agent that prior research highlighted are represented by the task programmability, length of the relationship, measurability of the outcome which are positively as well as negatively related to the choice for behavior-oriented instead of outcome-oriented contracts.

Given these two research streams characterizing the evolution of the agency theory, the present study would follow the principal-agent research stream. The aim would be to investigate a new agency relationship which takes into account the acquisitions as the most popular mode for implementing corporate growth strategies. Considering the acquisitions as a unit of analysis is a way to explore the agency relationship which might exist between the bidder and target companies. In particular, bidder and target companies are likely to have different interests if we look at the objectives leading to an acquisition. For example, the bidder companies are usually stimulated by several factors, such as an increase in the market power, the acquisition of innovative technologies and brands, the integration with suppliers or clients along the value chain, etc. On the other side, target companies are more willing to avoid the acquisitions for several reasons as well; for example, these reasons might be the rigid structure of corporate governance that means low propensity to the presence of external actors inside the firm, the loss of power by the acquired management, the alteration in the corporate strategies, etc. Moreover, the existence of this acquisitive agency conflict can be well represented with the price bargaining related to the acquisition. Bidder and target companies exert all their influence to the extent of completing the acquisition at the best price (Barney, 2002). Of course this price will tend to decrease if the bargaining process is driven by the bidding company, and to increase if the target company is able to exert a stronger influence on that process.

In sum, agency theory is an empirically valid perspective, particularly when coupled with complementary perspectives. Eisenhardt (1989) suggests to incorporate an agency perspective in studies of the many problems having a cooperative structure, and acquisitions might be intended as a way through which organiza-

tions tend to the common objective of growth. On this matter, many studies have used the agency theory in order to deepen the comprehension of the acquisition process. Some authors have considered the agency conflict between owners and managers within the firms involved in the acquisition (Amihud and Lev, 1981; Kroll *et al.*, 1997; Wright *et al.*, 2002). In particular, they argued that the control owners or managers might exert on the firm could have an influence on the kind of acquisition; of course, this relation was strictly associated with the agency theoretical conflict existing between managers and owners. They found that manager-controlled firms engaged in significantly more conglomerate, but not more related, acquisitions and were more diversified. Furthermore, looking at the possibility to resist or suffer a takeover, Walking and Long (1984) highlighted that managers who have substantial equity positions within their firms were less likely to resist takeover bids. Other studies focused on the incentive managers might have to the extent to implement decisions consistent with the interests of stockholders (Agrawal and Mandelker, 1987). Their findings suggest that managers prefer lower risk acquisitions and lower debt financing; that is, executive stock holdings appeared to coalign managerial preferences with those of stockholders.

In general, this literature emphasized the possibility to enlarge the comprehension of the acquisition process through an agency theoretical perspective, whereas the agency theory implies the existence of a potential conflict between two alternative parties. The problem, as suggested by the principal-agent perspective of the agency theory, is to find and investigate a new category of principal and agent in order to suggest and deepen a new vision of the acquisition process.

3. HOW RBV AND AT SUPPORT THE MANAGEMENT OF THE ACQUISITION

In the above pages two theories have been presented, the resource-based view and agency theory of the firm. Those theories represent the base which this study would be built on, whereas this idea resides in several reasons. First, this study has the aim of investigating the process leading to the acquisition success or fail-

ure that is to measure whether the management of the acquisition can exert some influence on the outcome of the operation. In particular, managers will have the possibility of exploiting different firm specific resources through which they might ensure the achievement of their objectives. In this study the attention will be posed on some of those resources, which are considered as crucial and less investigated at the same time by prior research to the extent of enlarge the debate on the management of the acquisitions. Of course, such intent will require a resource-based perspective of the managerial acquisition process, whereas the resource-based view of the firm is considered as that theory through which the economic performance of the acquisition can be measured. Second, following the principal-agent perspective presented above, a potential agency relationship would be offered in this study, whereas the acquisition itself is used as a unit of analysis. This agency relationship is supported by the idea that bidding and target companies have divergent interests from which a potential agency theoretical conflict derives, both these actors pushing to the achievement of their self interests. The former will be interested in leading the acquisition and achieving the strategic and managerial control of the target; the latter will generally be driven by a defensive managerial behavior to the extent of avoiding or at least limiting the consequences on their organizational structure after the acquisition. Then, if this agency conflict exists, a solution there might be in order to limit the opportunistic way both acquiring and acquired companies behave, because of the negative consequences that behavior might have on the acquisition process as a whole. Third, integrating these two theories is required in order to answer several questions: does an agency theoretical conflict between bidder and target companies exist, and is it really possible to solve it? What kind of resources does play a crucial role in the management of the acquisition? Do managers have the power to influence the acquisition process?

These are just few questions literature on the acquisition process is trying to investigate, even if great work is still required. This study would suggest a new perspective based on the analysis of specific resources as well as on the way to compute and measure the acquisition success or failure. This analysis will be more

deeply presented in the following chapters, whereas what now is important is to comprehend how the above theories supporting this analysis might be combined. In particular, this integration between resource-based and agency theory of the firm will be presented in the following paragraph (§ 3.1) looking at the predictors of the analysis, that is those specific resources investigated in this study.

3.1. INTEGRATING RBV AND AT OF THE FIRM: A NEW PERSPECTIVE

In the present study, the attention would be posed on two specific factors affecting the acquisition process. In particular, the analysis of prior literature focused on the acquisition process, as well as the investigation of the empirical evidence related to the acquisitive operations have driven my attention to the control the involved parties might exert on the acquisition process and to the management of the acquisition financing[11]. Both these factors have been taken into account looking at the managerial implications they can have to the extent of influencing the acquisition success or failure. In fact, this is also the rationale surrounding the idea of acquisition process (Haspeslagh and Jemison, 1991), whereas the management of the acquisition plays a crucial role as much as other perspectives (i.e. the financial outcome of the acquisition, the organizational structure of the involved firms, etc.). This managerial perspective would have a twofold advantage. On the one hand, it would be an attempt for investigating some specific variables which have been rarely focused on by prior research to the extent of suggesting new insights; on the other, a managerial model might be structured with the aim of improving the theoretical as well as practical comprehension of the acquisition process. In particular, managers and scholars might take advantage of considering the intersection between these two specific factors investigated in the present study, in order to comprehend the influence they can have on the relation between firms' characteristics and the management of the firm. Such a model, of course,

[11] These two factors will be specifically presented in the following pages. In particular, see Chapter III, § 2.1 for a deeper comprehension of the control of the acquisition and § 2.2. for the financing of the acquisition.

will have the theoretical support of those theories, the resource-based view and agency theory of the firm, which this study has been based on.

The choice of the control and financing of the acquisition has been driven by the analysis of the resource-based view and agency theory of the firm. In general, the former suggested the need for focusing on firm's specific resources allowing the organization to obtain and sustain a competitive advantage; the latter indicated that a potential agency conflict there might be between the parties involved in the acquisition, whereas if this conflict does exist, then those parties have to converge to a potential solution of that conflict. In particular, relating those theories and their assumptions to the acquisitive process shifted my attention to the importance of investigating the way acquisitions can be managed whenever some specific conditions exist; that is, controlling and financing the acquisition represent two significant phases and conditions as well of the management of the acquisition process as a whole through which all the stakeholders can reach their specific interests. Of course, controlling and financing the acquisitions are two separate moments of the acquisition process which are strictly related as well, depending on their specific characteristics. That means, the management of the acquisition process will depend on the kind of financing form trough which financial resources were obtained in order to complete the acquisition, as well as the control the involved parties will be able to exert on the acquisition process allowing them to influence the way the acquisition might generate an advantage over competitors. Moreover, these two phases will have a combined effect on the acquisition process, whereas controlling and financing the acquisition might lead to the acquisition success or failure if some conditions will be respected. In the following paragraphs, these specific conditions would be suggested to the extent of offering a managerial model which might synthesize the conditions through which both the acquiring and acquired companies might improve the acquisition process and the acquisition outcome as well. More specifically, the characteristics of the control of the acquisition (§ 3.2) and of the form of financing of the acquisition (§ 3.3) will be presented and discussed in order to suggest how they interact for the best managerial practice associated with the acquisition process (§ 4).

3.2. IS THE CONTROL IMPORTANT FOR MANAGING THE ACQUISITION?

Prior research emphasized the possibility of influencing the performance of the firm if people are able to control some firm specific resources. In particular, the corporate control has been defined as *the power to govern the management of firm resources* (Jensen and Ruback, 1983). That means people controlling that power might be in charge of influencing the corporate strategies and their performance. Transferring this assumption from a general organizational level to the specific case of external growth strategies implemented trough acquisitions is a way to provide some new arguments. First, whether the control of the acquisition can be considered a worth factor affecting the acquisition process is a general question which researchers and scholars might answer to. Secondly, which firm specific resources related to the acquisition process are really valuable has to be understood by managers and stakeholders of the involved parties if the acquisition process wants to be improved. Third, organizations have to consider the influence that the acquisition process might have on their own structure in order to underline whether that structure will be completely or partially altered, and especially which the consequences of that eventual alteration can be on the economic performance of the firm. In other words, the above considerations can be transformed in the following assumption which is based on the indication by Jensen and Ruback (1983): if the *acquisition control* is the power to govern the management of firm resources (Jensen and Ruback, 1983), then who control that power might be in charge of influencing the acquisition process and its performance.

Looking at the acquisition process and the control firms and managers can exert, some specific factors have been extrapolated that might influence the success or failure of the acquisition. In particular, the managerial commitment and the governance flexibility of the firms have been considered in this study as those factors which the attention has to be posed on in order to improve the management of the acquisition process. Analyzing the relationship that there might be between the managerial commitment and the acquisition control is to say that acquisitions can lead to different results if the acquiring and acquired companies exert a different control on the acquisition process. Following an agency theoretical perspective, in

this study I considered the acquiring and acquired companies as the opposite actors of a potential agency conflict, instead of focusing on the managerial composition of one or the other side of the operation (i.e. the bidding and target firms; Amihud and Lev, 1981; Kroll *et al.*, 1997; Wright *et al.*, 2002). Acquiring and acquired companies usually hold specific interests related to an acquisition that is the reason why so many acquisitions are still completed. In general, prior research showed evidence that average abnormal returns to the acquiring firm are either statistically equivalent to (Loderer and Martin, 1982) or lower than zero (Agrawal *et al.*, 1992). That means, only acquired stakeholders might be allowed to gain positive returns after the focal acquisition. Nevertheless, acquisitions still exist and are completed, and it is therefore important to comprehend why also the acquiring management still has interests in completing those operations. Some possible explanations can be the need for ensuring the survival of the organization, the free cash flow associated with those operations, the possibility managers directly have to benefit from the acquisition, and the so called "managerial hubris", which is the unrealistic belief that acquiring managers can manage the assets of a target firm more efficiently than the target firm's current management (Barney, 2002).

Given these advantages related to the acquisition, both acquiring and acquired managers act in a way that can allow them to reach the control of the acquisition. Obtaining the control of the acquisition can be considered as a way through which the acquisition process might be improved because of several reasons. For example, controlling the acquisition means that the firm holding that control will be more committed in reaching the acquisitive objectives than the counterpart. Therefore, the aim of this study would be to comprehend if the control of the acquisition can be the instrument through which the acquiring companies or the acquired companies will find the acquisition process easier and more profitable.

3.3. WHO WILL BETTER MANAGE THE ACQUISITION?

Managing a firm usually means to govern several divisions in charge of providing different resources a firm exploits for achieving its own objectives. Exam-

ples of these divisions are the commercial, financial, and logistic divisions, each of those contributing to the growth of the firm. Following the procedural perspective of the acquisition, acquisitions can be regarded as a representation of the firm, whereas acquiring and target companies have to manage different aspects of the process leading to the conclusion of the operation. Again, each of these aspects tends to the realization of the corporate growth objective, but great managerial effort is required in order to successfully complete the operation. Of course, also a strong connection is necessary among the several characteristics of the managerial process related to the acquisition to the extent of reaching the specific synergies characterizing an acquisition (Lubatkin, 1983; Jemison and Sitkin, 1986; Barney, 1988 and 2002; Bruton *et al.*, 1994).

In particular, one of the specific aspects that would be treated in the present study is the management of the form of financing associated with an acquisition that means which the advantages and weaknesses related to a specific form of financing are for the management of the acquisition process. In order to reach this objective, a general distinction between external and internal forms of financing is investigated to the extent of considering the managerial implications it might suggest. Considering the managerial implications of the different financing forms means to examine with what extent managers might influence the acquisition outcome. The present study would suggest the different role external managers might have, whereas those managers must be bounded to the firm by a form of equity participation (Black, 1992; Hoskisson and Hitt, 1988; Walking and Long, 1984; Jensen and Meckling, 1976). Therefore, the external financing forms will be considered in this study as the financing provided by external equity (i.e. institutional investors, venture capitalists, etc.), which implies the existence of an equity participation of external managers to the firm specific risk. On the other hand, internal financing forms do not imply the participation to the firm specific risk by external managers, least of all the linkage between management and any form of eq-

uity participation[12]. What in this study is assumed is that specific forms of financing, that is the financing provided by external equity, play a crucial role in the management of the acquisition process, whereas they contribute to solve specific agency conflicts as well. In other words, the theoretical agency conflict between acquiring and acquired companies might be mitigated if external professional managers take part in the management of the acquisition process and especially if they are directly related to the firm's specific risk.

Therefore, the focus would be on those specific strategic factors associated with the financing provided by external equity which can have a direct influence on the management of the acquisition. In particular and again, the managerial commitment will play a crucial role as well as the governance flexibility of the involved companies. The managerial commitment characterizing the acquisition process and related to the financing of the acquisition can be easily justified if the linkage with the firm specific risk is emphasized. Acquiring and acquired managers will increase their participation to the managerial activity with the aim of achieving their self interests any time their behavior should be directly related to their revenues (Jensen and Meckling, 1976; Kroll *et al.*, 1997). The problem, therefore, is to comprehend whether or not the financing provided by external equity is a sufficient condition for satisfying the connection between management of the acquisition process and firm specific risk in order to positively connect the acquisition outcome to the external equity provided for financing the operation. On the other hand, the organizational structure of the firm might also be altered because of the need of introducing external actors who are providing the external equity. That means firms involved in the acquisition have to show their willingness to modify their organizational structure if they are interested in reaching their growth objectives through acquisitions. Financing an acquisition through external equity requires that external actors should be accepted within the organizational structure of the involved companies, whereas most of the time those actors are

[12] A more complete description of how external and internal forms of financing are considered in this study is offered in Chapter IV, § 3.2.

professional managers in charge of defining and managing the acquisition process as a whole.

Deepening the comprehension of the forms of financing characterizing an acquisition can be the way through which managers as well as scholars might take advantage of these operations. Of course, the focus of this study would be on the financing provided through external equity, whereas it seems to be more likely to influence the management of the acquisition process as explained in the above pages. In other words, what is important to comprehend is whether or not the acquiring and acquired companies will be able to benefit from the intervention of external equity providers with reference to the management of the acquisition process.

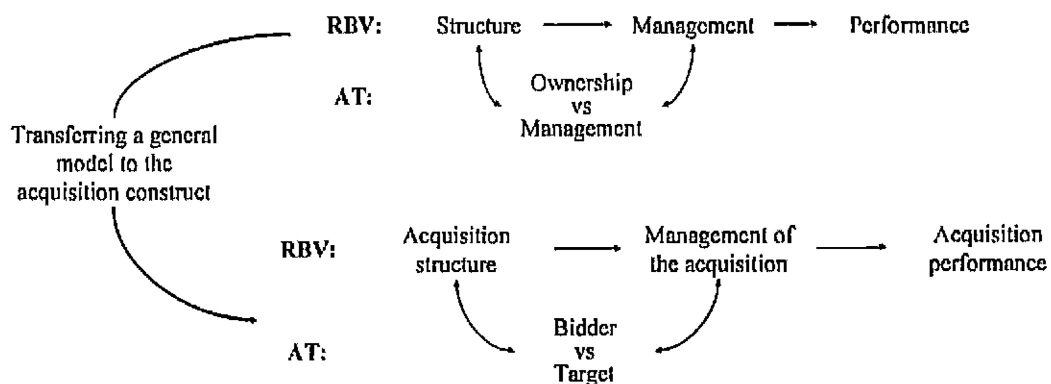
4. Linking the Control and Financing of the Acquisition: A Theoretical Model

In this chapter, the theories which the present study would be based on have been presented. In particular, the resource-based view and agency theory of the firm supported the main idea of investigating the influence two specific factors, the control and form of financing of the acquisition, might have on the management and performance of these operations. These two theories have been used as bridge between a general and theoretical model considering the importance of resources and actors within the firm, to a particular model in which the acquisition construct has been taken into account (see Figure 2.1).

In particular, the resource-based view of the firm has been considered because it allows us to comprehend how the management of the acquisition plays a crucial role for reaching positive results; that is, managing the acquisition since its early stages until the post-acquisition integration process is a key factor for gaining a positive acquisition performance as well as for sustaining a competitive advantage. On the other hand, agency theory explains the potential conflict that there might be between acquiring and acquired companies, who represent the opposite side of an agency theoretical relationship in which different interests are generally

showed. Of course, this agency theoretical conflict will have its consequences on the management of the acquisition and acquisition performance; that is, if the acquiring and acquired companies won't be able to solve the agency theoretical conflict they face throughout the acquisition process, positive as well as negative consequences might exist with reference to the acquisition performance as a whole.

Figure 2.1. RBV and AT: from a general model to the acquisition construct



Given the above theoretical considerations, an empirical analysis will be presented in the following pages of this study. In particular, two factors affecting the acquisition process have been taken into account to the extent of providing new insights and suggestions for scholars and managers in charge of facing the weaknesses of the management of the acquisition process. Both the control and financing of the acquisition have been considered as those factors that on the one hand prior research is still lacking; on the other, practitioners have rarely and deeply considered to the extent of emphasizing some specific facets of the acquisition process that this study would focus on. On this matter, a theoretical model is presented with the aim of linking the control exerted by bidder or target firms and the form of financing of the acquisition (see Table 2.1).

What I did is to build a model in which the above factors have been correlated. On the one hand, the control of the acquisition is considered emphasizing two alternative hypotheses: control is completely held by the bidding company (*acquiring-controlled*), and control is held by the target company (*acquired-*

controlled). On the other hand, two alternative forms of financing of the acquisition are considered: the internal and external financing.

Table 2.1. Controlling and financing the acquisition

		Control of the acquisition	
		Acquiring-controlled	Acquired-controlled

Financing of the acquisition	External	- High managerial commitment (Bidder)
		  - External know-how
		  - External network
		- New financial resources
		- High governance flexibility (Target)
			- Low managerial commitment (Bidder)
			- New financial resources
			- Low governance flexibility (Target)

	Internal	- High governance flexibility (Target) - Low managerial commitment (Bidder)	- Governance rigidity (Target) - Managerial immobility (Indifference)

Therefore, this model suggests four different hypotheses associated with the alternative intersections between the two factors. In particular, these hypotheses are based on the likeness between the factors influencing the management of the acquisition related to the control and financing of the acquisition, that is the managerial commitment and the governance flexibility characterizing the involved companies.

- First, the control is held by the target company and the acquisition is financed with internal resources. In these circumstances the target company shows its own governance rigidity, due to the decision of not considering the presence of external actors within its own organizational structure. At the same time, a situation of managerial immobility is configured because of the absence of external managers who might provide new acquisitive as well as managerial competences.
- Second, opposite to the first hypothesis is the situation in which the control is completely exerted by the acquiring firm and the acquisition is financed by external equity. In these conditions, first of all new financial resources are provided. Then, external managers providing those financial resources are directly committed to the managerial activity, also having the opportunity of

exploiting their own know-how as well as their own relationships through which new value can be created for the involved companies. On the other side, the target company reveals its propensity to enlarge its organizational structure (i.e. high governance flexibility) opening it to the presence of external actors.

- Third, if the control is exerted by the target company and the acquisition is financed by external equity, then a low managerial commitment as well as a low governance flexibility are in concert with the existence of new financial resources. In particular, what is important to underline in this case is that external managers are not allowed to influence the decision making process and the management of the acquisition because of the limited control they can exert on the acquisition, and this is due to the low governance flexibility of the target firm.
- Finally, a reverse hypothesis is realized when the bidding company control the acquisition which is financed with internal resources. In this case, even if the target company reveals its own propensity to open its organizational structure to external stakeholders, the financing provided by internal resources does not ensure the entrance of external managers which could provide their own managerial and acquisitive competences.

In sum, this model would be an attempt for connecting two specific factors, the control and financing of the acquisition, which are judged as having an influence on the management of the acquisition process and consequently on the acquisition outcome. Some theoretical indications can be extrapolated for scholars and managers as well, but more effort is required in order to verify those assumptions. Therefore, the aim of this study would exactly be to test empirically whether or not the management of the acquisition process might be influenced by the managerial commitment eventually related to the form of financing of the acquisition as well as the governance flexibility of the involved companies, whereas these factors have been at least theoretically shown as associated with the managerial process surrounding the acquisition.

III. A THEORETICAL FRAMEWORK TO MANAGE ACQUISITIONS: RESEARCH MODEL AND HYPOTHESES

1. THE ACQUISITION SUCCESS

Acquisitions are generally considered as the most common mode to implement growth strategies and diversification strategies as well (Barney, 2002). In the above chapters a brief description of the history characterizing acquisitions has been presented[13], highlighting the alternative waves which have led to the present situation. In spite of the great popularity acquisitions have achieved between practitioners and scholars as well, those operations still have to be referred to as a not completely untangled issue. Even if thousands of acquisitions are completed every year all over the world, many questions still remain without answers, and most of those questions argue to consider the managerial process characterizing acquisitions. In fact, acquisitions are not just a financial operation allowing the shareholders of the acquiring companies to increase the value of their stakes; acquisitions are more recently looked at as a strategic management issue through which organizations can achieve several corporate objectives (Haspeslagh and Jemison,

[13] See Chapter I, § 2.3.

1991). Therefore, as mentioned above, most questions regarding the managerial implications related to the acquisitions are showing themselves as the most important and crucial issue at the same time to be analyzed for a deeper comprehension of the acquisitive phenomenon.

In particular, one question is stimulating the scientific debate among researchers who are trying to understand which the best managerial practices are for managing acquisitions. Although it might seem an easy and intuitive question to answer, many perplexities still exist; the main and empirical proof to this assumption is that many acquisitions still fail while other succeed. Moreover, to say the same looking at a managerial perspective, the problem is to understand why managers are not able to replicate positive results gained through previous acquisitions, as well as they are not able to prevent unsuccessful acquisitions. On the one hand, one possible answer should be the obvious uncertainty associated with the dynamic environment which at the date firms have to face, but at the same time this can be regarded as a too general assumption that does not help to deepen the acquisition construct. In other words, every strategic decision related to the management of an organization will always be subject to the environmental dynamism, and acquisitions do not represent an exception by this point of view. Therefore on the other hand, new insights have to be searched within the managerial process characterizing acquisitions, that means to look for those factors that might influence the strategic choices managers are allowed to make in order to pursue successful acquisitions. In particular, that is what strategic management research is trying to do, until greater attention has been given to the managerial perspective of corporate acquisitions.

On this matter, prior research has investigated different aspects of the acquisitive process. In general, different theories have suggested as much different perspectives by which it might be possible to analyze the acquisition construct. Some examples can be *a)* the focal role played by firm specific resources in order to maximize the acquisition performance, *b)* the importance of considering the acquisition itself as a process to be managed aiming to develop some new managerial competences which should allow both the acquiring and acquired companies

to improve their performance, *c)* the control for opportunistic behavior of individuals and economic actors involved in the acquisitions, that most of the time can be referred to as *d)* the cause of agency problems involving opposite counterparts within the same organization, as well as among different organizations, to the extent to untangle the origins of the acquisition success or failure. Generally speaking, it might be possible to identify a common denominator linking all the above assumptions: the need for a better comprehension of what the acquisition result is, that consequently is what the best predictors for that above-normal result are.

Trying to give new insights to the comprehension of the acquisition construct, at this point of the study it is important to provide the idea of acquisition outcome that would be presented and offered with this work. Looking at what prior research has suggested, it is necessary to present a separation between financial and managerial studies. That separation is based on the different objectives those studies tried to reach: the former more interested in the analysis of the level of wealth that acquiring shareholders might generate from their focal acquisition; the latter more focused on the search for the strategic factors influencing the decision making process related to acquisitions and the acquisition performance as well. However, some similarities and differences as well should be found. In general, both those perspectives encouraged the search for the acquiring companies results to the extent to underline the predominance of that side of the acquisition. This assumption can be accepted whether the acquisition is considered as a strategy implemented by the acquiring company; of course, most of the effort is associated to the acquiring side of the acquisition, and consequently it is arguable that the acquisition should be considered a success if the acquiring company will be able to reach its objectives.

On the other hand, recent research is emphasizing the need for a change in this way of considering the acquisition. In particular, a twofold consideration can be underlined: first, recent empirical works show evidence that average abnormal returns to the acquiring firm are either statistically equivalent to (Loderer and Martin, 1982) or lower than zero (Agrawal *et al.*, 1992). Secondly, strategic management research is showing greater interest in the acquired side of the acquisition

(Hoskisson and Hitt, 1988; Datta and Grant, 1990; Cannella and Hambrick, 1993; Brush, 1996; Very *et al.*, 1997; Bergh, 1997), because of several factors depending on it influencing the acquisition outcome. In particular, I agree with that side of the strategic management literature considering the opportunity of deepening the implications of the acquired side of the acquisition. At the same time, more effort is required, especially because of the lack of empirical work which has investigated the acquired side of the acquisition. Moreover, if some both financial and strategic contributions exist considering the influence that acquired companies might exert on the acquisition performance (Bergh, 1995; Martin, 1996; Loughran and Vijh, 1997; Haleblian and Finkelstein, 1999; Singh and Zollo, 2000), much more can be done focusing on the results achieved by the acquired companies; that is, considering the acquired companies results as the outcome of the acquisition as a whole.

Early strategic management and financial empirical research has offered a broad vision of the acquisition results that is generally associated with the analysis of the economic performance of the acquiring company. In particular, many studies have investigated the acquisition outcome using different economic and accounting measures of performance as well as different methodologies. For example, looking at the most common accounting measures of performance researchers have generally used the *return on assets* (*ROA*) of the acquiring company (Harrison *et al.*, 1993; Bergh, 1995; Singh and Zollo, 2000). Nevertheless, given the great popularity of this measure it does not justify the existence of evident limits that often jeopardize the results of the analysis[14] (Barney, 2002). Furthermore, other accounting measures of performance have been used, even if those did not reach the same popularity of ROA; for example, other studies suggested the use of *return on invested capital* (*ROIC*; Rumelt, 1982), *return on sales* (*ROS*; Markides and Williamson, 1994 e 1996), *return on common equity* (*ROCE*) and *total return to shareholders* (*RSH*; Fowler and Schmidt, 1989).

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[14] The limits of the accounting measures of economic performance of the firm will be more deeply presented in the following pages. See *infra*, § 1.1.

Similar considerations can be offered with reference to another measure of the firm performance generally known as the *event study method*. The event study method is based on the logic of considering a new event (i.e. the implementation of a new strategy, such as an acquisition), and looking at the variation in the stock market performance which will be reflected within efficient capital markets; of course, the variation will be measured throughout a period of time (called *event window*) starting before the implementation of the focal event, and finishing after the focal event when the capital market will fully adjust to the additional value created by the firm's new strategy. The stock market reaction is usually measured through the event's *cumulative abnormal return* (*CAR*) which represents a measure of the historically expected return based on a *capital asset pricing model parameter* (*CAPM*) in the event window; a positive CAR becomes a measure of above-normal performance. Event study method has been often used in the acquisitions literature (Singh and Montgomery, 1987; Seth, 1990b; Anand and Singh, 1997; Kroll *et al.*, 1997; Loughran and Vijh, 1997; Haleblian and Finkelstein, 1999; Dyer *et al.*, 2001; Wright *et al.*, 2002; Capron and Pistre, 2002), even if it can be charged with some limits too. First, it suffers of the CAPM presence which is generally considered as an incomplete explanation of how returns on a firm's securities are generated (Barney, 2002). Secondly, it is often difficult to specify a strategic event's beginning date, as well as to collect unbiased information about a specific event from the capital market.

More recent literature has focused on different constructs of the acquisitions performance, starting from the consideration that the acquisition results might be investigated also referring to alternative measures. In other words, the acquisition performance does not have to be necessarily associated with the economic result of the acquiring company, but it might also refer to different and more specific constructs which allow to consider alternative perspectives of the acquisition. In particular, some of those insights might be considered of greater interest. First, few literature is suggesting the need for taking into account the period of time characterizing the acquisition, that is the analysis of the outcome of the acquisition in terms of whether the acquisition is divested or retained after a certain moment

(Hitt *et al.*, 1990; Hoskisson *et al.*, 1994; Markides and Williamson, 1996; Bergh, 1997 and 2001; Capron *et al.*, 2001). Those studies emphasized different aspects of the acquisition, such as specific resources within both the acquiring and acquired companies. At the same time, few of those have empirically investigated the retained/divested acquisition construct[15] (Hoskisson *et al.*, 1994; Bergh, 1997 and 2001). In general, those studies have differently operationalized the retained/divested acquisition construct for measuring the outcome of the operation. Secondly, other studies have investigated a different perspective, looking at the experience characterizing the acquisition as well as the acquisition experience accumulated by the actors involved in it. In particular, the acquisition experience construct is gaining greater interest because of the importance of understanding whether it might be a good representation of the acquisition outcome (Fowler and Schmidt, 1989; Haunschild, 1993; Bruton *et al.*, 1994; Ingram and Baum, 1997; Haleblian and Finkelstein, 1999).

The research model

Given the above considerations, what is clear is that more effort is required by researchers and scholars to the extent to suggest new insights on the study of the acquisition performance. Other aspects of the acquisition might be emphasized in order to understand whether and how they might influence the acquisition outcome. In particular, my opinion is that two specific insights should be derived from the prior research on acquisitions:

1. a few has been done in order to emphasize the role of and the consequences for the *acquired companies* within the acquisition process;
2. new insights are required in order to achieve a better comprehension of the acquisition success, that is *a new definition of acquisition success* might be provided, aiming to increase the understanding of this phenomenon.

Looking at the first point, prior research has presented little effort in order to measure the results gained by the acquired companies. Even if some indications

[15] Literature and its results will be presented in the following pages. See *infra*, § 1.3.

have been provided for the needs to more deeply investigate the acquired side of the acquisition, few studies have empirically taken into account that perspective (Cannella and Hambrick, 1993; Brush, 1996; Bergh, 1997 and 2001; Very *et al.*, 1997). Moreover, those studies have considered as different variables affecting the acquired company's outcome that it is difficult to generalize their results. For example, Very and colleagues (1997) assessed the post-merger performance by asking the acquired managers to report their perceptions of the acquired firm's performance since and because of the merger. Their findings suggested a neutral to somewhat positive performance effect, whereas the post-merger performance was measured looking at three different items: earnings, sales, and market share. In his study Bergh (1997) referred to the acquired side of the acquisition emphasizing the importance of retaining or divesting the acquired firm. On this matter, each acquisition was tracked over a five-year period. Bergh's findings suggested the widely held, but as he also says, largely untested argument that divestitures represent failed acquisition attempts (Porter, 1987; Ravenscraft and Scherer, 1987). Within this context, acquired companies might influence the acquisition in different ways: *a)* small unrelated acquired firms that do not contribute to cash flow and do not reduce variability in the acquirer's sales are most likely to be divested; on the contrary, *b)* larger acquired companies that reduce variability in the acquirer's sales are most likely to be retained. Cannella and Hambrick (1993) focused on another different perspective, highlighting the importance of executives of the acquired company for the post-acquisition performance. Their findings imply that executives from acquired firms are an intrinsic component of the acquired firm's resource base, and that their retention is an important determinant of the post-acquisition performance.

Different considerations have to be made with reference to the second point. In particular, new insights might derive from the existence of lack of accuracy about the acquisition success construct. In my opinion, prior research has established well-founded directions through which deepening the comprehension of corporate acquisitions. At the same time, the existence of lack of consensus as well as the proposition of studies that most of the time suggest divergent find-

ings[16] should be interpreted as the indication for an alternative path to be followed. Therefore, the present study would offer new insights starting from a complementary vision of corporate acquisition based on:

- a new definition of acquisition success,
- which should rely on what I think might be a more complete methodological way for analyzing and measuring the acquisition performance.

My definition of acquisition success is based on a simple proposition which implies both the acceptance of what prior research has suggested and the effort to provide a more complete and integrating construct to comprehend whether acquisitions might fail or succeed. In particular, in my opinion *prior empirical research has showed its weakness in considering the acquisition success just as depending on the performance of the acquiring companies, too often trying to measure that performance through accounting measures of firm performance, or on other factors which, even if important, taken individually are not enough.*

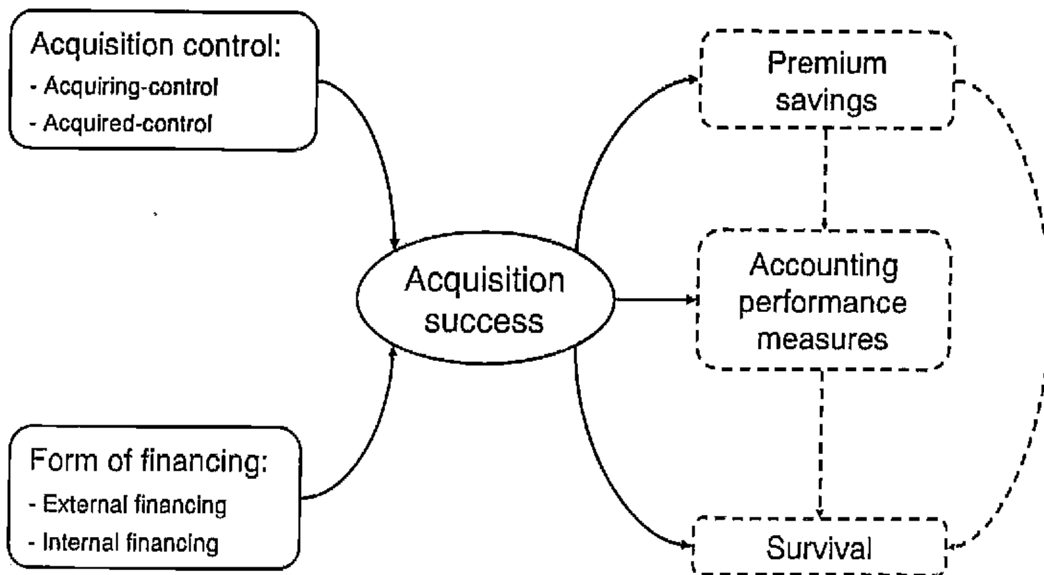
This consideration allowed me to investigate literature and empirical evidence to the extent to identify which factors might influence the acquisition success, that is which the variables are that can provide a new direction in order to understand if the managerial process surrounding the acquisition can lead to a failure or success. The research model is presented in Figure 3.1.

Figure 3.1 presents both the measures upon which the definition of acquisition success would be based, and the predictors considered in the present study that might influence the acquisition success. In particular, the acquisition success would be defined as related to three different measures: 1) the *performance* of the acquisition; 2) the *premium savings* of the acquisition; 3) the *life* of the acquisition. The logic of this definition has been partially presented in the above pages. Although I consider the performance of the acquisition in the way it is usually investigated by prior research, that is by accounting measures of firm performance,

[16] Studies focusing on the diversification-performance relationship, the relative size of the acquisition and its influence on the acquisition performance, as well as others on the previous acquisition experience are just few examples of the non homogeneous results that prior research has found. For a complete review of the above factors influencing the acquisition process, see respectively *infra*, § 3.1, § 3.2 and § 3.3.

that measure should not be able to provide a full and thorough understanding of the acquisition success. This is the reason why other two factors have been picked out. In particular, the *premium savings* and the *life* of the acquisition have been taken into account in order to improve the acquisition success construct.

Figure 3.1. The research model



In general, considering those three measures allow me to investigate as many facets of the acquisition success. First, the economic performance of the acquisition which has been measured through the generally accepted ROA of the acquiring company[17]. This measure is the less innovative within the research model, but at the same time it was not possible to leave aside the consideration of the economic performance achieved by the acquiring company, for example in order to verify if motives and expectations of the acquisition related to its performance have been realized. Secondly, the premium savings of the acquisition has been proposed[18]. In my opinion even if theoretical suggestions do exist, a few has been done by prior empirical research to the extent to investigate the efficiency of the acquisition, that is the relationship that might exist between the cost of the operation and the motives and expectations being reflected in its performance. It is not

[17] The analysis of the *ROA* will be deepened in § 1.1.
[18] A complete description of the *deal value* of the acquisition will be tackled in § 1.2.

undoubted that acquisitions often requires substantial financial resources, but acquirers sometimes pay even more than value for a target (Bruton *et al.*, 1994; Barney, 2002). One possible consequence is that the acquisition outcome should be the diversion of resources from internal development activities (Hitt *et al.*, 1990; Bergh, 1997), that in other words might represent the acquisition failure. Third, the life of the acquisition has been taken into account, that would imply the need for examining the durability of the relation that will exist after the acquisition between the acquiring and acquired companies[19]. As literature suggested, an examination of the relationship between the factors at the time of the acquisition and the fate of the acquisition would help determining whether it has been a success or failure (Bergh, 1997; Porter, 1987; Ravenscraft and Scherer, 1987). Furthermore, acquisitions have been accused of creating a form of technological myopia, with an emphasis on short-term results (Wyman, 1985), and with consequences in terms of a reduction in basic research expenditures (Hitt *et al.*, 1990). The problem may be to comprehend if this myopia is not only technological, but it may also be some kind of performance myopia, that is whether acquisitions allow companies to generate non short-term economic results.

In sum, the present study would offer a definition of acquisition success which considers its economic performance, economic efficiency and survival. Therefore, acquisition success has been defined in terms of whether the acquisition gained positive economic performance, it was paid a fair price, and the acquisition met long-term economic results.

In order to achieve these results, as mentioned, a more complete methodological approach has been chosen. In particular, it comes as a straight consequence of the acquisition success definition used in this study. In fact, looking at different measures associated with the acquisition success should be a way to provide a deeper comprehension of this construct. On this direction, recent literature is showing the attempt to assess the acquisition result not just resorting to a single measure, but exploiting a multi-measurement analysis (Hoskisson *et al.*, 1994;

[19] Again, a complete analysis of the *survival* variable will be offered in § 1.3.

Bergh, 1995). For example, Hoskisson and colleagues (1994) examined the divestment intensity construct, highlighting the possibility to define it with three variables measuring different aspects of the construct. In particular, they considered the number of business units divested, the percentage of sales divested, and the time required to restructure. Moreover, Bergh (1995) considered both the size and the relatedness of the units sold by parent firms, and the performance of the seller after the sell-off, measured as the ROA, in order to verify the influence of ownership concentration, outside director equity holdings and corporate strategy on those variables, and their implications in terms of performance.

Given the above research model, the present study aims to investigate if the acquisition success might be associated with the *acquisition control* and the *financing form* of the acquisition. Those predictors allow me to investigate the extent to which both the acquiring and acquired companies show their willingness to share resources that might be critical for the acquisition success. In particular, acquisitions must be a two-way relation in which the involved parties should show their flexibility towards the operation. For example, both the bidder and target firms might be ready to modify their structure in order to better face the post-acquisition integration process, that is the most critical moment of the whole acquisition. As will be deepened in the following pages, the acquisition control and the financing form of the acquisition might present whether the acquiring companies are implementing strategies which will allow them to exert the control power through which influencing the acquisition success, as well as whether the acquired companies are positively responding to the acquisition in a way that might reveal their aptitude to the corporate growth.

In the following pages, first the different measures of the acquisition success will be presented (§ 1.1, § 1.2, and § 1.3); then, the predictors of the acquisition success will be discussed with the underlying hypotheses related to the influence of each of those on the acquisition success (§ 2.1 and § 2.2). Finally, the control variables used in the study will be offered (§ 3.1, § 3.2, § 3.3, § 3.4, and § 3.5).

1.1. RETURN ON ASSETS

The acquisition performance has been usually investigated pointing the attention on its economic aspect. Prior research has generally used different accounting measures of the economic performance of the firm; in particular, a huge distinction has been made between the simple accounting measures and the adjusted accounting measures[20] of historical performance of the firm (Barney, 2002).

Simple accounting measures of performance present two main advantages: 1) they are publicly available for many companies; 2) they often rely on ratio analysis that makes those easy to compute. Even if those measures are generally organized in different categories, one of the most popular categories includes the so called profitability ratios. Profitability ratios present some measure of profit in the numerator and some measure of firm size or assets in the denominator. In so doing, profitability ratios provide an indication of the profitability of the firm associated with its size, that can be for example measured through the amount of capital invested in the company, as well as the amount of sales available to cover operating expenses and still generate a profit.

In general, simple accounting measures of performance also present some limitations. First, they are constantly influenced by the managerial direction of the firm that means managers can drive the computation of those measures to the extent to achieve their personal interests. Of course, this opportunistic behaviour might generate consequences for the firm that can lead to long-term difficulties as

[20] Adjusted accounting measures of firm performance will be not presented in this study, because this would not be its main intent. Nevertheless, what is important to know is that adjusted accounting measures of firm performance, even if they try to correct simple accounting measures' limits, they still present advantages and limits as well. The most popular adjusted accounting measure can be considered the *return on invested capital* (*ROIC*), *economic profit* (*EP*), *market value added* (*MVA*) and *Tobin's q*. Often, one of the greatest problem those measures suffer is to rely on the computation of the cost of capital; that means, the need to implement some procedures such as the *weighted average cost of capital* (*WACC*) and the *capital asset pricing model* (*CAPM*). In fact, both those procedures still present limits associated with the reliability of the accounting measures they use and with the imperfection of the markets as well; that is to say that both WACC and especially CAPM are generally considered as an incomplete explanation of how returns are generated by firms. Furthermore, other accounting measure are generally taken in consideration by strategic management research. In particular, the *event study methodology*, the *Sharpe's measure* and the *Jensen's alpha* are generally used in order to calculate the firm's performance as well as the acquisition performance. For a complete review of adjusted accounting measures of firm performance as well as simple accounting measures, see Barney (2002).

well as cause a value destroying process that might reveal itself harmful for the company. Secondly, simple accounting measures of performance have a built-in short-term bias. In particular, those consider investments in a company just as a cost for a variable number of years (in general, throughout the sort-term), since it generates some kind of revenues at the end of that variable period of time (throughout the long-term). For example, a five-year investment which will generate revenues on the sixth year will negatively influence the accounting measure for the first five years, showing a positive result only on the sixth year. Last but not least, simple accounting measures of performance do not allow taking in consideration the importance of the intangible resources of the firm. This is especially due to the difficulties related to the observation and valuation of those resources, but those problems usually have a negative impact on the measurement of the firm's performance.

As mentioned, instead of their limits accounting measures of firm performance are often used in order to investigate the acquisition success or failure. In particular, prior research has generally used the *return on assets (ROA)*, because it is easy to compute and at the same time it offers a good representation of the firm capability to generate returns for all the stakeholders, that is both debt and equity providers (Harrison *et al.*, 1993; Bergh, 1995; Singh and Zollo, 1998 and 2000). Therefore, this study would be based on the analysis of the performance of the acquiring companies, to the extent to measure how the acquiring companies' performance has been influenced by the acquisition. In particular, increasing levels of ROA throughout a period involving the focal acquisition might suggest a positive influence of the acquisition on the acquiring companies performance, as well as a good post-acquisition integration process. In other words, acquiring managers achieving positive levels of ROA have been able to manage the post-acquisition integration process, in order to minimize the problems related to this critical phase of the acquisition. Of course, ROA itself can not completely satisfy the need for a deeper comprehension of the acquisition success, but it is generally considered a reliable measure of the acquisition economic performance. In sum, as mentioned above, other facets of the acquisition have to be emphasized, but ROA is one of

those measures that can offer a good starting point for investigating how well the acquisition managerial process has been developed since its early stages.

1.2. Premium Savings

Although the economic performance of the acquisitions plays a crucial role in the comprehension of the acquisition outcome, strategic management research is giving greater emphasis to the need for a broader definition of this construct. In particular, several perspectives have been proposed considering as many different factors through which it might be possible to measure the acquisition outcome. Examples are the divestment activity characterizing acquisitions as well as the experience accumulated throughout the years preceding the focal acquisition[21]. Nevertheless, at the date not all the facets of corporate acquisitions have been treated; in particular, prior research provided just indications and insights on a specific topic, that is the efficiency of the acquisition, that in my opinion should be considered another important point of view by which the acquisition success might be analyzed. No empirical researches have been found in the strategic management literature, considering the importance of how the cost of the acquisitions might influence their fate, that is their success or failure.

Prior research has often emphasized the relevance of gains in efficiency that can contribute to increase the economies of scope and synergies of a firm (Lubatkin, 1983). In particular, the most widely mentioned sources of synergies have been considered the technical economies, through which firms are allowed to produce higher quantity of outputs with the same amount of inputs. One first question mark, therefore, might arise from the linkage between the existence of the above gains in efficiency leading to economies of scope and corporate acquisitions; moreover and at a higher level of analysis, the acquisition itself might be considered as the means through which acquiring companies might achieve economies of scope, whereas gains in efficiency are related to the cost of the operation paid by the bidder company, that cost influencing the acquisition success. On this mat-

[21] A deeper indication about that prior literature has been provided in the above pages. See *supra*, § 1.

ter, prior research has emphasized that often managers make mistakes selecting the proper merger candidate as well as the proper price for the operation. Competing bidders for a target often force the future value generated by an acquisition to be capitalized in the price paid for the operation; that means that acquirers sometimes pay even more than the future value for a target, because mangers underestimate the cost of exploiting the potential synergies associated with the acquisition (Lubatkin, 1983; Jemison and Sitkin, 1986; Barney, 1988 and 2002; Bruton *et al.*, 1994). Therefore, the cost of the acquisition is a factor that can influence the acquisition success, in a way that can generate consequences on different investment alternatives by the acquiring firm. In particular, acquisitions are generally considered very expensive operations; thus, it is possible that the acquisition outcome should be the diversion of resources from internal development activities (Hitt *et al.*, 1990; Bergh, 1997) if the operation is not well managed since its early stages. That means, sometimes it might be better to growth internally instead of implementing external growth strategies that can reveal themselves as too expensive, if the management of the involved companies does not show to have adequate competences to face the acquisition process. At the same time, as a direct consequence of the above assumption, paying high premiums reduces the likelihood that acquiring firm's shareholders will benefit from an acquisition (Datta *et al.*, 1992). On this matter, it has also been suggested that acquiring firms pay higher premiums when they are strategically similar to their targets (Barney, 1988; Harrison *et al.*, 1991 and 1993; Hitt *et al.*, 1998). This consideration allowed research to underline the possible linkage between the efficiency of the acquisitions and firms' critical characteristics, such as their size and the relatedness of the industries in which acquiring and acquired companies operate.

As mentioned all those studies did not provide empirical indications supporting the efficiency of the acquisition as a potential construct through which measure the acquisition success. The present study aims to empirically investigate the importance of the price paid by the bidder company and its relationship with the acquisition success. The main logic below this assumption is that the cost of the acquisition should be the outcome of a long process throughout which bidder

managers considered the strengths and weaknesses of the target, to the extent to capitalize that price with reference to the value creating process deriving from the acquisition. Bidder managers might be able to identify the fair cost to be meet because of the acquisition, and understand which the maximum level of that cost might be in order to avoid future losses; the higher the cost of the acquisition, the higher might be the value created through that operation. Such logic must be generally related to the bidder side of the acquisition, because the acquiring company is going to meet that expense. On the other hand it can be assumed that, even if indirectly, the acquired company managerial behavior might have some implications too. In particular, looking at the logic adopted in the present study, that is the logic of the acquisition as a two-way deal, whereas the acquisition success is strictly related to the non-opportunistic behavior of both the acquiring and acquired companies, target managers might pursue objectives leading to the value creation through the acquisition; that will be possible if they will not encourage hostile behaviors leading to the acquisition cost rise[22]. Of course, managers' self interests often drive acquisitions to an overestimate of the target value, causing a higher expense than the fair cost to be due.

Nevertheless, the above considerations should not dissuade from the idea that the managerial process related to the cost definition of the acquisition must be a prerogative of the acquiring managers. In fact, if we look at the acquisition process as a whole, it is easy to note that the bidder company is in charge to select the best target, the optimal share to be acquired, the best fitting form of financing, as well as the maximum price to be paid for that acquisition. That is not to say that mangers never fail; instead just the opposite consideration would be analyzed in this study, pointing the attention on the need for a deeper analysis of the cost of the acquisition, as one of the reasons leading to the acquisition failure.

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[22] Examples of opportunistic behaviour target companies can implement in order to appropriate whatever value is created by an acquisition are presented by Barney (2002). He suggested that target managers can usually *a)* invite other bidders to join the bidding competition, *b)* delay but not stop the acquisition, *c)* seek information from bidders. See Barney (2002) for a complete review of these examples.

Finally, it is important to underline that not only internal factors (i.e. the managerial process of the acquisition) can influence the definition of the cost paid for the acquisition. As much important can be considered other external factors surrounding the organizations, which might also be taken into account. Such factors can be basically considered related to the industry or market firms are pursuing in; that implies a twofold consideration. First, it is important to investigate with what extent bidder companies take into account the relation between the target firm and the market in which it operates; that is, the analysis of the acquisition cost might also consider the target competences allowing that firm to achieve positive economic performance within its own market. Secondly, great attention might also be posed on the market reaction to the acquisition. Understanding how the market will react to a specific operation should influence the cost valuing process, because of the pressure it can exert on the acquisition process with unpredictable consequences on the acquisition success.

1.3. Survival

Another very important aspect of the performance of an acquisition is related to the life of both the acquiring and acquired companies. In general, understanding whether a company is still alive might provide a representation of how well or not it has been managed throughout its existence. Such an assumption relies on the idea that the better an organization has been managed, the greater it has been able to achieve above-normal economic performance, or at least normal economic performance. Then, the longer that company has gained above-normal economic performance, the longer it has continued its activity, unless it has received some government or private subsidy. In other words, it should be possible to hypothesize a positive relationship between the longer survival of an organization and its economic performance.

Similar consideration can be argued with reference to the acquisitions. In particular, looking at the acquisition survival would imply the need for understanding whether the acquiring and acquired companies do exist after a certain period of time. This assumption might be partially true, but it needs to be completed with

the above linkage to the economic measurement of the acquisition performance. In other words, investigating the acquisition performance requires the analysis of both the acquiring and acquired companies, and limiting the attention to one side of the operation might lead to ambiguous results. In particular, an acquisition might gain below-normal or at least normal economic performance even if, for example, the acquiring company still exists but not the acquired company. In fact, this assumption might easily lead to the conclusion that that specific acquisition is surviving. Therefore, assuming that the acquiring firm is continuing its activity after the acquisition, but not the acquired one, does not mean that the acquisition can be considered a success. Given the above considerations, the acquisition survival analysis can be improved if it will give particular attention to the target side of the operation. It is easy to comprehend that an acquisition is not surviving if the acquiring firm has ceased to exist; the problem is to understand what the acquisition results are if the acquired firm did not survive to that operation.

In my opinion, one important aspect of the acquisition success should be strictly associated with the survival of the acquired company, because of the importance of the combined results related to the operation, whereas the term combined refers to the performance of both the acquiring and acquired companies after the acquisition. In particular, if the acquired firm does not continue its activity, it might be argued that the acquired company's stakeholders are achieving positive as well as negative results. It will depend on several conditions; for example, what kind of stakeholders the analyst is looking at, and how they react to the acquisition. On the one hand, managers might disappoint the decision related to the acquisition, because of their likely divestiture, unless the existence of specific conditions which should safeguard their position; on the other, owners might positively judge the acquisition because of the critic conditions surrounding their company and the chance to obtain some kind of returns instead of continuing the activity. In sum, looking at the acquisition survival should provide interesting suggestions if great emphasis will be posed on the acquired side of the operation.

In general, prior research has not deeply investigated the acquired side of the acquisition (Hoskisson and Hitt, 1988; Datta and Grant, 1990; Cannella and Ham-

brick, 1993; Brush, 1996; Very *et al.*, 1997; Bergh, 1997), although some empirical attempts have been done (Hoskisson *et al.*, 1994; Bergh, 1997 and 2001). In particular, those empirical studies investigated how the acquisition divestiture might depend on different predictors, whereas divestiture can be considered as a possible interpretation of the acquisition survival. The present study aims to deepen that aspect pointing the attention on the survival of the acquired company as a measure of the acquisition success; the longer the survival of the target firm after the focal acquisition, the stronger the managerial competences supporting the acquisition can be considered.

Prior research has provided some insights referring to the possibility of retaining or divesting acquired companies. For example, Hoskisson and his colleagues (1994) measured the divestment activity of restructuring firms, and they directly related it to the firm performance and strategy. Their results showed that blockholder equity and relative product diversification have important indirect effects on divestment activity, whereas the latter also has direct effects. Bergh (1997) examined some of the differences between divested and retained unrelated acquisitions, to the extent to consider how divestitures, which generally result in strategic, organizational, and financial losses for both the acquiring and acquired companies, can be avoided. His findings suggested that motives and conditions at the time of the acquisition, and changes in those motives and conditions, were related to the fates of the acquisitions. Therefore, acquisition divestiture could be predicted correctly on the basis of those motivations and conditions. In a subsequent work Bergh (2001) investigated the survival of acquired top executives and its eventual influence on the outcome of corporate acquisitions. This time, his findings also supported the idea that long organizational tenure, referred to as the persistence of the right people in the right place, leads to more successful outcome, than the benefits of short organizational tenure.

Therefore, those studies give more support to the intention of considering the acquisition success in terms of the survival of the acquired companies after the focal acquisition. Nevertheless, as mentioned in the above pages, this would be just one of the acquisition success facets that the present study aims to investigate, in

order to deepen the and try to provide an alternative interpretation of the acquisition success construct.

Of course, the survival approach for measuring the firm performance also presents limits (Barney, 2002). In particular, it is usually very difficult to identify when a firm has ceased its activity, and this problem is especially hard to solve for larger companies. In fact, it is generally easier to understand if small and medium enterprises do not exist anymore, than collect the same information for large organizations. Although larger companies provide a huge amount of private information that generally presents the organizational and economic scenario characterizing the organizations, the same consideration cannot be done with reference to their ongoing activity. In other words, sometimes it may happen that large firms seem to have ceased their activity, but those still have relations with their customers, still own their assets, their brand is still present on the market. At this point, it is very hard to understand if those firms have to be classified as ceased or ongoing, and therefore the survival approach for measuring their economic performance might be difficult to implement as well. The same problem occurs if the researcher looks at the acquisition, and especially at the acquired side of the operation. In particular, it might be very hard to identify which acquired companies still exist after the acquisition, and which do not exist anymore because of their complete integration within the acquiring firm. Again, acquired companies, especially larger acquired companies, can practically continue their activity, in terms of relations with customer, selling of goods and services, presence on the market, but at the same time those might just represent the image of the acquiring firm which is still using the acquired brand, image and assets. Therefore, in these conditions it is hard to identify the survival of the acquired company; that is, in my view of the managerial process, the acquired survival is strictly related to the long-term acquisition success and survival.

Secondly, the survival approach does not allow reaching a great deal of information related to those firms generating above-normal economic performance. The survival approach, in fact, only identifies firms with below-normal economic performance or, at best, normal economic performance. This condition is a direct

consequence of its logic. In other words, unless of specific situations such as, for example, bankruptcy, the longer a firm survives the higher its economic performance can be hypothesized. Because the survival approach only identifies organizations that no longer exist, it is as much possible to argue that those companies did not reach higher level of performance allowing them to survive. The same problems occur looking at corporate acquisitions. In particular, the survival approach may show itself incomplete if its main aim must be the measurement of the acquisition performance. If the conclusion of a target firm coincides with its acquisition by a bidder company, then it might be possible to argue that that acquired firm was reaching below-normal performance, and therefore the question may be why it has been acquired.

Given the above considerations, also the survival approach does not provide a complete and clear representation and measure of the acquisition performance. This is the reason why in the present study a multi-measurement analysis would be suggested, in order to try to explain and measure the acquisition success or failure. As mentioned above, in the following pages the predictors of the acquisition success will be presented, to the extent to verify if specific factors can influence the acquisition performance and especially to underline which might be new managerial insights that literature did not consider for the managerial process surrounding corporate acquisitions.

2. THE PREDICTORS

2.1. THE STRATEGY FOR CONTROL IN THE ACQUISITION PROCESS

The decision making process characterizing a firm's activity must be strictly related to the organizational structure of the company. One of the crucial issue literature is still analyzing suggests who among a firm's ownership or management may be in charge to develop the strategic orientation of the company. This is a typical problem highlighted by the *agency theory* of the firm. In fact, many of the internal conflicts being inside an organization are associated with a divergence of

interests between ownership and control (Berle and Means, 1932). I agree with who suggested a new combining *agency* and *resource-based* perspective (Bergh, 1995). Following this logic, the type of corporate strategy, such as the implementation of an acquisition, might depend on whether managers or owners have the most influence over an organization, as each prefers a different type of economic benefits. Therefore, agency theory and *resource-based view* (*RBV*) of the firm highlight two different but crucial features associated with the managerial process of an acquisition. Briefly, the latter presents the linkage between acquisitions, or in general external growth strategies, and the performance of the firm; the former emphasizes the change in the structure of the organizations involved in the acquisition. In particular, the agency theoretical perspective integrates the RBV, whereas the relation between the acquiring and acquired companies influences the conduct of the acquisition[23]. In other words, if the RBV suggests the relation between the structure of a firm and its performance (Wernerfelt, 1984; Rumelt, 1984 e 1991), whereas the first influences the latter, the agency theory explains more deeply what there is in the middle of such a relation.

An interesting issue may be to comprehend how the *acquisition structure* can follow this model. Hence, if the acquisition has to be managed (Haspeslagh and Jemison, 1991) as well as an organization, and if the acquisition may generates returns and, in general, value for both the acquiring and acquired companies, then it is possible that the acquisition structure might influence the performance of the acquisition. Again, between the acquisition structure and its performance there is the managerial process characterizing the conduct of the operation. As mentioned, such a process is explained more deeply by the agency theory, which highlights the different interests of ownership and management.

In this study, the acquisition structure is explored by two different points of view. On the one hand, it may be important to comprehend what type of acquisition has been completed. In particular, great emphasis would be posed on the

[23] In this study a different agency theoretical perspective has been presented through which analyzing acquisitions. In particular, great emphasis has been posed on the role of both the acquiring and the acquired companies in the managerial acquisition process, considering these organizations as two opposite agency actors. See Chapter II, § 2.

strategy that led the bidder to acquire a specific stake of the target company, and on its effect upon the acquisition outcome. On the other, not the strategic process is investigated, but which the specific stake characterizing the acquisition has been acquired, and its relationship with the acquisition success or failure.

The decision making process characterizing acquisitions has been especially explored since many studies related to Haspeslagh and Jemison's research activity have been presented. These studies proposed a *process perspective* of acquisitions (Haspeslagh and Jemison, 1991; Haspeslagh and Farquhar, 1987; Jemison and Sitkin, 1986a e 1986b), through which the acquisition process itself is regarded as a critical determinant for the success of the operation. Therefore, the essential element in managing an acquisitive strategy is to understand the acquisition process. The process perspective integrates other views that in the past years have highlighted the financial, strategic or organizational aspects of the acquisitions. Nevertheless, these studies can be associated because they tried to identify the antecedents and consequences of the acquisition outcome. In other words, these different perspectives have pointed the attention on diverse issues which might influence the acquisition; furthermore, only in the last years the interest has been shifted to the integration problems between the combining companies. Financial perspective, for example, has used firm's stock prices as indicators of whether acquisitions create value. On average the main results showed that acquisitions have not created value for the acquiring firm's shareholders, but for the acquired company's shareholders (Jensen & Ruback, 1983; Loderer & Martin, 1982; Agrawal *et al.*, 1992). On the other hand, the financial perspective does not offer any suggestion on the reasons why this should happen. Strategic and organizational perspectives have respectively taken into account the importance of the *strategic fit* and *organizational fit* for the acquisition result (Greenwood *et al.*, 1994; Haspeslagh and Jemison, 1991; Lubatkin, 1983). These notions have been used to explain which types of acquisitions perform better than average, and which the role of cultural differences, organization constraints and implementation problems is for the acquisition success. Low attention has been posed on the way acquisitions are managed, and on the strategic implications for the organizational problems,

whereas the former might have a greater impact on the latter. In sum, the above perspectives, even included the process perspective which would be taken as a key reference in the present study[24], have added new insights to the acquisitions research, but the reasons why some acquisitions fail whereas others success are not yet completely untangled.

Often researchers have tried to identify the critical variables which might influence the acquisition process. These variables have been searched for among the organization specific resources and capabilities; in particular, both the acquired and the acquiring companies' resources have always been a starting point for the analysis of the critical issues leading managers to consider a strategy for achieving the corporate external growth. Employees, management, retail stores, plant, as well as technologies, know-how, brands, property rights are just few examples of the tangible and intangible firm specific resources directing to the acquisition choice through which it may be possible to create value. The problem is that it may be very difficult to comprehend which the critical firm specific resources really are; in other words, which the resources enabling the value creating process are.

Such a problem can be twofold: both its practical and theoretical determinants are involved, and this may be likely to entail an increasing difficulty in the comprehension of the acquisition process. On the one hand, managers are not able to be sure of what they are going to acquire and especially of how the acquisition has to be managed; on the other, researchers can't easily identify the adequate predictors through which explain the acquisition process. An example can make clearer the above assumption. Suppose a *company B* should be likely to create value exploiting specific technologies which are constantly utilized by qualified and expert employees. At the same time, suppose *company B* should have few but expert managers being in charge of the decision making process of the firm. At the time *t*, *company A* wants to acquire *company B* to increase its own productivity exploiting *company B*'s technologies. *Company A* decides to retain *company B*'s man-

[24] This is why in the present study I often refer to the *acquisition process*.

agement and dismiss its employees because of the existing enough number of human resources. In few years the acquisition reveals itself as a failure, being *company B* not able to realize the motives and expectations that prevailed at the time of acquisition (Bergh, 1997). The reason of the acquisition failure must be identified with the wrong valuation and strategic choice *company A*'s management made on the crucial role of *company B*'s specific resources. In particular, *company B* should have been able to create value only if its technologies should have been used by its qualified employees. Therefore, *company B*'s real valuable resources were its employees, nor its management neither its technologies as supposed by *company A*'s management, because these employees were the owners of the specific knowledge necessary to use particular technologies. Such a brief example gives us many insights. First, the acquisition process should be adequately managed since its early stages (i.e. the choice of the target company and the reason which lead to a particular company) through its last integration process. Secondly, it is usual to attribute greater importance to the higher levels (i.e. top managers) of the organizational structure than to middle or lower levels (i.e. employees). Third, often knowledge associated to key figures within an organization is the most valuable firm specific resource; then, it is necessary to comprehend how knowledge must be shared between the acquiring and acquired companies (Russo and Perrini, 2003; Singh and Zollo, 2000).

The above considerations may in part be useful for managers and practitioners aiming to extend the acquisition process comprehension. At the same time, those show how difficult studying the acquisition process may be for researchers and scholars. One of the greatest problem researchers have to solve is related to the measures to be used to explain the relationship between the acquisition process and its results. Often empirical analyses have considered the acquired company's specific resources as the critical factors affecting the value creating process of the acquisition. In particular, these resources are usually associated with the individuals within the organization in charge to define the strategic orientation of the firm. In fact, a firm is judged to be able to create value if its corporate strategy is valuable, and this will depend on the managerial capabilities to handle the firm spe-

cific resources endowment. Many studies have tried to analyze acquisitions looking at the managerial structure of an organization, especially pointing the attention on the post-acquisition structure (Bergh, 2001; Krug and Hegarty, 1997 and 2001; Krishnan *et al.*, 1997; Shanley and Correa, 1992; Hitt *et al.*, 1990; Gomez-Mejia *et al.*, 1987), or on the role of managers and corporate functions in the post-acquisition integration process (Russo and Perrini, 2003; Kale *et al.*, 2002; Dyer *et al.*, 2001; Ashkenas and Francis, 2000; Cannella and Hambrick, 1993; Walsh, 1988 and 1989). Acquisitions, in fact, alter the organizational structure because of the problems related to the post-acquisition integration process, and it is possible managers of both the acquiring and acquired companies should be formally dismissed or informally induced to leave the company.

However, management is just one of the possible firm's specific resources which may be considered to analyze the acquisition process. By a methodological point of view, the problem is to identify those predictors that are the most representative of the acquisition process as a whole. In other words, if firms want to implement acquisitions to achieve and *control* target company specific resources, that otherwise should find hard to develop, then it is difficult to comprehend which resources really allow the bidder company to create value. The above example is a clear representation of this assumption.

Furthermore, the reliability of the post-acquisition studies may be denied, because it should not be possible to generalize the reasons leading to the acquisition success or failure, looking at every single operation has been implemented. Of course, each acquisition has its own logic, reasons, peculiarities and results, and each of these factors implies a different measure to be used for an empirical research. It is easy to understand the difficulties related to the implementation of a reliable analysis aiming to investigate the acquisition process. Therefore, other solutions may be presented trying to generalize the empirical evidence related to the acquisition process.

In this study a new perspective would be offered that should consider the strategic process leading to the implementation of an acquisition. The attention will

be posed on the bidder company strategic interest related to the *control of the target company and its valuable resources.*

During the past years, many studies have taken into account the importance of the corporate control (Jensen and Ruback, 1983; Shleifer and Vishny, 1986), trying to highlight the relationship between this issue and corporate strategies. In particular, literature focused on acquisitions has investigated the different organizational forms of control characterizing both the acquiring and the acquired companies (Jensen and Ruback, 1983; Gomez-Mejia *et al.*, 1987; Fowler and Schmidt, 1989; Kroll *et al.*, 1997). In general, the problem for corporate control has been explored with reference to the issues suggesting the choice between internal and external control (Johnson *et al.*, 1993; Walsh and Seward, 1990; Hoskisson and Turk, 1990; Hill and Snell, 1988). More deeply, these studies have usually focused on the acquiring company's form of control, referring to the separation between management and ownership within the organizational structure. It is sure that a few has been done pointing the attention on the acquired company's form of control, which might also be interesting. However, such a separation is an interesting topic since it offers many insights on the relationship between the acquisition outcome and those factors affected by the different decision making process driven by different managers or owners' interests as well.

In the present study, as mentioned, I would present a new perspective considering nor the acquiring neither the acquired companies' form of control. Greater interest would be given to the acquisition itself as a unit of analysis; that means to try to measure the relationship between the acquisition result and the strategy implemented for achieving the power to manage the critical firm specific resources related to the acquisition. Such an objective is consistent with a general definition of corporate control from which some implications also emerge. That is, *if corporate control is the power to govern the management of firm resources* (Jensen and Ruback, 1983), *then who control that power may be in charge to influence the corporate strategies and their performance.*

This assumption must become part of the theoretical context of corporate acquisition; therefore, some indications are necessary. First, in my logic the above

firm and its *resources* would be considered both the acquiring and the acquired companies; in particular, this is the main reason why, as well as the meaning with which, I would look at the acquisition as the unit of analysis. As far as possible, nor the bidder neither the target companies would have a primary position in the acquisition process because of my persuasion they should have the same relevance within it. Their resources, in other words, must be shared by, and not just transferred through, the organizations involved in the acquisition. Secondly, the corporate control is referred to the acquisition itself; that means, such operations imply the control in charge of different actors, which may be the acquiring as well as the acquired companies. It will depend on which the acquiring strategic process has been, that led to acquire a specific stake of the target company; the greater the stake, the stronger the chance to influence the acquisition performance. This second point is crucial to comprehend why the present study considers nor the acquiring neither the acquired company forms of control, but the acquisition form of control. That means it would investigate whether the acquisitions are *acquiring-controlled* or *acquired-controlled* operations. Third, the analysis of the control structure characterizing an acquisition also allows making some considerations on the flexibility of the corporate governance of the involved companies. In particular, looking at the Italian business model, of greater interest might be the corporate flexibility of the small and medium enterprises (*SME*) which usually may be referred to as the "acquired side" of the acquisition. In fact, Italian SMEs are generally accused of lower attention to the growth opportunity because of their rigid structure. In other words, Italian SMEs are characterized by a rigid ownership structure hampering the entrance of external actors (i.e. bidder companies) which might be the meaning for the growth of the organization.

Looking at the prior empirical research, it is not easy to find a study which has considered the issue of the control of the acquisition. An example comes from the study by Fowler and Schmidt (1989) who analyzed the percentage of a target firm's outstanding common stock owned by an acquiring firm subsequent to a tender offer. Their findings suggested a significant and positive relationship between the percentage acquired and the acquisition result, revealing the considera-

tion that as the percentage acquired increases, more control is exerted over a target, and integration effectiveness is enhanced (Fowler and Schmidt, 1989). Other prior researches have generally considered a different perspective which partially moves away from the managerial implications related to the control of the acquisition. In particular, many studies have followed a financial perspective of the acquisitions, whereas the mode of acquisition is analyzed (Agrawal *et al.*, 1992; Martin, 1996; Loughran and Vijh, 1997) instead of the *deal type percentage* of the acquisition[25]. For example, the mode of acquisition (i.e. merger or tender offer) has been studied in relation to the method of payment (i.e. stock financing or cash) to the extent to verify a control hypothesis (Martin, 1996). In particular, managers may be concerned about their control of the firm, whereas the findings suggested that the higher is the stock owned by managers, the higher is their concern to the loss of control (Amihud *et al.*, 1990; Martin, 1996; Jung *et al.*, 1996); in other words, managers increase their commitment if they are able to control a greater stock of the acquired company. Therefore, this idea should be easily transferred to the construct of the acquisition as a unit of analysis, whereas the strategic implications associated with the control of the acquisition reflect the managerial behavior of the acquiring companies.

In general, different strategies should be implemented by the acquiring company. For example, it may realize a *complete* acquisition, a *control* acquisition, or a *non-control* acquisition. Both the complete and control acquisitions enable the bidder company to achieve the power to manage the acquisition resources, nor the non-control acquisition (i.e. a minority stake acquisition). In other words, it will gain the corporate control of the acquisition, being consequently in charge to influence its performance. More over, it may increase or decrease its own stake within the acquired company through a subsequent acquisition, in general changing its corporate control position.

Whatever the strategy, it should be interesting to understand what the linkage between the acquisition form of control and the acquisition success or failure is;

[25] For a complete understanding of the way through which the deal type percentage (DTP) variable is computed in the present study, see Chapter IV, § 3.1.

that means, how the acquisition process will be managed to obtain above-normal economic performance. More deeply, if the bidder company is interested in achieving the acquisition control, then it will be more likely to create value through the corporate growth, and then to better manage the acquisition process.

Referring to the notion of corporate acquisition success presented in this work, the above considerations may suggest different hypotheses. The more the management will be involved in the acquisition process through a higher acquiring-controlled stake of the acquired company, the higher the economic performance of the acquisition shall be. Therefore, a first hypothesis follows:

Hyp 1: Strategies leading to acquiring-controlled acquisitions are positively related to the economic performance of the acquisition

With reference to the assessment of the efficiency of the acquisition, different consideration can be taken into account. In particular, the increasing level of the acquiring-controlled stake implies an increasing amount of the acquisition price, even if this positive variation of the price must be carefully evaluated by the acquiring management. In fact, an increasing level of the acquiring-controlled stake does not mean that the bidder has to pay a too higher price than the acquired stake value. Given these conditions, it is possible to argue that the acquisition success can be reached if the acquiring management is able to pay less than the target value. Therefore, the cost paid for the acquisition might be linearly related to the percentage of stakes acquired. In particular:

Hyp 2: Strategies leading to acquiring-controlled acquisitions are negatively, or at least not positively, related to the premium savings of the acquisition

Finally, the importance of the survival of the acquisition can be considered another crucial facet of the acquisition success. On this matter, I assume that the survival of the acquisition might depend on the managerial commitment to the operation. Therefore, the higher is the amount of stakes acquired, the longer the acquisition survival will be:

Hyp 3: Strategies leading to acquiring-controlled acquisitions are positively related to the survival of the acquisition

2.2. MANAGING THE FINANCING OF THE ACQUISITION

Since the issue of the acquisitions failure or success has been highlighted, much literature has taken into account the problem of how acquisitions must be financed. More specifically, many studies have tried to explain which the relation should be between the financing, through which it has been possible to implement an operation, and the performance of the acquisition. In particular, great attention has been posed on the applied to debt or its correlation to a firm's required performance to pay the debt[26] (Kim and McConnell, 1977; Van Horne, 1977; Hitt, *et al.*, 1990; Seth, 1990b; Harrison *et al.*, 1991; Chaganti and Damanpour, 1991; Hoskisson *et al.*, 1994; Mizruchi and Stearns, 1994). Much less attention has been dedicated to the applied to equity.

Debt and equity are usually considered as two opposite financing forms. Furthermore, both debt and equity rely on a different logic which has different implications in terms of financial and managerial strategies. Herein, the managerial perspective will be taken into account to comprehend if these two alternative financing forms should have a diverse impact on the managerial acquisition process and the acquisition success. In particular, the attention will be on the managerial advantages of the financing provided by equity, exploring its various forms (i.e. private equity, venture capital, etc.).

By the managerial point of view, financing provided by equity should be the source of various advantages relying on this instrument specific characteristic. Following, these characteristics are presented[27].

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[26] Many of the proposed studies present an empirical analysis to argue their hypotheses. It is important to note that the data utilyzed for these analyses consider acquisitions implemented throughout the eighties. Such a period, in fact, has been classified as the *fourth wave* of mergers and acquisitions, whereas one of its characteristics has been the higher number of leveraged transactions relying on the financing provided by the *junk bond* market. See Chapter I, § 2.3.

[27] A brief description of these characteristics has been offered above. See Chapter II, § 3.3.

Institutional investors are considered a *temporary partner* (Perrini, 2000), even if their participation into a company is usually associated with the medium and long-term of a firm's life. Institutional investors, in fact, have particular interests depending on their specific activity. Their aim is to achieve a conspicuous capital gain to be realized through the transfer of the acquired company's stock. They may offer tangible as well as intangible benefits. The former, for example, are first of all the contribution of new financial resources which imply all the equity specific characteristics. Furthermore, institutional investors contribute to increase, or radically construct whereas it could be lacking, a value based management perspective within the organization. The latter are a new network of relations outside the organization, a new and better image of the company, a professional and constant advising activity related to the management of the firm.

The problem here is to analyze how the above advantages and opportunities related to the financing by equity can be associated to the managerial acquisition process. More deeply, it has to be understood why these advantages deriving from the participation of an outside equity investor (i.e. institutional investor) within the operation can be the source of the acquisition success. In my logic, institutional investors may represent a *catalyst of the acquisition*. This assumption has been partially supported by prior empirical research. Black (1992) argued that institutional shareholders can take actions that more properly align managers' interests with those of shareholders; for example, by strengthening the institutional voice on the board of directors, and serving on the board itself. That means, institutional investors active participation in the managerial decision making might reduce the agency problems between management and ownership, or between acquiring and acquired companies. The same results are highlighted by Martin (1996) who verified the hypothesis of outside monitoring while studying the method of payment of corporate acquisitions. In particular, whereas the presence of institutional shareholdings and blockholdings is higher, the wealth of the acquiring firm's shareholders is higher, because those actors may be able to exert some form of influence on corporate managers' financing decisions. Those studies have typically considered a financial perspective of the corporate acquisitions, but

they are also important because suggested the influence of the institutional investors, or in general of the external equity financing, on the managerial decision making. Other financial researches focused on the relationship between the mode of acquisition and the form of payment (i.e. cash or stock; Loughran and Vijh, 1997), suggesting that those variables are not orthogonal and both influence the acquisition result.

Because of a managerial and not financial perspective, the present study would consider the financing forms of acquisitions, instead of the method of payment. In fact, focusing on the financing forms allow me to consider the relationship between specific financing forms (i.e. venture capital, private equity) and the presence of external equity actors (i.e. institutional investors), whereas that external intervention should have specific managerial implication. Therefore, acquisition success implies a huge spectrum of worthy implications for both the acquiring and acquired companies. If the operation can be considered as a successful acquisition, then the involved companies shall be able to measure the strategic, managerial and financial returns resulting from the implemented external growth strategy.

First, some questions may be: why do not companies consider the opportunity to request the external presence of an institutional investor? Why are companies not interested in alternative financial strategies should being substitutive of debt? Or more generally, are companies able to comprehend which resources and competences they need to grow? And which are the best options they have to gain such lacking resources and competences?

Looking at the Italian scenario, literature has widely suggested some of the possible answers to the above questions. Italian companies show their unwillingness to the presence of external members within the corporate structure of the organization. This is especially true if the attention is on SMEs whose ownership or managerial boards are composed of few individuals or a sole family. Generally, Italian SMEs lack of all the important factors that have been presented as the advantages and benefits related to the presence of an institutional investor. Consequently, if SMEs want to grow, they have to be conscious of all the opportunities

the outside market offers to facilitate the corporate growth process. In particular, the choice between debt or equity may be a good starting point to catalyze the acquisition process. Of course, the general lack of a managerial culture or a value based management perspective within the SMEs is strictly related to their low inclination to growth. Following a resource-based perspective, SMEs lack of those specific resources and competences, and in particular managerial and financial resources, that may allow them to develop their structure. Such resources, of course, can be acquired on the external market.

In fact, it is of great relevance that acquisitions represent one of the most effective and efficient ways to implement external growth strategies. This assumption implies that firms may achieve all the advantages related to the external growth strategies through an acquisition. Here, the reference is to the possibility to acquire resources that otherwise will be difficult to develop and obtain through internal growth strategy. Acquisitions enable companies to exploit resources owned by other firms, by acquiring them. For example, the bidder company will grow taking advantage of the retail stores of the target, as well as the latter will benefit of the managerial effort of the acquiring company. This is one crucial and actual point for the acquisition understanding: which the level of *resources redeployment* has to be (Anand and Singh, 1997; Capron *et al.*, 1998) between the involved companies. In my opinion, what is really important is how both the acquiring and acquired companies have to suffer the acquisition process. Resources redeployment is a necessary and useful process associated with acquisitions; at the same time, it must not compel a forced restructuring for one of the counterparts. Literature agrees on the problems related to the target company anytime an acquisition is going to be completed. Often, the acquired company hardly experiences the strategic orientation by the acquiring, in terms of managerial structure, strategic plans, etc. A general assumption can be accepted: the greater the intangibility of firm specific resources, the more difficult the comprehension of how to manage

those. This is way this study presents the notion of *resources sharing*, in reply to the above resources redeployment[28].

One of the firm specific resources to be shared is the managerial structure of the involved companies. Too frequently it is heard about acquired managers, or in general human resources, obligated too leave their company just because of the acquiring interests; and as much frequently such acquisitions fail because of those managers departure. Many studies have taken into account the importance of the managerial resources within the acquiring and the acquired companies by different points of view. Attention has been posed on the role played by managers (Hitt *et al.*, 1990), on the compensation or incentives of top managers (Johnson *et al.*, 1993; Bethel and Liebeskind, 1993; Schimdt and Fowler, 1990; Lewellen *et al.*, 1985), on the organizational tenure of managers (Bergh, 2001), and their permanence after the operation (Walsh, 1988 and 1989; Cannella and Hambrick, 1993; Krug and Hegarty, 1997 and 2001; Singh and Zollo, 2000; Russo and Perrini, 2003).

Following an agency theoretical perspective, it is easy to comprehend the conflict between the acquiring and acquired management. These actors, in fact, are representative of as many opposite interests and objectives that contribute to complicate the acquisition integration process. It is understandable that the presence of an external resource can increase the difficulties related to the acquisition managerial process. This may also be true for the above external managerial presence into those firms intending to exploit the financing provided by institutional investors.

A different interpretation is presented at this point. Institutional investors, in fact, are not interested in the long-term ownership of the target company. In other words, as mentioned above, even if their presence can stand several years, it will always be completed with the way-out of the company, when they will have achieved their interests. This is why, even if the financing provided by *external* (or *outside*) *equity* may be difficult and may create managerial conflict, in general the long-term benefits may be regarded as greater than these obstacles.

[28] The notion of *resources sharing* has been deeply presented in the above pages. See Chapter II, § 1.

Furthermore, the agency conflicts related to the presence of external institutional investors may be mitigate if the characteristics of the financing provided by equity and the institutional investors activity are considered (Black, 1992; Martin, 1996). In particular, institutional investors will be tied to the financed company by the direct participation into its managerial process. In fact, they will share the risk associated with the entrepreneurial activity because they directly join the ownership of the company (Black, 1992; Hoskisson and Hitt, 1988; Walking and Long, 1984; Jensen and Meckling, 1976). As mentioned, this assumption depends on the equity characteristics. Different is for financing provided by debt. The latter does not imply any risk strictly related to the managerial firm process. Debt providers are just concerned with the possibility that financed companies may not be able to fulfil their obligations, but they are not called to manage the firm activity. Equity providers, on the other hand, contribute to the managerial process and share the risk of their decision power. Moreover, it has been empirically verified that in contrast to equity, debt requires management to pay out cash flow, so they can't use cash flow even if for financing poor investment opportunities. In contrast, equity financing allow managers to use more discretion and is typically related to firms with good investment opportunities, since it makes it more likely that these firms can fully take advantage of their investment opportunity (Martin, 1996).

Institutional investors managerial role, as herein presented, has been recently considered by some researchers (Wright *et al.*, 2002; Kochhar and David, 1996; Hansen and Hill, 1991). During the past years, other analyses has been suggested, looking at the relationship between the role of institutional investors and corporate strategies (Shleifer and Vishny, 1986). Other studies have pointed the attention on the responsibility of other equity owners among corporate insiders (Bergh, 1995; Bethel and Liebeskind, 1993; McConnel and Servaes, 1990; Morck *et al.*, 1988), highlighting the interest for this type of owners and their contribution to the corporate strategy and performance. Finally, some authors have suggested how agency theory supports the equivalence between managerial owner and other owners of the firm (Hoskisson *et al.*, 1994; Morck *et al.*, 1988).

In particular, some authors have underlined the importance of the equity-sharing governance arrangements (Dyer *et al.*, 2001; Kale *et al.*, 2002). These authors referred to the equity-sharing governance arrangements as the best way to transfer knowledge between the parties involved in the acquisition. If both parties share the risk associated with the knowledge transfer and the managerial process through equity-sharing governance arrangements, they have more incentive to keep a non-opportunistic behavior. Two considerations are relevant on this matter: on the one hand, it does not matter if these studies take into account just the knowledge transfer, because knowledge can be considered as one of the most difficult to manage resources. As mentioned above, the most a resource is an intangible resource, the greater the complexity to manage it. This logic, indeed, can be easily extended to the other firm specific resources. On the other hand, equity-sharing arrangements are similar to risk-sharing arrangements, through which firms are more likely to implement a better managerial process. In other words, in my logic financing provided by external equity increase the reliability of the managerial risk-sharing in charge of the providers.

Other authors, studying the effects of ownership concentration, outside director equity holdings, and corporate strategy on the size and relatedness of units sold by parent firms, and their implications in terms of performance, gave other effort to my proposition (Bergh, 1995). In particular, both a high level of ownership concentration and/or of outside director equity influence the choice of the units to be sold. Furthermore, this relationship is strengthened when outside director equity is high. Therefore, a high concentration of outside directors sharing the managerial risk of the company through equity stockholdings seems to influence the corporate strategy. The problem for the present study is to measure if such a high concentration is positively related to the success of the decision making process through which the acquisition has to be managed. Some empirical effort in this direction has given by Martin (1996) with reference to the financial strategy related to the method of payment of the acquisition. As mentioned above, the wealth of the acquiring firm's shareholders has been found higher, because insti-

tutional shareholdings may be able to exert some form of influence on corporate managers' financing decisions.

These assumptions can be an initial effort to the proposition that financing through external equity is a catalyst of the acquisition process and success. Therefore, a hypothesis, can be suggested with reference to the positive relationship between the equity-sharing (or risk-sharing) and the acquisition success. In sum, the presence of institutional investors within the acquisition may be positively related to the improvement of lacking resources and capabilities for SMEs. Such resources are positively related to the acquisition success. Whereas the financing of the acquisition has been provided by external equity, in particular by institutional investors (i.e. venture capitalists, private equity funds, etc.), it is possible to hypothesize the acquisition success, because of the replacement of lacking firm specific resources and capabilities. Different considerations may be presented if the attention is on the *internal* (or *inside) equity*. Internal equity is realized when the acquisition financing does not imply an external presence within the organizational structure, or at least the external presence does not influence the decision making process. For example, financing is provided by a capital increase (i.e. through a private placing). In those cases, the absence of external professional managers (i.e. institutional investors), who may be helpful for the acquisition process and in particular for the post-acquisition integration process, might negatively influence the acquisition success. This assumption enables to present equivalence between the internal equity and the financing provided by the internal resources of the bidder company. For example, if the deal is completely or mostly financed by cash, whereas the other financing components are not external private equity, the acquisition will not benefit of the external presence of professional managers. Hence, a hypothesis is presented:

Hyp 4: The financing provided by external equity,
in particular by institutional investors
(i.e. venture capitalists), is positively related to
the economic performance of the acquisition

Different considerations can be argued with reference to the premium savings of the acquisition. In particular, a twofold consideration can be offered looking at the external equity financing characteristics. On the one hand, institutional investors' financing activity is generally characterized by high level of financial resources provided. On the other, those actors might exploit their specific competences in order to maximize the gains in efficiency associated with an acquisition. That means, institutional investors could be more likely to identify the fair cost to be due with reference to a specific operation than other managers might do. Exploiting their competences, external equity providers are allowed to comprehend at what level the acquisition price is going to be extremely higher than the target value, avoiding the opportunity of the acquisition. Therefore, the following hypothesis is suggested:

Hyp 5: The financing provided by external equity,
in particular by institutional investors
(i.e. venture capitalists), is negatively related
to the premium savings of the acquisition

Looking at the survival of the acquisition, the presence of an external equity providers might improve the life of the operation as well as the value created by both the acquiring and acquired companies. As mentioned, institutional investors are temporary partners (Perrini, 2000) which are involved in the acquired firm for a medium or long period, but preferring the buy-out from the acquired company after their interests have been achieved. Therefore, it is possible to assume that a longer period of time characterizing the existence of the acquired company after the focal acquisition will depend on the presence of institutional investors. Then:

Hyp 6: The financing provided by external equity,
in particular by institutional investors
(i.e. venture capitalists), is positively
related to the survival of the acquisition

3. CONTROL VARIABLES

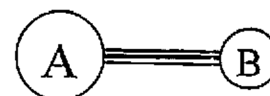
3.1. THE INFLUENCE OF DIVERSIFICATION STRATEGIES ON THE ACQUISITION PROCESS

Firms aiming to develop their business can take into account different strategies. In addition to the implementation of growth strategies through mergers and acquisitions, firms often consider *corporate diversification strategies* which consist in bringing multiple businesses within the boundaries of the firm (Barney, 2002). This simple explanation, suggesting what diversification strategies are, incites the consideration and analysis about the linkage between diversification and other growth strategies, as well as the opportunity for choosing diversification strategies among different alternatives. At the same time, such consideration implies that corporate diversification presents advantages and limits as well, which respectively improve or restrict the performance of the firm. Therefore, how and when diversification can be used are two of the most interesting questions on which literature is still investigating (Markides and Williamson, 1994).

During the past decades, many studies have investigated the corporate diversification, trying to deepen such a topic. Most of researchers have focused on the comprehension of the *relatedness* of the businesses incorporated within the boundaries of a firm. In particular, great attention has been given to the construct of relatedness, on which a very popular classification of diversification strategies has been based (Rumelt, 1974 e 1982). Rumelt's classification considers three different diversification strategies, focusing on the number of, and links between the businesses a firm is trying to pursue. Such classification is articulated as follow:

1. **Limited diversification**:
   a. *single business*: almost the total amount (95% or more) of revenues comes from a single business;

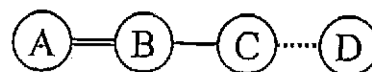
   b. *dominant business*: between 70% and 95% of firm revenues comes from a single business.



2. **Related diversification**:

a. ***related constrained***: less than 70% of firm revenues comes from a single business, and different businesses share numerous links and common attributes;

b. ***related linked***: less than 70% of firm revenues comes from a single business, and different businesses share only a few links and common attributes.



3. **Unrelated diversification**:

a. less than 70% of firm revenues comes from a single business, and there are few, if any, links or common attributes among businesses.

In general, the main difference between these three diversification strategies can be regarded as the different level of diversification, that is the number of businesses which a firm is aiming to engage in. Of course, the above difference distinguishes between the *limited* diversification on the one hand, and the *related* and *unrelated* diversification on the other. Both the examples of limited diversification (i.e. single and dominant business) show how a firm is not leveraging its resources and capabilities beyond a single market or industry (Barney, 2002); that essentially is what firms pursuing a related or unrelated diversification strategy are not allowed to do. Related diversification strategies imply the existence of links and attributes between the involved firms; that is, managers are likely to share many and different resources within the industries or markets in which firms bear. The specific amount of such links and attributes differentiates among *related constrained* and *linked* diversification strategies. In particular, the term constrained refers to the great deal of resources that different industries or markets present; managers, therefore, will engage in new industries or markets only if those share numerous resources, or are linked among similar dimensions with the industry or market a firm is currently pursuing. If those industries or markets share few resources, or are linked among very different dimensions, then managers will im-

plement a related linked diversification strategy. On the other hand, *unrelated* diversification strategy is pursued if a firm is engaging in many different industries or markets which do not present links or attributes among each others.

Related and unrelated diversification strategies can be considered much more popular, but difficult to implement at the same time, than the limited diversification strategy. As mentioned above, it is not clear how and when to implement diversification strategies and both those questions can be especially referred to related and unrelated diversification strategies which will be so on analyzed.

Although diversification strategies have been presented as an additional choice to the growth strategies allowing companies to develop their businesses, the linkage between these alternatives must be also underlined. In particular, diversification and growth strategies are related by the common *mode* through which they can be implemented: mergers and acquisitions[29]. This study is focused on the role of mergers and especially acquisitions in the process through which companies may be able to improve their value. This process has been based on the corporate growth required to firms which want to achieve an above-normal performance and build a competitive advantage. At the same time, diversification strategies hold an important position in the value creation process; as mentioned early, practice suggests the critical role acquisitions also play in the implementation of diversification strategies.

On this matter, given the importance attached to the relatedness of the diversification strategies, during the last years another issue has become to be of interest to strategic management research. In fact, strategic management researchers are questioning about the relationship between diversification strategies and performance of the firm (Chatterjee and Wernerfelt, 1991). This is a crucial and partially unsolved topic through which it may be possible to achieve a twofold result: on the one hand, it emphasizes the linkage between diversification and acquisitions; on the other, it underlines the importance in comprehending the relationship be-

[29] Of course, mergers and acquisitions are just one of the modes managers can implement for achieving a corporate growth objective. At the same time, those operations are generally considered as the most pervasive.

tween diversification through acquisitions and performance of the bidder and target companies. In particular, the diversification-performance relationship has been widely investigated (Venkatraman and Ramanujam, 1987; Hoskisson and Hitt, 1990; Keats, 1990; Hill *et al.*, 1992; Harrison *et al.*, 1993; Markides and Williamson, 1994 e 1996; Bruton *et al.*, 1994; Bergh, 1995; Palich *et al.*, 2000; Park, 2003;), but at the same time all those studies presented a lack of consensus regarding such a relationship. In other words, the diversification-performance literature has not been able to suggest consistent and interpretable findings, so as a general consensus concerning the nature of such a key relationship (Palich *et al.*, 2000). As mentioned at the beginning of the paragraph, it is not yet clear when and how diversification can be used to build a long-run competitive advantage (Palich, 2000, Markides and Williamson, 1994 e 1996; Hoskisson *et al.*, 1993; Hoskisson and Hitt, 1990; Seth, 1990a).

To analyze the nature of diversification-performance relationship it is crucial to identify the antecedents upon which such a linkage is built, as well as the multiple links and phases that is possible to recognize throughout the process starting with the implementation of a diversification strategy and guiding to the realization of economic performance. Diversification strategies have been generally associated with advantages derived from the possibility for a firm to exploit different resources. Of course, this advantage is specific for those kinds of diversification that have been classified as related and unrelated. This is because limited diversification does not imply the chance to bring external resources owned by other firms into the firm boundaries, but at best the possibility to build new internal resources and capabilities. In other words, the rationale leading to diversification strategies would be the opportunity to exploit resources and capabilities owned by other firms. Therefore, the sharing process of such resources between different companies may be considered at the base of the value crating process through diversification strategies[30]. Following this construct, it should be comprehensible the supe-

[30] By this point of view, it is clear and easy to underline the linkage between diversification and growth strategies, both enabling firms to develop their businesses exploiting the external existence of resources and capabilities that would otherwise be difficult to obtain. As mentioned before, such

riority of related diversification upon both limited and unrelated diversification strategies. Related diversifiers, in fact, are more likely to share resources and capabilities with other firms operating in related industries or markets, than limited or unrelated diversifiers. Limited diversifiers do not consider the possibility to develop their business basing their strategies on the sharing process involving other firms; in other words, limited diversifiers focus on a single industry. Unrelated diversifiers, even if are able to obtain specific advantages associated with unrelated diversification, do not consider the advantage to share external resources and capabilities. In particular, unrelated diversification strategies are usually associated with financial synergies a company should be able to generate, through which it reduces its industry specific risk. This is what portfolio theory suggests about the possibility to diversify the main corporate business in unrelated industries or markets. Furthermore, the lower risk deriving from the diversification in different businesses is sometimes referred to as the *coinsurance* effect allowing firms to decrease the probability of facing bankruptcy problems and leading to increased debt capacity at the same time (Kim and McConnell, 1977; Van Horne, 1977; Seth, 1990b; Palich, 2000). Moreover, financial synergies have been also investigated by strategic management researchers who have suggested that financial synergies occur when the resources provided by the acquired business are less expensive than they would be if purchased through the external financial market (Bergh, 1997). More specifically, unrelated acquisitions lead to financial synergies when they lower the acquiring company's cost of capital (Chatterjee, 1986; Singh and Montgomery, 1987; Bergh, 1997). At the same time, financial synergies have been considered one of the reasons that might influence the divestiture of unrelated acquisitions, whereas the others have been considered governance efficiency, managerialism[31], and coinsurance[32] effect (Bergh, 1997).

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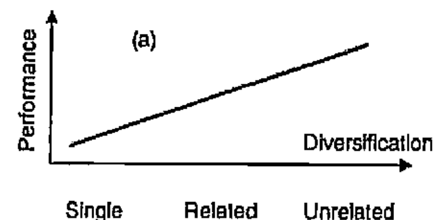
linkage becomes stronger if research considers acquisitions as the common mode for implementing corporate growth.

[31] Bergh (1997) defines *managerialism* as the efforts by managers to maximize their own self-interest. The same construct is also present in other studies (Lubatkin, 1983; Hitt *et al.*, 1998).

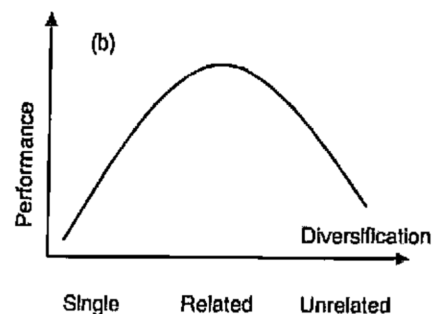
[32] Following Lubatkin and Chatterjee (1994), coinsurance is considered as the smoothing of variation in revenue and earnings streams achieved by acquiring companies that have negatively correlated revenue and earnings cycles (Bergh, 1997).

On the other hand, related diversification strategies present as other problems. For example, related diversification is also associated with costs, which are usually not referred to just as monetary costs (Markides, 1992). Diversification costs may be associated to control and effort losses, as well as coordination costs and other organizational diseconomies. Although benefits and weakness have been underlined for both related and unrelated diversification strategies, as mentioned above the superiority of related diversification is generally accepted. During the past years, this superiority has been empirically investigated and highlighted (Rumelt, 1974 and 1982; Bettis and Mahajan, 1985; Christensen and Montgomery, 1981; Montgomery, 1982; Palepu, 1985). Recently it has also been tested by synthesizing findings from three decades of research and comparing three competing models which have characterized literature and empirical studies (Palich *et al.*, 2000). These models emphasizing the relationship between diversification and performance are:

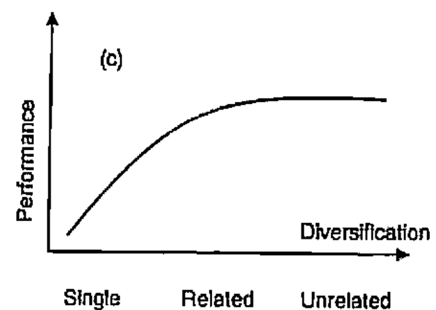
1. the *linear model*: diversification and performance are linearly and positively related; that is, the grater is the level of diversification, the higher will be the performance of the diversified firms;



2. the *inverted-U model*: performance increases as firms shift from single-business strategies to related diversification, but performance decreases as firms change from related diversification to unrelated diversification;



3. the *intermediate model*: performance increases as firms shift from single-business strategies to related diversification, but related and unrelated diversification are somewhat equal in their impact on performance.



Even if the relative performance contribution of related versus unrelated diversification is often debated, I agree with who consider the greater benefits of related diversification and its superiority in terms of performance, suggesting a preference for the inverted-U model (Palich *et al.*, 2000). Related diversification has to be preferred to unrelated diversification because of the greater advantages it generates then its specific costs. Unrelated diversification has specific advantages, but it also has costs that hamper performance (Palich *et al.*, 2000). This assumption is strongly supported by research, which is especially highlighting the superiority of related diversification strategies focusing on the advantages derived from economies of scope (Rumelt, 1974 e 1982; Bettis, 1981; Bettis and Mahajan, 1985; Seth, 1990a; Markides and Williamson, 1994 e 1996; Palich, 2000; Barney, 2002).

Economies of scope are generally considered as the crucial antecedent upon which it may be possible to develop a diversification strategy. By an alternative point of view, diversification strategies cannot be implemented if economies of scope do not exist (Barney, 2002). Following this last assumption, it is important to comprehend the role of economies of scope in the managerial process of a firm, whether it would be possible to gain an above-normal economic performance. In fact, the higher is the level of economies of scope a company is able to generate, the greater will be the returns the same company will earn through diversification if it should be able to share those economies of scope with the other involved companies. In other words, economies of scope might be considered as the economic value of corporate diversification (Barney, 2002). In particular, two conditions have been suggested for the corporate diversification to be economically valuable. On the on hand, the above existence of economies of scope among the different businesses a firm is operating in; on the other, the efficiency of the managerial process through which a firm is willing to develop such economies of scope. In particular, looking at the second condition presented herein, managing valuable economies of scope must be more efficient through internal forms of governance, than through external ones. The difference between internal and external forms of governance is referred to as the possibility to exploit alternatives

strategies enabling firms to develop their business. For example, internal forms of governance allude to diversification strategies which imply a hierarchical organization of the diversifying firm; that is, those firms develop internally the organizational structure which characterizes the linkages with the other companies involved in the diversification strategy. On the contrary, firms developing an external form of governance, exploiting alternative intermediate or market forms of governance, are not willing to encourage the diversification of the firm, but are more likely to choose alternative strategies through which improve their business. Therefore, if the management of internal forms of governance is likely to be more efficient than the management of external forms of governance, that means economies of scope a firm is able to achieve through diversification will be more efficient (i.e. less expensive) than economies of scope developed through external forms of governance.

If economies of scope do exist and represent the most efficient solution allowing firms to develop a diversification strategy, then it might be important to understand when economies of scope occur. On this matter, research showed a general agreement. For example, economies of scope will occur if (Rumelt, 1982):

1. there are increasing returns (or indivisibilities) to scale in the use of one or more essential factors of production;
2. transaction costs prevent an efficient market in the relevant factors, forcing integration;
3. there are limits on obtaining increased factors utilization by expanding the output of any single end-product.

An alternative and more straightforward contribution suggests *economies of scope exist because of the cost savings or revenue enhancements that a firm experiences because of the mix of business in which it operates* (Barney, 2002). Following this indication, economies of scope are realized when two or more organizations increase their value because of the co-operation they are able to begin. In other words, the value of the diversified firms should be greater than the value of the same firms acting independently if they haven't implemented the diversification strategy. Therefore, economies of scope can be related to the level of integra-

tion between the involved firms, and to the level of synergies those are able to generate. Of course, a higher level of integration may be also associated with an higher level of cost for the firms. These assumptions highlight some important practical as well as theoretical insights relative to the relationship between economies of scope and diversification strategies.

First, the existence of economies of scope implies the sharing of resources and capabilities between the involved firms. Firms being able to achieve economies of scope exploit resources and capabilities owned by other firms or share with these firms a specific resource, through which they increase the level of efficiency (i.e. those firms are spending less money, or in general resources, to gain a specific level of production[33]). Second, it is possible to assume a direct relation between the existence of economies of scope and the integration between the different companies. Firms exploiting economies of scope can benefit from several advantages (i.e. resources sharing) related to the integration with other companies, but at the same time they have to face all the problems (i.e. governance costs, incentive degradation, bureaucratic distortions) implied by the integration process (Palich, 2000). Third, the presence of economies of scope may imply a linkage between the implementation of diversification strategies and the management of the resource endowment characterizing an organization. This last assumption should play a crucial role in the explanation of the nature of the relationship between diversification strategies and performance characterizing diversified companies. In particular, it is possible to assume that the managerial commitment increases while two companies share the same industry or market, because of the existence of a similar resource endowment: the greater is the resources sharing between companies, the greater is the existence of economies of scope, and the greater might be the economic performance of the diversified companies.

[33] This case represents a typical example of economies of scale, that are realized if different firms all use a common input and if the cost of this common input falls as a function of its volume of production. By this point of view, economies of scale are an example of economies of scope (Barney, 2002), even if there are many examples of economies of scope that are not related to economies of scale.

The above assumption takes a twofold meaning: on the one hand, it emphasizes the linkage between resources sharing and diversification-performance; on the other, it shows the limits that literature on diversification-performance still presents. In particular, research has failed to consider the rarity and inimitability of the economies of scope that firms seek to exploit through diversification strategies; that is, it has not been pointed enough attention on the rarity and inimitability of firm specific resources upon which it might be possible to build a competitive advantage (Dierickx and Cool, 1989; Peteraf, 1993). In fact, resources play a crucial role in the explanation of the competitive advantage firms might build through diversification strategies. The deeper is the rarity and inimitability of firms specific resources, the higher will be the value of economies of scope leading to diversification strategies. When those resources are rare and difficult to replicate, then the economies of scope and the corresponding diversification strategies are valuable, that is those allow companies not just to gain above-normal economic performance, but also to build a competitive advantage. At the same time, valuable economies of scope are not necessarily rare and difficult to imitate: this is the case in which diversification strategies may lead to gain above-normal economic performance, but it is possible to assume that those do not allow firms to gain a competitive advantage.

Some effort has been made to shift the attention on the role of resources in the diversification-performance relationship (Markides and Williamson, 1994 and 1996), to the extent of clarifying how firms can build a competitive advantage upon diversification strategies. Markides and Williamson argued that the reasons why such disagreement exists can be twofold. In particular, to understand diversification:

1. the industry or market level is not enough. It's important to look at the relatedness between "strategic assets", and not just at the relatedness between industries in which firms operate;
2. economies of scope are not enough. What really matters is to create new strategic assets more quickly and cheaply than competitors.

Therefore, the problem is that the traditional measures research has used might be considered as good substitutes of the relatedness of diversified firms. Nevertheless, those traditional measures consistently ignore the evaluation of whether assets are *strategic assets*. That is, whether two firms operate in the same industry, this does not mean that those firms require the same strategic assets to build a long-run competitive advantage.

Although this work contributed to stimulate the discussion on the nature of the diversification-performance relationship, the problem is whether it should be possible to completely agree with the above considerations. It seems Markides and Williamson reversed the terms of the relationship between resources and economies of scope. In other words, while they consider economies of scope as an important short-term benefit of related diversification, they also assume the long-term benefits of relatedness come from allowing firms to more cost efficiently expand their stocks of strategic assets, that is, as mentioned above, to create new strategic assets more quickly and cheaply than competitors. In my opinion, those strategic assets are the antecedents of economies of scope, exploiting which companies choose diversification strategies to develop their business. If there are no strategic assets, then also economies of scope do not exist; in fact, economies of scope are valuable because of the higher returns (i.e. both cost saving and revenues enhancing) companies gain exploiting essential factors of production (Rumelt, 1982). Furthermore, a firm will choose to operate within an industry or market where its resources and capabilities are still valuable, that is an industry or market in which those firm specific resources and capabilities are rare and costly to imitate (Wernerfelt and Montgomery, 1988; Dierickx and Cool, 1989; Peteraf, 1993; Bruton *et al.*, 1994; Barney, 2002). Of course, the first diversification investment will be in a business that is closely related to the firm's original business, which some authors referred to as the *center of gravity* of the firm (Galbraith and Kazanjian, 1986; Hitt *et al.*, 1990). That investment will allow firms to exploit their resources and capabilities at a lower cost than within an unrelated business, that is exploiting economies of scope. Furthermore, unrelated diversification is a common means through which a firm's center of gravity is changed, but that

change in the center of gravity may create a problem for top management in their efforts to manage successfully. Top managers, in fact, often have strong knowledge of their firm's original center of gravity, but may not have the same understanding of the operations of the new industry or market (Hitt *et al.*, 1990; Bruton *et al.*, 1994).

Therefore, on the one hand the comprehension of the nature of the diversification-performance relationship is still far from being untangled. On the other, building my understanding of the nature of the diversification-performance relationship on the linkage between the resources sharing and the economies of scope two companies are able to exploit, I assume the importance of considering the relatedness of the diversified companies as an instrument to increase the success of the firm's corporate growth objective. Therefore, this study is not directly intended to investigate the diversification strategies, nor exclusively improve the comprehension of the diversification-performance relationship. The aim is to create a linkage between acquisitions and the relatedness of the industry in which firms involved in those operations compete. If controlling the diversification relatedness of the acquiring and acquired companies might help to suggest some new insights about the nature of the diversification-performance relationship, then the way the present research considers acquisitions and their fail or success may represent an alternative path to improve the understanding of the diversification-performance relationship.

3.2. THE SIZE-PERFORMANCE RELATIONSHIP OF THE ACQISITIONS

External growth strategies implicitly entail firms need to increase their dimensions[34]. Firms implementing external growth strategies feel the need for expanding their resources endowment because of several reasons: to gain a larger market share, to extend their geographical power, to diversify into new industries or mar-

[34] It is easy to comprehend that the same consideration may be done referring to the internal growth strategies. Nevertheless and as often mentioned, the focus of this study is on those strategies leading to the corporate growth through external acquisition of resources and capabilities. Therefore, as in the above pages, the reference will be to the external growth strategies.

kets, to attract more customers and investors, or simply because their core business is as much developed to require a "natural" increase in the firm's size. Resources and capabilities play a crucial role in this corporate growth process. As above mentioned, those resources might be the object leading to the strategic decision of increasing the firm's size; an example may be the acquisition by a *company A* of a *company B* holding a well developed chain of retail stores to improve the market offer and consequently customers' satisfaction. At the same time, resources and capabilities might be the meanings trough which growth strategies are implemented; by this point of view, implementing corporate growth strategies should be not possible if companies do not have specific competences which allow firms to manage the growth process[35].

Therefore, firm size represents a key issue which has implication by both the strategic and theoretical points of view for managers as well as researchers. In fact, firm size has been generally considered a crucial variable that often has not received the due attention by research (Palich, 2000), especially with reference to those studies which have focused on the strategic management of growth strategies. Furthermore, it is important to underline that strategies leading to a change in the firm size have to be considered a significant instrument both small and large companies can take into account. This last assumption is intended to confute the general belief that corporate growth strategies are a prerogative for just one but not the other of those firms. In other words, also SMEs, not just large companies, might be interested in implementing strategies leading to increase their dimension; in so doing SMEs might benefit by all the advantages related to larger dimension (i.e. a larger market share). On the other side, it is at the same time possible that large companies should be making plans for corporate growth, for instance with the intent to gain specific resources and capabilities which are internally difficult or costly to develop. Looking at the acquisitions as the common mode for implementing external growth strategies, it may happen that large companies acquire SMEs because those hold specific resources and competences; it may also happen

[35] These arguments has been already presented in the early pages of this work introducing the importance of corporate growth strategies and their linkage with acquisitions. See Chapter I, § 2.

that SMEs developing a new technology acquire large companies for exploiting their market outlets and commercializing such innovation[36].

Therefore, because my intent is to investigated the nature of the acquisition performance, what really has to matter is not how SMEs or large companies "manage" their size, but which the relationship between the size of the companies involved in the acquisitions and the performance of those operations is (Kitching, 1967; Hoskisson and Hitt, 1988; Hitt *et al.*, 1990 and 1998; Cannella and Hambrick, 1993; Haunschild, 1993; Bergh, 1995 and 2001; Very *et al.*, 1997; Haleblian and Finkelstein, 1999). That is, as in the previous paragraph the nature of the diversification-performance has been analyzed[37], herein the focus will be on the nature of the *size-performance* relationship of the acquisitions. At the moment, some details are required about the meaning of the terminology "*size-performance* relationship". The importance of the firm size has been briefly mentioned in these pages; herein I use the expression *size* considering the size of both the acquiring and acquired companies. In other words, I would control for the acquiring company's size as well as the acquired company's size. Then it should be possible to emphasize the nature of the relationship between the size of the firms involved in the acquisition and its performance. In so doing, once again it might be possible to provide some new insights on the linkage between growth strategies and performance.

Prior research has usually looked at the relative size-performance relationship suggesting different findings, that means that non homogeneous results have been highlighted. In particular, relative size is generally defined as the relationship between the acquiring company's size to the acquired company's size. For example, a negative relationship between relative size and acquisition performance has been found (Kitching, 1967; Waldman, 1983; Loughran and Vijh, 1997) suggesting the difficulties related to the acquisition process involving different size companies.

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[36] Although theory does not exclude the case that small firms might acquire larger companies, in practice it is difficult that such an event may happen. One of the reasons, and probably the easiest to comprehend, is the lack of financial resources that small companies have to face whether they should be interested in acquiring larger companies.

[37] See § 3.1.

For example, prospects for success are improved if a target is larger rather than smaller relative to an acquiring firm (Kitching, 1967); the executives within the acquired company generally have higher commitment to the acquisition when the size of their firm is closer to that of the acquiring company (Cannella and Hambrick, 1993; Bruton *et al.*, 1994; Very *et al.*, 1997); and the larger an acquiring firm is relative to the size of a target, the more managerial diseconomies might exist (Waldman, 1983). On the other hand, a positive relationship has also been found (Kuehn, 1975; Haleblian and Finkelstein, 1999). For example, acquiring a large firm requires more integration effort and, additionally, may strain the financial position of a purchaser (Kuehn, 1975). Other studies suggested a curvilinear relationship between acquisition performance and relative size of the acquisition (Bruton *et al.*, 1994). Bruton and colleagues examined a sample of distressed companies, suggesting that distressed target firms may need to be large enough relative to their acquirers to ensure sufficient attention from top management, but the acquirers may still need to be significantly larger than the targets to ensure necessary slack is available. Finally, other studies which controlled for the acquisition relative size of the acquisition found it does not significantly influence the acquisition performance (Fowler and Schmidt, 1989; Haunschild, 1993; Bruton *et al.*, 1994; Singh and Zollo, 2000; Bergh, 2001).

To the extent to consider the relationship between the acquiring and acquired companies dimension it is important to identify the factors leading to such a relationship. In other words, it should be important to comprehend if some specific reasons do exist driving companies to build a linkage with other different-sized organizations. As firms can be interested in develop their business through diversification strategies, choosing between related or unrelated industries or markets, firms can also try to increase their dimension deciding to build a relationship with other smaller or larger companies as well. Therefore, investing in different-sized companies might represent an alternative strategy firms want to pursue and researchers have to investigate.

Considering the reasons that might drive companies to invest in different-sized firms, strategic management literature usually considers the possibility for

looking at the resource endowment and the idiosyncratic characteristics of the target companies. In particular, research focusing on the resource-based view of the firm highlighted some specific resources characteristics which contributed to explain the cause-effect relation between investments and firm size diversity (Wernerfelt, 1984; Dierickx and Cool, 1989; Peteraf, 1993; Rumelt, 1984). Those studies emphasized the role of firm specific resources in the strategic process through which firms try to achieve above-normal economic performance; furthermore, if those resources are valuable, then they might allow companies to gain a competitive advantage. RBV provided one of its main contributes identifying which those firm specific characteristics might be to the extent to build a competitive advantage. In particular, resources have to be rare and difficult and costly to imitate if firms want to be able to build their competitive strategy upon those resources. This assumption allowed researchers to highlight the reasons at the base of many of the growth strategies firms are able to pursue. In fact, corporate growth can be justified by the willingness to obtain specific resources firms do not own. Although it should be clear firms can develop internally as well as acquire on the external market those resources, in the present study the attention has been pointed on the way companies manage the integration process due to the acquisition of other firms; that is, which the interest leading to invest in other companies is.

On this matter, large companies often may find very useful to invest in smaller companies to the extent to exploit their firm specific resources. Both research and practice suggest that SMEs hold idiosyncratic resources and capabilities otherwise might be difficult to find within large organizations (Hitt *et al.*, 1990; Perrini, 2000). This assumption has been recognized more likely if referred to managerial competences and intangible assets. In fact, managers being in the employ of SMEs have often showed themselves to be the real and major source of value for those companies; that is, SMEs can represent a stimulating working environment within which employees and in general resources generate a great deal of value. Moreover, SMEs generally hold the competences to develop innovations which may denote their attitude to create value. In particular, the latter assumption

has a twofold meaning. On the one hand, it explains why large companies are often interested in acquiring SMEs; that means large companies prefer to acquire on the external market specific resources (i.e. innovations, patent rights, etc.) instead of develop those internally. On the other, it shows the inclination of SMEs to allocate financial resources to the research and development (R&D) activity. In other words, SMEs are generally referred to as risk-taking and less formalized firms (Hitt *et al.*, 1990) characterized by a higher level of innovation. For example, literature has widely investigated the relationship between size and innovation, suggesting an inverted U-shaped relationship (Collier, 1983; Dougherty, 1979, Williamson, 1975; Schumpeter, 1961).

Furthermore, it is important to underline how research has investigated, and showed itself interested in, the role SMEs play in influencing the strategic orientation of a firm. Besides the above relationship between firm size and innovation and R&D intensity (Hitt *et al.*, 1990), often firm dimension has been investigated and related to other important issues, according to the evidence of the theoretical and practical interest in such a topic. For example, firm size has been also related to the form of control characterizing organizations. In particular, research has focused on the different forms of control managers are allowed to implement to the extent to achieve above-normal economic performance. Forms of control have been found to be related to the size and diversification of the firm (Hoskisson and Hitt, 1988). Looking at the diversification-size relationship as the influence firm size can exert on the performance of diversified companies, literature has underlined the existence of a linkage between diversification strategies and firm dimension. In other words, the emphasis researchers are actually giving to the diversification strategies and the nature of the diversification-performance relationship is the evidence of the great interest the construct of firm dimension is generating. In other words, firm size may be considered as one of the antecedents of diversification strategies; that is, managers might be driven to diversification strategies because of the need to develop corporate size[38]. Such assumption has been investi-

[38] For a specific description of the nature of the diversification-performance relationship, see § 3.1.

gated with reference to the self-interest managers might have to manage their company (Lubatkin, 1993; Bergh, 1997; Hitt *et al.*, 1998) in a way that leads to the decision of unrelated diversification strategies (Bergh, 1997). In fact, managerialism[39] has been pointed out as the source of the acquisition of a significant size relative target company. That means, larger companies are likely to implement unrelated diversification strategies involving other larger target companies, because of the need acquiring managers show themselves to achieve their self-interest; the larger is the managed organization, the greater is the possibility management has to increase its return. Therefore, one of the most important insights Bergh's research suggested is the existence of a relationship between firm's size and strategic management decision making process, with great emphasis on the choice of implementing unrelated diversification strategies. Bergh's findings supported his hypothesis of negative relationship between the size of the unrelated acquired firm (in relation to the acquiring firm) and the probability of divestiture. That means, unrelated acquired firms that did not contribute to cash flow were relatively small, and then were usually divested by managers.

The above considerations present the great interest research is pointing out on the firm size construct; those also present different interpretations of the firm size role in the managerial process, focusing on the several relationships literature have emphasized among firm size and other construct: innovation and R&D intensity, organizational structure and forms of control, strategic choices leading to the acquisition or divestiture of other companies. In particular, the present research would control for the influence firm's size may have on the acquisition success or failure. In other words, the intent is to investigate whether there might be some relationship between the dimension of the acquiring and acquired companies, and the performance and cost efficiency of the acquisition.

In my opinion size of the involved companies should not be a factor influencing negatively the acquisition result. In other words, the main problem is always

[39] Managerialism (Bergh, 1997) has been already presented in the above pages, introducing the diversification-performance relationship and the unrelated acquisitions benefits and losses. See § 3.1.

the managerial commitment which is the base of the acquisition process. If managers are able to figure out the acquisition process preserving the corporate interests instead of maximizing their self-interest, then firm's relative size will be evaluated as an *ex ante* condition which might influence positively as well as negatively the acquisition process. An example will clarify such a consideration: if a big company is interested in acquiring a smaller company because of the specific resources that target firm holds, then the bidder company's management will be engaged in the evaluation of the acquisition process as a whole. Great attention must be posed on several variables which might have consequences on the post-acquisition process, such as:

- *strategic orientation*: acquiring and acquired companies might influence each other's strategic interests, then it might be important to take into account the strategic fit characterizing the operation (Lubatkin, 1983; Singh and Montgomery, 1987; Haspeslagh and Jemison, 1991; Greenwood *et al.*, 1994);
- *organizational structure*: acquiring managers have to consider if the organizational structure of the target company in order to measure the organizational fit of the operation (Singh and Montgomery, 1987; Haspeslagh and Jemison, 1991; Datta, 1991; Greenwood *et al.*, 1994; Larsson and Finkelstein, 1999); for example, managers must be able to prevent eventual cultural clashes occurring throughout the post-acquisition integration process;

In sum, size of the involved companies might not be a problem for the post-acquisition integration process if it has been adequately evaluated throughout the prior phases which have led the bidding management to the acquisition choice. Otherwise, if the acquisition between different-sized companies has been driven by a "managerialistic behaviour" (Bergh, 1997), then it is possible that the acquisition should fail. This is why, the present research would control for the size-performance of the acquisition, considering the possibility that the size of the acquiring and acquired companies is positively, or at least not negatively, related to the acquisition success.

3.3. EXPERIENCING THE ACQUISITION PROCESS

The acquisition process can be considered as an evolutionary process which is influenced by internal as well as external factors (Haspeslagh and Jemison, 1991). The latter depend on the environmental dynamism characterizing the industry or market in which firms are operating; the former are strictly related to the managerial process characterizing an acquisition. However, both the internal and external factors imply that the managers involved in the acquisition should hold specific competences through which being able to identify those factors and consequently adapt the acquisition process. The dynamic aspect of the acquisition process is more emphasized if related to the acquisition specific peculiarities. In other words, acquisition are often referred to as operations which differ one from each other, each of those holding specific characteristics; then, it is easy to comprehend that managing one acquisition might be extremely different from managing another one (Haleblian and Finkelstein, 1999). Some of the variables influencing the acquisition diversity are presented in this work, such as the control of the acquisition, the specific financing form of the acquisition, the relatedness of the involved companies, the relative size of the acquisition. Moreover, literature is emphasizing the importance of the previous acquisition experience for the management of the acquisitions. That is, if the acquiring companies have already experienced the acquisition process, they might probably have learned the best way to achieve their interests through acquisitions (Kitching, 1967; Haspeslagh and Jemison, 1991; Haunschild, 1993; Ingram and Baum, 1997; Haleblian and Finkelstein, 1999).

Looking at the previous acquisition experience construct, recent literature is investigating if there might be a relationship with the acquisition performance (Lubatkin, 1983; Fowler and Schmidt, 1989; Haunschild, 1993; Bruton *et al.*, 1994; Ingram and Baum, 1997; Hitt *et al.*, 1998; Haleblian and Finkelstein, 1999; Singh and Zollo, 2000; Bergh, 2001; Hayward, 2002). Findings provided by literature showed that although great importance has been given to the idea that previous acquisition might influence positively the present acquisition results, there is not agreement on the direction of this relationship. For example, Haleblian and Finkelstein (1999) presented a deep study on previous acquisition experience in

which many important factors affecting the acquisition process have been investigated, such as the amount of experience of acquiring firms, the level of similarity among the prior and present acquisitions, the level of generalization acquiring firms are willing to use for subsequent acquisitions. Haleblian and Finkelstein found both positive and negative effects of acquisition experience depending on the above factors. In particular, acquisition experience had a negative influence on acquisition performance when a firm's present acquisition was dissimilar to its prior acquisitions for moderately experienced acquirers. The higher performance was achieved by both firms without experience who did not make a wrong generalization of the acquisition process, or firms with a significant amount of experience which were able to judge correctly the differences among prior and present acquisitions. As an overall result, Haleblian and Finkelstein verified the hypothesis of an initial decrement in performance, due to inappropriate generalization, followed by a subsequent improvement in performance, due to expertise. In other words, when experience across all acquirers was examined, the effect of acquisition experience on the acquisition performance was U-shaped. Finally, in few cases a positive relationship was found if firm's current acquisition was similar to its prior acquisitions[40].

Moreover, Hitt and colleagues (1998) found a positive relationship between the previous acquisition experience and the acquisition performance; they suggested that acquiring companies with a high experience are more likely to achieve synergies between their assets and the acquired company's assets, as well as an effective and efficient post-acquisition integration process. In fact, if acquiring firm or both the acquiring and acquired firms had considerable acquisition experience, then those firms had more experience integrating different cultures, and achieving a dynamic equilibrium more quickly and smoothly in the integration of the two firms' assets and resources.

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[40] Similarity among prior and present acquisitions can also partially explain the superiority of related acquisitions over unrelated acquisitions. In fact, the results suggest that those firms that make acquisitions within the same industry benefit by generalizing past acquisition knowledge (Haleblian and Finkelstein, 1999; Hayward, 2002). For the superiority of related versus unrelated acquisitions, see *supra*, § 3.1.

A positive relationship has also been highlighted by Fowler and Schmidt (1989) whose study was based on the analysis of tender offers; their findings indicate that, on average, acquisition performance improved significantly for organizations that had previous acquisition experience, acquired a higher percentage of a target, or were older. In particular, acquisition performance increases when the number of prior acquisition is higher. Furthermore, Bruton and colleagues (1994) focused their attention on the examination of distressed firms[41], suggesting a positive relationship with acquisition performance, and a negative relationship between acquisition performance and firms not distressed.

The previous acquisition experience has been also studied looking at the temporal interval between the focal and prior acquisitions (Hayward, 2002). In particular, an inverted U-shaped relationship has been hypothesized between the focal acquisition performance and *a)* the prior acquisitions, and *b)* the time elapsed between the focal acquisition and the one before it. In both circumstances, the hypothesized inverted U-shaped relationship has been verified, suggesting the importance of managing the right acquisition at the right time (Hayward, 20002).

At the same time, other studies showed the previous acquisition experience to be a non-significant predictor of performance (Bergh, 2001; Singh and Zollo, 2000). This finding confirms the mixed results presented by the received literature on the performance implications of previous acquisition experience as well as the need for a deeper analysis of this topic. In other words, it might be argued that acquiring companies have great potential to learn from their experience, but not always those are able to realize that potential (Hayward, 2002) because of the difficulties related to the management of the acquisition process.

The present study aims to control for previous acquisition experience, in order to examine which the effects on the acquisition performance might be. Given the received literature, it is now clear some effects do exist, even if more effort is required to pursue a more general comprehension of this issue. In other words, this study would control if some influence of the previous acquisition experience

[41] Distressed firms are defined as those firms having two consecutive years of declining net income and return on investment prior to the acquisition (Bruton *et al.*, 1994).

might exist upon the control of as well as the financing form of the acquisition. Furthermore, because of the aim of investigating the managerial process characterizing acquisitions, then it might be possible to highlight new suggestions related to the experience and knowledge accumulation by managers involved in the acquisition.

Given the above assumptions and the received literature, it can be easy to comprehend how difficult the analysis of the previous acquisition experience might be. First, previous acquisition experience difficulties can be related to the managerial incapacity to separate prior acquisition activity from the present activity, and the outcomes of organizational experience might depend on the similarity between past acquisitions and the present acquisition. As mentioned at the beginning, each acquisition might be very different from the others. Secondly, the previous acquisition experience must be appropriately applied or disregarded in managing a new acquisition (Haleblian and Finkelstein, 1999). Diversities might occur because of the different industry or market firms are pursuing in, the different size characterizing the involved companies, but also because of more specific peculiarities, so as the organizational culture, the managerial orientation of both the acquiring and the acquired companies.

In sum, the present study is not intended to examine the previous acquisition experience and its construct. The aim is to control for the previous acquisition experience of the acquiring companies, to the extent to highlight its effects on the present acquisition performance. Given the above literature and considerations, I expect that previous acquisition experience might have a positive influence on the present acquisition success.

3.4. How much does an external advisor matter?

Acquisitions are generally considered as complex operations which can allow the involved organizations to gain positive as well as negative results. Organizations must be prepared to face all the problems associated with the acquisition process, especially with reference to the last stages of the post-acquisition integration process. Therefore, it can be assumed that acquisitions success or failure

might also depend on the firm specific competences through which both acquiring and acquired companies can manage the acquisition process. The higher is the quality of those competences the higher the probability that the acquisition can succeed. At this point one consideration can be highlighted. If great uncertainty still exists on the nature of the competences leading firms to the strategic choice of corporate acquisition, different conclusions can be drawn with reference to the nature of the competences required for managing the acquisition process. In particular, managerial competences might be hold by companies to the extent to gain positive results through acquisitions. Furthermore, those managerial competences must be strictly related to the acquisitive process.

This theoretical assumption has been partially confirmed by prior research. In particular, some authors argued the need for a dedicated function within the organizational structure in order to build the expertise needed for gaining a competitive advantage (Dyer *et al.*, 2001). Such a dedicated function can be considered as the leverage that firms can exploit for managing the acquisition process. It provides firm specific knowledge facilitating the integration between the involved companies. What is important is how this specific knowledge can be created within the organization.

By a practical point of view, companies generally consider the alternative between the external instead of internal approach allowing them to create and manage the acquisitive process. The dedicated function is a representation of the internal approach, through which organizations develop internally the acquisitive competences; on the other hand, the external method is based on the outsourcing process allowing companies to exploit external competences which could be more difficult to develop internally. Looking at the acquisitive process, such an external approach can be identified with the presence of an external advisor, in charge of aiding the acquiring and acquired companies to reach their growth objectives. External advisors are experienced managers able to offer specific knowledge leading to a twofold result. First, they can directly influence the acquisition process; secondly, their mediation can improve the integration between the acquiring and acquired companies because of the new competences they provide.

Such an external intervention has been rarely investigated by prior research. In particular, few are the contributions emphasizing the role of an external advisor within the implementation of different corporate operations (Bergh and Wrafter, 2003; Hayward, 2002; Servaes and Zenner, 1996; Kesner *et al.*, 1994; Hunter and Walker, 1990; McLaughlin, 1990). For example, Bergh and Wrafter (2003) pointed the attention on the role of the managerial intervention of external consultants on the performance of the firm. They found a positive linkage between the results firms are able to achieve if their activity is supported by external managers in charge of sustaining the production process. On the other hand, Hayward (2002) controlled for the presence of an external advisor to the extent to verify the influence of the external intervention on the acquisition performance. In particular, he found acquisition performance and the presence of an external advisor are negatively correlated. The reason of this relation can be found in the opportunistic behavior by the external advisor whose revenue is usually a percentage of the deal value (McLaughlin, 1990); therefore, advisors face some incentives to recommend offers that are highly priced to complete deals which results in higher premiums and lower acquisition performance (Hayward, 2002; Kesner *et al.*, 1994). By an alternative perspective, that is an agency theoretical perspective, Kesner, Shapiro and Sharma (1994) investigated the potential conflict of interest in the relationship between investment bankers (i.e. the external advisor) and the firm they represent during merger negotiations. They found that conflict does exist if the acquiring side of the operation is taken into account. In other words, bidder companies and their advisors have a divergent interest whereas the former lead to the premium savings, but the latter have the opposite interest because their revenue is directly related to the premium of the acquisition (McLaughlin, 1990).

In the present study, my aim is to control for the presence of an external advisor, in order to understand whether that external intervention might have some kind of influence on the acquisition success, as well as give more effort to that previous and controversial literature. I would expect the presence of an external advisor might positively influence the acquisition performance because of the

managerial support those experienced managers can provide to the acquisition process as a whole.

3.5. THE BEST MOMENT FOR THE BEST ACQUISITION

Researchers and practitioners generally highlight the importance of completing the right acquisition at the right time. This is to say that time represents another important factor affecting the acquisition process, by an internal as well as external point of view respect to the organization's boundaries. The former can be considered strictly related to the managerial competences through which managers decide to acquire a specific target company in a specific moment as well; the latter has implications that can be associated with macroeconomic factors which can more specifically address the comprehension of strengths and weaknesses of the acquisition process. In other words, the moment in which an acquisition is completed might show itself as a source of several indications about the difficulties the acquisition process can run into.

Looking at this assumption, researchers are trying to investigate the linkage which might exist between the moment an acquisition is completed and its performance, to the extent to keep under control the influence specific events might have on the acquisition process. In general, prior research has found the period effect does not affect the acquisition (Haunschild, 1993; Loughran and Vijh, 1997; Haleblian and Finkelstein, 1999; Hayward, 2002). Considering this result, I can argue that different reasons can be found. For example, often researchers consider a specific and limited period of time throughout which acquisitions are completed; that means, this period implicitly presents some kind of linkage with the main construct researchers are looking for. Furthermore, more attention might be given to the consideration of specific macroeconomic factors affecting the acquisition and strictly related to the year acquisitions are completed, even if few attempts have been done in this direction (Haunschild, 1993). Haunschild (1993), for example, measured those factors through annual gross national product, cost of capital, and stock market indexes. In sum, the increasing attention given to the time of the acquisition is suggesting the need for considering this issue within the analysis

of the acquisition process, in order to try to improve the comprehension of which the best managerial practice related to this process can be.

IV. METHODOLOGY

1. THE SAMPLE

The hypotheses of the present study would be tested with a sample of acquisitions completed between 1998 and 2002. The initial sample was constituted of 3051 acquisitions, but it has been subjected to a selection process to the extent to obtain all the information required for the present study. In particular, two different criteria have been followed to construct the sample. On the one hand, *ex ante* conditions have been defined to identify which operations could be considered within the sample; then, more specific restrictions have been applied in order to improve the validity of the sample.

The 3051 acquisitions were selected from the *Zephyr*[42] database which collects data related to mergers and acquisitions (M&A), initial public offering (IPO) and venture capital within the European countries[43], also providing detailed financial company information. Zephyr information refers to a period covering the years since 1997 through date. Therefore, the first *ex ante* consideration has been to consider all the operations concluded until the end of 2002. Secondly, only the

[42] Information about *Zephyr* database is available at *http://zephyr.bvdep.com*.
[43] The *Zephyr* database is also expanding to cover more American and Asian transactions which will be available from mid 2002 and early 2003 respectively.

Italian acquisitions have been considered within the sample. In particular, Zephyr database allows users to separately select the bidder and the target companies' home country as well; therefore, only the Italian bidder and target companies have been added to the sample. In so doing, the present study would focus only on the Italian market of mergers and acquisitions because of two reasons: the Italian market has been rarely investigated by prior empirical research, and the present study might represent a stimulus to future research as well as a way to analyze the specific Italian business model characteristics[44]. Third, among the Italian acquisitions no specific industries have been chosen to the extent to develop as much as possible the analysis (see Dess *et al.*, 1990 for a complete review of industry effect). In other words, choosing different industries is useful to test whether the findings are replicable across industries (Hayward, 2002). Finally, no previous considerations have been made about the size of the acquiring and acquired companies. In other words, large, small and medium enterprises have been included in the sample in order to analyze the size effect on acquisitions. On this matter, prior research often emphasized the necessity to consider small acquisitions, because of the lack of studies focusing on SMEs (Cannella and Hambrick, 1993; Hitt *et al.*, 1998; Haleblian and Finkelstein, 1999; Bergh, 2001). It is easy to comprehend that one of the main reason leading to such a way to construct samples in prior research is due to the lack of information related to SMEs.

In sum, the sample has been constructed starting from a general consideration of the heterogeneity of the acquisitions. In other words, a contingency framework has been proposed in order to avoid some typical limitation prior research presented. Therefore, acquisitions have been referred to as a "homogeneous phenomenon" (Lubatkin, 1983) which must be analyzed by alternative perspectives (Rumelt, 1982; Lubatkin, 1983; Fowler and Schmidt, 1989; Hitt *et al.*, 1998; Hayward, 2002).

Once the above *ex ante* considerations have been applied to construct the initial sample, other considerations related to each operation have restricted the di-

[44] Some of the characteristics of the Italian business model have been briefly presented in the above pages. See, for example, Chapter I, § 3.2.

mension of the sample. Of the 3051 acquisitions, only the completed acquisitions have been chosen, excluding the announced acquisitions, rumors and withdrawn acquisitions. Such a criterion has been applied in order to examine the post-acquisition effects following each of the completed operations. Furthermore, each acquisition has been classified considering the type of operation (i.e. minority stake, majority stake, etc.). In so doing, the number of acquisitions is decreased from 3051 to 1959. Afterwards, some financial considerations have been applied. In particular, the 1959 operations have been classified looking at the financing form of the acquisition; because of the lack of information is usually possible to collect about the financing form of the acquisitions, the sample has been reduced to 387 operations. Other restrictions occurred searching for the cost of the acquisitions, that is the amount paid by the acquiring company to the acquired company. Of the 387 operations, only 195 presented the cost of the operation. The last information related to each acquisition referred to the percentage of stocks acquired by the bidder companies. Therefore, 141 acquisitions have been classified with reference to the known percentage of acquired stocks. Finally, financial and income information related to both the acquiring and acquired companies involved in the acquisitions were required for the analysis. Therefore, balance sheets and income statements were collected.

The final sample was restricted to 77 operations involving acquiring and acquired Italian companies, with no restrictions related to the industries or size of the companies. Looking at the prior research this sample might be considered large enough to ensure the validity of the results (Cannella and Hambrick, 1993; Harrison *et al.*, 1993; Kesner *et al.*, 1994).

2. THE DEPENDENT VARIABLES

2.1. THE RETURN ON ASSETS OF THE ACQUISITIONS

One of the main objectives of the present study is to investigate the acquisition success and verify if a linkage with the economic performance of the firm

there might be. Herein, the success or failure of the acquisition has been computed through a classical measure of the economic performance of the acquisition that is the *return on assets* (*ROA*) of the firm (Barney, 2002). One consideration can be argued on this point. Prior research has typically referred to the acquiring ROA, whereas the economic performance of the bidder companies has been considered as the representation of the overall acquisition outcome (Harrison *et al.*, 1993; Bergh, 1995; Singh and Zollo, 1998 and 2000). In the present study, I refer to this literature in order to measure the acquisition success, even if in my opinion greater attention must be also given to the target side of the acquisition; in other words, researchers might take into account the opportunity of empirically testing the acquired firm's economic performance considering it as a proxy of the acquisition results.

In order to measure the acquiring ROA a continuous variable called *RETURN ON ASSETS* (*ROA*) has been computed. Furthermore, the average ROA of the acquired companies has been taken into account, whereas the average has been computed on a five-year period (Datta and Grant, 1990). Of course, it has not been possible to consider a five-year period for all the operations included in the sample because of the recent date on which some of those have been concluded. Data about the simple accounting measure of the economic performance of the acquisitions were collected from *AIDA*[45] database for the industrial and commercial firms, and from *BANKSCOPE*[46] database for the acquired banks included in the sample.

2.2. The Premium Savings of the Acquisition

This study has been based on the purpose of deepening the general comprehension of the acquisition success construct. This objective wanted to be achieved because of the belief that measuring the economic performance of the acquisition,

[45] *AIDA* database collects balance sheets and financial information about more than 200.000 Italian companies. For more information see *http://www.aida.bvdep.com*.

[46] *BANKSCOPE* database collects financial information on more than 13.000 world banks and financial companies. For more information, see *http://www.bankscope.bvdep.com*.

even if necessary, is not enough. This idea does not originate just from the limits of the classical measures of the economic performance of the acquisition, but it also is a likely consequence of the attempt several researchers did to the extent to investigate the managerial process characterizing acquisitions by alternative points of view (Hoskisson *et al.*, 1994; Bergh, 1995). On this matter, I emphasized the efficiency of the acquisition, whereas this construct refers to the importance of considering the premium to be paid for an acquisition as one of the critical factors which can influence the acquisition success.

Prior research has generally suggested the role of the premium assessment on the overall acquisition success (Lubatkin, 1983; Jemison and Sitkin, 1986; Barney, 1988 and 2002; Hitt *et al.*, 1990 and 1998; Datta *et al.*, 1992; Harrison *et al.*, 1991 and 1993; Bruton *et al.*, 1994), but it has rarely investigated the relationship between the efficiency of the acquisition and its performance with empirical analyses. On the other hand, practitioners suggested more attention is required on the high acquisition premiums too often bidding managers paid. In particular, two considerations have to be done. First, it is not always clear which the real motivations driving acquiring management behavior are, to the extent which managers can often be driven by specific and corporate disruptive self-interests (Bergh, 1997); second, it should be methodologically interesting to consider the price paid by the acquiring firm and relate it to the acquisition success.

In order to investigate the efficiency of the acquisition, a new variable has been created and called *PREMIUM SAVINGS (PRS)*. Following a practical scheme, PRS has been computed as the difference between the deal value of the acquisition and the book value of the assets being acquired. Furthermore, I preferred to consider a relative measure of this difference, whereas it has been divided again by the book value of the assets being acquired. Furthermore, for all these measures the logarithm has been considered in order to reduce the variance within the specific interval. The logic used to compute PRS was twofold. On the one hand, I wanted to measure how much the acquiring companies were saving after the acquisition; that is why I considered the difference between the deal value of the acquisition and the book value of the target firm's total assets. In par-

ticular, the book value represents a good proxy of the acquired company's value, to the extent of allowing me to understand if the bidding companies were paying a too high price than the acquired value. On the other hand, a ratio has been considered in order to have a relative measure through which it was possible to highlight the relative spread existing between the price paid and the total assets of the acquired firm. Information about the deal value of the acquisitions was collected from Zephyr database. Data about the book value of the total assets of the target firms were collected from the AIDA database for the industrial and commercial firms, and from BANKSCOPE database for the acquired banks included in the sample.

2.3. The Survival of the acquisition

A third measure of the acquisition success considered in the present study was the survival of the acquisition. Recent research is increasingly suggesting the need for deepen the above construct, because of the relevance of investigating the acquisition process by alternative points of view. In particular, the longevity of the acquisition has been considered as one of the most important factors allowing researchers and practitioners to comprehend if an operation could be denoted as a success or failure (Bergh, 1997 and 2001; Markides and Williamson, 1996; Hitt *et al.*, 1990). In general, what prior research is trying to emphasize is the importance of retaining instead of divesting several firm specific resources or the acquired company as a whole.

In the present study, the survival of the acquisition has been investigated, whereas the emphasis would be placed on the acquired side of the acquisition. To look at the acquired side of the acquisition is a way to underline the strategic role the target firm can play within the acquisition process; at the same time, it emphasizes the importance of considering the acquisition as a two-way relationship in which both the acquiring and acquired companies hold strategic and managerial competences which might allow the acquisition as a whole to gain positive results if they are willing to share their competences.

Prior research has not deeply investigated the acquired side of the acquisition (Hoskisson and Hitt, 1988; Datta and Grant, 1990; Cannella and Hambrick, 1993; Brush, 1996; Very *et al.*, 1997; Bergh, 1997), although some empirical attempts have been done (Hoskisson *et al.*, 1994; Bergh, 1997 and 2001). This literature has generally measured the survival of the acquisition in terms of the number of acquisitions which were divested or retained, but it didn't look at the period of time elapsing between the completion of the acquisition and a following moment corresponding to the end or survival of the target firm. An exception could be the study by Bergh (2001) in which he investigated what he called the organizational tenure of acquired top executives and its eventual influence on the outcome of corporate acquisitions. Organizational tenure was operationalized as the mean number of years each of the acquired company top executives had been employed at the time of the acquisition. In so doing the author pointed the attention on this specific factor affecting the success of the acquisition that is the time through which acquired managers achieved their specific competences. As mentioned, in the present study I would analyze the survival of the acquired companies which might represent not an antecedent of the acquisition performance, but a representation of the acquisition outcome: the longer the survival of the target firm after the focal acquisition, the stronger the managerial competences supporting the acquisition can be considered.

In order to measure the survival of the acquisition, a new variable has been created and called *SURVIVAL (SUR)*. SUR has been operationalized as the number of years between the conclusion of the focal acquisition and the last moment characterizing the acquired firm activity. In particular, the latter could be either the end of the target firm activity (i.e. the divestiture, merger, bankruptcy, etc.) or the last year considered in the sample, which is 2002, whereas the acquired firm survived after the acquisition. A continuous variable has been computed, whereas it was coded 0 if the target firm terminated its activity the year of the focal acquisition; otherwise, the number of years after the focal acquisition was counted. Information about the legal status of the acquiring and acquired companies was collected from AIDA database.

3. THE PREDICTORS

3.1. THE DEAL TYPE PERCENTAGE OF THE ACQUISITION

Acquisitions usually imply one of the involved parties might exert its control on the other. This assumption has particular influence on the management of the acquisition, whereas who is in charge of imposing the strategic orientation of the acquisition, that means to control the management of the acquisition process, might also be able to influence the acquisition performance. I built this assumption taking for granted the consideration offered by previous literature focusing on the market for corporate control (Jensen and Ruback, 1983). Prior research has rarely emphasized the need for considering the importance of controlling the acquisition to the extent to affect the acquisition performance (Fowler and Schmidt, 1989). In particular, the control of the acquisition has been operationalized looking at some kind of specific variables implying the linkage between the acquiring and acquired companies after the focal acquisition. I was able to find just one paper emphasizing the importance of this issue. In particular, Fowler and Schmidt (1989) investigated the percentage of a target firm's outstanding common stock owned by an acquiring firm subsequent to a tender offer. They found that the percentage acquired explained a significant portion of the change in abnormal return on common equity; presumably, as the percentage acquired increases, more control is exerted over a target and integration effectiveness is enhanced.

Other prior research has generally investigated the mode of acquisition (Agrawal *et al.*, 1992; Martin, 1996; Loughran and Vijh, 1997), but not the control the acquiring as well as the acquired company can be able to wield on the counterpart. Looking at the mode of the acquisition does not imply the chance to consider the relation that might emerge between the involved parties after the focal acquisition. In other words, if researchers focus on the differences associated with the conclusion of a merger instead of a tender offer, they won't probably be allowed to deeply comprehend which the antecedents influencing the acquisition process are. I believe the control of the acquisition might be one of those factors

managers as well as researchers have to take in considerations in order to untangle the success or failure of the acquisition process.

Following prior research (Fowler and Schmidt, 1989), a continuous variable has been created and called *DEAL TYPE PERCENTAGE (DTP)*. It is the percentage of the target firms' stock acquired by the bidding companies after the focal acquisition. Data about the amount acquired for each operation were collected from Zephyr database.

3.2. THE DEAL TYPE FINANCING OF THE ACQUISITION

Prior research has usually taken into account the method of payment characterizing acquisitions, whereas looking at the method of payment instead of the form of financing implies a financial perspective of the acquisitions. That is, analyzing whether an acquisition has been paid through cash or stock allows researchers to emphasize the financial implications that a specific payment choice should have on the acquisition returns. Moreover, most of that literature is generally related to the financial theory of mergers and acquisitions[47] (Jensen and Ruback, 1983; Agrawal *et al.*, 1992; Martin, 1996; Loughran and Vijh, 1997; Hayward, 2002). For example, Loughran and Vijh (1997) found that on average the acquirer stock returns are greater than matching stock returns in cases where a tender offer is made and where cash is used for payment; the acquirer stock returns are smaller than matching stock returns in cases where a merger offer is made and where stock is used for payment[48]. Another work, following the managerial perspective of the acquisitions, used the method of payment as a control variable (Hayward, 2002), finding that acquisitions paid with cash were nega-

[47] Rarely the strategic management literature has investigated the issue of the method of payment used for mergers and acquisitions. Datta and his colleagues (1992), for example, found that the use of stock financing has a significant impact on the wealth of both the target and bidding firms' shareholders.

[48] These findings emphasize the use of the *mode of acquisition* (i.e. merger or tender offer) variable and method of payment as well. Furthermore, as the authors suggested the two variables are not orthogonal (Loughran and Vijh, 1997; Martin, 1996). The mode of acquisition should be considered as a variable presenting specific peculiarities which make it different from the *deal type percentage* (DTP) variable used in the present study. For a deeper comprehension of the differences between mode of payment and deal type percentage on the one hand, and method of payment and form of financing on the other, see respectively Chapter III, § 2.1 and § 2.2.

tively related to the announcement returns in line with Loughran and Vijh's (1997) results.

This study would consider the strategic management perspective of mergers and acquisitions. Following this perspective, the financing form characterizing acquisitions has been considered a better measure of the managerial implications associated with the acquisitive growth.

In order to consider the financing form of the acquisition a dummy variable called *DEAL TYPE FINANCING (DTF)* was created. DTF was coded 1 if the acquisition has been financed by external financing, 0 otherwise. Information about the financing form of each acquisition was available for 387 acquisitions, even if not all these operations have been considered in the final sample because of the need of other information related to different variables[49]. Data on the DTF were collected from Zephyr database, which offers information about the different financing forms characterizing acquisitions. In particular, Zephyr presents a categorical classification of the financing forms considering all the possible alternatives acquiring companies can exploit to pay the cost of the operation. A general classification of the Zephyr categories exploited to describe the financing form of the acquisition is presented in Table 4.1.

Table 4.1. Financing form categories

Category	Sub-category	Financing form
Capital increase	convertible bond issue open offer Placing private placing rights issue vendor placing	Internal financing
Corporate venturing		External financing
Debt		Internal financing
Development capital	1st round 2nd round seed	External financing
New bank facilities		Internal financing
Syndicated loan		Internal financing
Venture capital		External financing

The main categories include capital increase, development capital, venture capital and other financing forms; some of these categories also present sub-categories. However, the main categories represent the most common financing forms included in the sample. Table 4.1 also suggests the most important criterion used to construct the DTF variable.

[49] See *supra*, § 1.

In fact, the main rationale used to create DTF was to consider the managerial implications related to the financing forms. In particular, a dichotomous classification has been created in order to distinguish between *external financing forms* and *internal financing forms*. Considering the managerial implications of the different financing forms means to examine with what extent managers may influence the acquisition outcome. The present study would suggest the different role external managers might have, whereas those managers must be bounded to the firm by a form of equity participation (Black, 1992; Hoskisson and Hitt, 1988; Walking and Long, 1984; Jensen and Meckling, 1976). Therefore, I refer to external financing forms as the financing provided by external equity (i.e. institutional investors, venture capitalists, etc.), which implies the existence of an equity participation of external managers to the firm specific risk[50]. On the other hand, internal financing forms do not imply the participation to the firm specific risk by external managers, least of all the linkage between management and any form of equity participation.

Therefore, the above categories (see Table 4.1) allowed me to distinguish between internal and external financing forms. One consideration is required with reference to the "development capital" category. In particular, this category has always been found associated to the "venture capital" category, representing a combination of financing forms. This is the reason why the "development capital" category has been classified as external financing, although it should not be clear if considering the development capital itself, that is not in combination with the venture capital, may imply the participation of external management as well as its participation to the firm specific risk. Furthermore, other combinations of financing forms have been found within the sample (i.e. capital increase and debt), but they did not invalidate the rationale of the separation between external and internal financing forms.

Unfortunately, it was not possible to collect information about the specific amount or percentage of each financing form; that is, knowing which the percent-

[50] For a theoretical description of the Deal Type Financing (DTF) variable see Chapter III, § 2.2.

age of financing provided by venture capitalists or banks or private investors was, it might have increased the worth of the present analysis.

4. Control Variables

4.1. The Relatedness of the Involved Companies

The problem of controlling for the industry effects occurring with studies focusing on acquisitions, so as on different growth strategies (i.e. diversification strategies), has been widely highlighted by prior research (Bettis and Hall, 1982; Dess *et al.*, 1990; Hoskisson *et al.*, 1993; Palich *et al.*, 2000). In particular, industry effect has been referred to as the first rationale leading to the separation between related and unrelated acquisitions (Rumelt, 1974 and 1982). In order to control for industry effects, the present study determines the relatedness of the acquiring and acquired companies involved in each acquisition within the sample. Literature did not suggest unique result about the possible advantages connected to both related and unrelated acquisitions. That means it is not yet clear if related acquisitions allow companies to achieve better economic performance than unrelated acquisitions, or if the contrary should be true. Generally, more consensus has been given to the superiority of related acquisitions (Rumelt, 1974 and 1982; Christensen and Montgomery, 1981; Bettis, 1981; Montgomery, 1982; Palepu, 1985; Bettis and Mahajan, 1985; Palich *et al.*, 2000).

Prior research has suggested several alternatives to examine the relatedness of acquisitions. It has been generally suggested that the use of two-digit SIC code is good enough to differentiate among related and unrelated acquisitions. Businesses are related if they are involved in different four-digit industries within the same major two-digit group[51] (Jacquemin and Berry, 1979; Palepu, 1985). Following

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[51] An alternative measure of relatedness considers relatedness as a categorical measure. Acquisitions are judged related if at least 70 percent of the acquiring firm's revenues are required to come from a business area that is related by product, market, or production process to a business of the acquired company. Otherwise, the acquisition is judged to be unrelated (Hambrick and Cannella, 1993; Bruton *et al.*, 1994).

this consideration, many studies have investigated the, and controlled for industry effects considering a two-digit code (Park, 2003; Bergh, 1995 and 2001; Fowler and Schmidt, 1989). At the same time, another perspective has been suggested using the "digit code" logic to examine relatedness. For example, other research based the analysis on the use of a four-digit code (Morck *et al.*, 1990; Hoskisson and Johnson, 1992; Haleblian and Finkelstein, 1999; Hayward, 2002). Looking at the six main lines of business (by sales) in which acquirer and target companies operated, those authors referred to acquisitions as related if those companies shared at least one four-digit SIC code; otherwise the acquisition has been considered unrelated. A third measure of relatedness has been computed in prior research based on the digit code similarity (Haunschild, 1993; Haleblian and Finkelstein, 1999). In particular, this perspective looks at a wider classification of diversified businesses, considering also the hypothesis of horizontal, vertical and conglomerate acquisitions[52]. An acquisition in which the acquiring firm's four-digit SIC code matched the acquired firm was classified as horizontal; acquisitions were classified as related at a two-digit level. An acquisition was coded as vertical when the industry of the acquiring firm either sold more then 5% of its output to or received more then 5% of its input from the industry of the acquired firm. If an acquisition did not match any of the above conditions, then it was classified as conglomerate.

Finally, it is important to comprehend that the digit code criterion has not always been accepted in prior research. Some critiques have been related to the need for considering the strategic factors which really influence firms' activity[53] (Markides and Williamson, 1994 and 1996; Harrison *et al.*, 1993). In fact, these authors suggested traditional measures look at relatedness only at the industry or market level instead of focusing on the strategic assets that really matter. On the other hand, I agree with those authors suggesting the more objectivity of the SIC

[52] The term *similarity* has also been used by Hayward (2002) who, as mentioned above, considered a four-digit code. Nevertheless, that study referred to the similarity issue as the measure of similarity of the business of prior acquisitions to each other. Therefore, it did not consider a different and broader definition of relatedness between diversified businesses.

[53] For a complete explanation and opinion on these arguments see Chapter III, § 3.1.

code measure (Hoskisson *et al.*, 1993). In strategic management, other measures have been constructed where strict assumptions of relative market perfection have been relaxed and managerial action is assumed to have significant effect. Furthermore, Hoskisson and colleagues (1993), analyzing the construct validity of the measures of diversification strategies also recognized some limits of the SIC code measure; at the same time, they highlighted that if the research only requires a control for general level of diversification the SIC code measure may be methodologically acceptable.

Therefore, following the prior research a twofold consideration must be made. First, a dummy variable called *RELATEDNESS (REL)* was computed. REL has been coded 1 if the acquiring and acquired companies share the same four-digit *ATECO 2002*[54] code; 0 otherwise. In so doing, it has been also possible to split the sample in two different sub-samples highlighting the presence of related as well as unrelated acquisitions. The choice of a four-digit ATECO 2002 code has been made because of the belief it should be deep enough to describe a firm activity, and to suggest the differences in terms of strategic factors (Markides and Williamson, 1994 and 1996) characterizing the different industries or markets. Information about the industry of acquiring and acquired companies has been collected from AIDA database; whereas that information was not available in AIDA, it has been inferred from the description of the firm specific activity. Secondly, the related acquisitions superiority is expected over unrelated acquisition; that is, the aim would be to control for the positive influence of related acquisitions on the acquisition performance.

[54] *ATECO 2002 code* is the Italian code corresponding to the US SIC code generally used in prior research. Of course, the use of ATECO 2002 is the logic consequence of analyzing the Italian market of mergers and acquisitions. ATECO 2002 is the last version of the precedent ATECO 1991, which has been updated with reference to the definition of the European *NACE Rev. 1.1*. ATECO 2002 presents a 5-digit code allowing to describe with high precision the several activities which may be of interest for the Italian productivity.

4.2. THE SIZE OF THE TARGET AND BIDDER COMPANIES

Literature focusing on the implementation of growth strategies through acquisitions has emphasized the importance of the size of the firms involved in such operations. In particular, great attention has been given to the influence firms' size might have on the acquisition performance (Kitching, 1967; Hoskisson and Hitt, 1988; Fowler and Schmidt, 1989; Hitt *et al.*, 1990; Cannella and Hambrick, 1993; Haunschild, 1993; Bergh, 1995 and 2001; Very *et al.*, 1997; Haleblian and Finkelstein, 1999). In order to consider the influence firm's size may have on the acquisition performance, the present study aims to control for size of the acquiring and acquired companies.

Generally, prior research has investigated the relative size of the firms and has suggested several ways to compute it. Measures utilized in prior studies were based on accounting measures or on other information relative to the acquiring and acquired companies, such as the assets (Haleblian and Finkelstein, 1999; Bergh, 1995; Haunschild, 1993; Fowler and Schmidt, 1989; Singh and Zollo, 2000; Wright *et al.*, 2002), the revenues (Bruton *et al.*, 1994), the number of employees (Bergh, 2001), the sales (Kroll *et al.*, 1997; Hayward, 2002) or the pre-acquisition market value (Seth, 1990b; Martin, 1996; Loughran and Vijh, 1997) of the involved companies. Furthermore, recent literature is referring to as the relative size of the acquisition, instead of the size of the firms, to the extent to examine the influence of the relationship between bidder and target companies' size upon the acquisition performance. In other words, research is giving greater importance to the measure of the acquired company dimension compared to the acquiring company dimension. In so doing, it should be possible to understand if the different size characterizing acquiring and acquired companies might influence the acquisition result. At the date, literature has highlighted different results related to the influence of relative size on the acquisition outcome[55] as well as the need for a deeper analysis of the small acquisitions (Kitching, 1967; Haunschild, 1993; Haleblian and Finkelstein, 1999). In particular, small acquisitions have been

[55] For a deep analysis of the literature suggesting those results, see Chapter III, § 3.2.

defined as acquisitions involving different size companies, for example large acquiring companies and small acquired companies.

The present study aims to give great attention to the latter consideration. In order to control for size of the acquisition, a twofold consideration has been done. On the one hand, literature is emphasizing the need for examining the impact of small firms within the acquisition process (Hitt *et al.*, 1998; Haleblian and Finkelstein, 1999; Bergh, 2001); on the other, analyzing the Italian scenario allows me to deepen the above lack of studies given the specific characteristic of the Italian business model. Following the above consideration a positive, or at least not negative, relationship between the relative size and performance of the acquisition is expected.

In order to control for size of the acquisition, three variables called *BIDDER SIZE (BSIZ)*, *TARGET SIZE (TSIZ)* and *RELATIVE SIZE (RSIZ)* have been created. The first two variables would be a measure of the absolute size of the involved companies. Both BSIZ and TSIZ have been computed as logarithm of the number of employees respectively of the acquiring and acquired companies for the year of the acquisition. Few studies have taken in consideration the opportunity of measuring the absolute size of the involved companies, or of just one side of the acquisition, for instance, measuring the absolute size of the acquiring company (Bruton *et al.*, 1994; Bergh, 1995; Singh and Zollo, 2000). In my opinion, most of the time the decision to not consider the absolute size of the acquisition is the direct consequence of the lack of information on small and medium enterprises; therefore, the consideration of including only large acquisitions. The RSIZ, instead, would control for the relative size of the acquisition. Following prior research (Bergh, 2001), RSIZ has be computed has the logarithm of the number of employees of the acquiring firm to the logarithm of the number of employees of the acquired firm for the year of the acquisition.

Data about the employees of both acquiring and acquired companies have been found in Zephyr database. Whereas this information was not available in Zephyr, data have been found in AIDA database for manufacturing companies, and in BANKSCOPE database for banks and other financial service companies.

The decision of choosing two separate variables in order to measure the influence of the size of the involved companies on the acquisition performance has been driven by a twofold consideration. First, in my opinion measure of relative size used in prior research presents a crucial problem: because those are generally computed as a ratio, they hide important information about the real influence of, for instance, a small acquired company on the acquisition performance. In other words, ratios are good instruments for emphasizing the existence of a very large bidder company compared to a very small target company, but present some limits when referred to similar firms. An example will make clearer the above consideration. The ratio, for example, of the log of employees of the acquiring company to the log of the employees of the target company will be high anytime the acquiring and acquired companies have similar size (i.e. almost equal number of employees, both high and low number of employees). Therefore, that ratio does not emphasize how large the bidder company is as well as how small the target company is. Secondly, many prior studies have not taken into account small and medium enterprises because of the lack of accounting and financial information as well. On this matter, the Italian scenario should provide a complete set of information about SMEs, giving the opportunity to highlight new insights on the role SMEs might play in the acquisition process. In sum, because of the presence of adequate information, it has been preferred to use both absolute and relative measures of the size of both the acquiring and acquired companies, to the extent to emphasize the impact of the different size of the involved companies. Therefore, two different analyses have been done. One model has controlled for absolute size; the other for relative size of the involved companies.

4.3. THE PREVIOUS ACQUISITION EXPERIENCE

Recent research is giving great attention to the previous acquisition experience of the firm. In particular, more emphasis has been posed on the relationship between the previous acquisition experience and the acquisition performance in order to understand if some influence does exist and how previous acquisition experience might affect the failure or success of the acquisition (Lubatkin, 1983;

Fowler and Schmidt, 1989; Haunschild, 1993; Bruton *et al.*, 1994; Ingram and Baum, 1997; Hitt *et al.*, 1998; Haleblian and Finkelstein, 1999; Singh and Zollo, 2000; Bergh, 2001; Hayward, 2002).

In order to examine the previous acquisition experience different measures have been suggested. In general, strategic management literature has measured the previous acquisition experience as the number of operations the acquiring company implemented before the focal acquisition. More deeply, different time periods have been usually taken into account. For example, some authors considered an unlimited time period before the focal acquisition (Ingram and Baum, 1997; Haleblian and Finkelstein, 1999; Singh and Zollo, 2000) looking at all the acquisitions the acquiring companies completed throughout their past activity. On the other hand, other studies have examined previous acquisition experience observing the acquisitions completed in a three-year (Haunschild, 1993; Kesner *et al.*, 1994; Bergh, 2001), or four-year period before the focal acquisition (Fowler and Schmidt, 1989; Bruton *et al.*, 1994). It is interesting to note that Haleblian and Finkelstein (1999) conducted supplementary analyses considering several variables including also the previous acquisition experience. With this supplementary analysis they would investigate whether the experience with relatively more recent acquisitions will be particularly relevant for the acquisition performance. In order to test this hypothesis, they counted the number of acquisitions a firm made over a five-year period before the focal acquisition. The results showed a negative relationship with the acquisition performance, the authors being unable to replicate the U-shaped relationship found in the main analysis[56]. Haleblian and Finkelstein argued that these results were not surprising, because the inflection point in the U-shaped relationship found earlier usually occurred after the eighth acquisition, a number few firms were likely to reach in a five years period. By an alternative point of view, authors suggested that a time period longer than five years is needed to capture the entire U-shaped relationship, that is to transform the acquisition performance from negative to positive.

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[56] For a deeper review of the findings provided by prior research on the previous acquisition experience-performance relationship, see Chapter III, § 3.3.

Haleblian and Finkelstein's (1999) findings suggest that an unlimited period throughout which considering the number of acquisitions completed by the acquiring companies allows research to better capture the previous acquisition experience effect on the acquisition performance. The present study considered the number of acquisitions the acquiring companies completed in a three-year period before the focal acquisition. To this extent, a variable called *PREVIOUS ACQUISITION EXPERIENCE (PAE)* has been computed. Information about the number of prior acquisitions completed by the acquiring companies before the focal acquisition was collected from both Zephyr and *Osservatorio M&A*[57] databases. In particular, only Italian previous experiences have been considered when the number of acquisitions completed by the acquiring companies was counted. That means, only domestic operations have been taken into account to compute the PAE of the acquiring company, whereas domestic operations were only those involving both acquiring and acquired Italian companies. The rationale of this choice was to consider only the domestic experience accumulated by involved managers, in order to not include in the analysis the experience related to cross-boarder operations. In other words, I assume cross-boarder operations might imply a different managerial process which can bias the analysis result, whereas those consider a different kind of experience managers have accumulated.

4.4. THE PRESENCE OF AN EXTERNAL ADVISOR

Prior research has rarely investigated the influence of the presence of an external advisor upon the acquisition process. I was able to identify one study in which the presence of an external advisor has been considered as a control variable. In particular, Hayward (2002) computed a dummy variable coded 1 when an advisor was used on the focal deal and 0 otherwise. As mentioned in the above pages, he found the use of an external advisor has a negative influence on the ac-

[57] The *Osservatorio M&A* database of the Bocconi University's FINDUSTRIA Research Center collects information of the Italian mergers and acquisitions since 1994. It covers all the operations involving acquisitions among companies, stakes, branches or individual firms operating in the Italian market, that is both the domestic operations and cross-boarder operations in which at least one of the companies is Italian.

quisition performance. Herein, I consider a different perspective. I would expect the presence of an external advisor might have a positive influence on the acquisition performance, even if such an assumption denies previous works. In my opinion, the presence of an external advisor can be considered as a support to the acquisition process, to the extent to increase the probability of the acquisition success.

Following prior research, a dummy variable called *PRESENCE OF AN EXTERNAL ADVISOR* (*EXA*) has been created. EXA has been coded 1 if the focal acquisition was supported by an external advisor, 0 otherwise (Hayward, 2002). In particular, both the acquiring and acquired companies could present an external advisor, whereas three different conditions have been found: a) the bidder company was supported by an external advisor; b) the target company was supported by an external advisor; c) both the bidder and target companies were supported by an external advisor. Data were collected from Zephyr database, which offers information on the presence of an external advisor for each operation in the dataset.

4.5. The Period Effect

Recent literature is giving great attention to the moment in which acquisitions are completed (Haunschild, 1993; Loughran and Vijh, 1997; Haleblian and Finkelstein, 1999; Hayward, 2002). That means researchers are showing their interest in comprehending whether a relation there might be between the specific year in which the target company is acquired by the bidder and the acquisition success or failure.

Most of that previous literature usually measured the timing of the acquisition as a dummy variable or a sequence of dummy variables, through which each year is analyzed to the extent to categorize possible effects related to specific events (Haunschild, 1993; Loughran and Vijh, 1997; Haleblian and Finkelstein, 1999; Hayward, 2002). In order to control for this specific influence a variable called *PERIOD EFFECT* (*PEF*) has been created. Each acquisition included in the sample has been classified with reference to the year during which it has been completed. Acquisitions completed in 1998 has been coded as 1; acquisitions com-

pleted in 2002 as 5. Information about the year in which acquisitions were completed has been collected from Zephyr database.

V. Results and discussion

1. The analysis

The model and hypotheses presented in this study were tested using a multiple linear regression model, based on the ordinary least square (OLS) analysis. This choice has been done because of the scaling of the three dependent variables, return on assets (ROA), premium savings (PRS), and survival (SUR) of the acquisition, which were continuous variables. The three variables were treated independently, that means three different models were created in order to analyze the effects of the predictors on each of the single dependent variables. Moreover, each of the three models considering the dependent variables was divided in two different models. This was because of the need of analyzing one of the control variables, the size of the involved companies, that was measured looking at both the absolute and relative sizes of the acquiring and acquired companies. The process of variable entry was identical for all the models. First the control variables were entered in the equation, then the predictors, deal type percentage (DTP) and deal type financing (DTF).

In sum, the analysis included twelve different models, in order to investigate the effects of the predictors on the different dependent variables, and to control for

the different influence of the control variables. A scheme of these models can be synthesized as follow:

- *Model 1a*: ROA, and control variables (absolute bidder and target sizes were considered);
- *Model 1b*: ROA, control variables (absolute bidder and target sizes were considered), and predictors;
- *Model 2a*: ROA, and control variables (relative size was considered);
- *Model 2b*: ROA, control variables (relative size was considered), and predictors;
- *Model 3a*: PRS, and control variables (absolute bidder and target sizes were considered);
- *Model 3b*: PRS, control variables (absolute bidder and target sizes were considered), and predictors;
- *Model 4a*: PRS, and control variables (relative size was considered);
- *Model 4b*: PRS, control variables (relative size was considered), and predictors;
- *Model 5a*: SUR, and control variables (absolute bidder and target sizes were considered);
- *Model 5b*: SUR, control variables (absolute bidder and target sizes were considered), and predictors;
- *Model 6a*: SUR, and control variables (relative size was considered);
- *Model 6b*: SUR, control variables (relative size was considered), and predictors.

In the following pages, the results of the analysis will be presented, looking at some descriptive statistics and correlations among the variables (§ 2), tests for the hypotheses (§ 3), and the influence of control variables (§ 4). Then, a discussion of the findings (§ 5), and some conclusions (§ 6) with managerial implications, limits of this work and suggestions for future research will be offered.

2. DESCRIPTIVE RESULTS OF THE ANALYSIS

In order to implement the statistical analysis the first step was consisted in computing summary statistics and correlations for all the variables, that is dependent variables, predictors, and control variables. In particular, mean and standard deviation have been considered. These descriptive statistics and correlations are reported in the following Table 5.1.

Table 5.1. Means, standard deviations, and correlations

	Mean	SD	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
1.Relatedness	,23	,42											
2.Bidder Size	6,97	2,34	,273*										
3.Target Size	5,10	2,14	,099	,256*									
4.Relative Size	1,74	1,29	,004	,151	-,692**								
5.Previous Acquisition Experience	5,28	4,56	-,135	,071	,112	-,078							
6.External Advisor	,55	,50	-,056	,141	,338**	-,329**	,170						
7.Period Effect	3,62	1,10	,110	-,227*	-,220	,065	,131	-,082					
8.Deal Type Percentage	,51	,35	,233*	,119	-,062	,105	,008	-,007	,098				
9.Deal Type Financing	,28	,45	-,343**	-,229*	,144	-,278*	,376**	,508**	,091	-,304**			
10.Survival	1,91	1,30	-,268*	,008	,037	-,009	,011	,017	-,598**	-,184	,154		
11.Premium Savings	-0,05	0,09	-,120	,114	-,170	,109	-,029	,031	-,131	,382**	-,232*	,012	
12.ROA	1,90	6,47	-,039	-,245*	,163	-,214	,065	,086	,023	-,329**	,337**	,180	-,270

Note: ** $p < .01$, * $p < .05$; $n = 77$

To look at those descriptive statistics provides some interesting considerations highlighting the linkage between the variables, as well as the correspondence or differences there might be between this study and the results provided by prior research. First, the 28% of the acquisitions were financed by external equity. This information is particularly important because it measures a crucial characteristic of the Italian market which can be considered, at the same time, as one of the reasons that influenced the present work. In particular, it shows how unfamiliar applying to external equity can be, whereas the great part of the organizations still prefers the debt financing in order to obtain financial resources for their growth. Secondly, the 23% of the bidder companies acquired targets operating in related industries. Average relatedness, consistent with other prior research, suggested that just a quarter of the Italian bidder companies completes acquisitions choosing the target firm in its same industries (Harrison *et al.*, 1993; Bergh, 1995; Haleblian and Finkelstein, 1999). Third, each acquiring companies completed an average number of acquisitions almost equal to 5 during the three years before the

year of the focal acquisition. On this matter, looking at the results provided by other works (Haleblian and Finkelstein, 1999; Bergh, 2001; Hayward, 2002), it is possible to assume that the Italian firms are generally as active on the mergers and acquisitions market as other foreign firms[58]. Finally, the 55% of the acquisitions were supported by the presence of an external advisor. This last result is consistent with the only prior study I was able to identify in the strategic management literature which controlled for the presence of an external advisor (Hayward, 2002). In particular, that work found that the 49% of the acquisitions showed the presence of an external advisor. In some other cases, the present study provides other means that might indicate some advantages associated with this work. In particular, looking at the relative size of the acquisition, this variable will be consistent with other studies (Singh and Zollo, 2000; Bergh, 2001). At the same time, the present study provides information on the difference in terms of absolute size between the acquiring and acquired companies. In particular, on average bidder companies are much larger than target companies, the former having an average number of employees[59] almost equal to 7, the latter almost equal to 5.

Looking at the correlations, some interesting and important findings can be proposed. In fact, the strongest correlates with the economic performance of the acquisition are the deal type financing ($r = 0.337$), and the deal type percentage ($r = -0.329$) of the acquisition. Both those variables are the predictors of the analysis and their correlation is statistically significant at the $p < 0.01$. Another strong correlate of the economic performance of the acquisition is the bidder size ($r = -0.245$), which is statistically significant at the $p < 0.05$. Almost identical considerations can be argued with reference to the premium savings. This is correlated with both the predictors of the analysis: it is positively related to the deal type percentage ($r = 0.382$) at the $p < 0.01$, and negatively to the deal type financing ($r = -$

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[58] Generally, U.S. operations of mergers and acquisitions have been analyzed by other studies.

[59] I would remind the numbers referring to the absolute size of the bidder and target companies presented here and in Table 5.1 are the logarithm of the number of employees. To consider the exponential function of those logarithms is a way to underline the average different size of the involved companies. In so doing, the bidder companies have an average number of employees almost equal to 1120; the target companies almost equal to 170. For a complete analysis of the computation of those variables, see Chapter IV, § 4.2.

0.232) at the $p < 0.05$. Finally, the survival of the acquisition shows its strongest correlation with the period effect and the relatedness (respectively $r = -0.598$, and $r = -0.268$), whereas those correlations are statistically significant respectively at the $p < 0.01$ and $p < 0.05$.

Furthermore, other interesting correlations can be highlighted. The deal type percentage is surprisingly negatively correlated to the deal type financing of the acquisition ($r = -0.304$), and this correlation is statistically significant at the $p < 0.01$. This result suggests that the financing provided by external equity is generally utilized by Italian firms when the acquisition strategy to be implemented leads to the acquisition of a minority stake of the target company. On the other hand, one explanation might be the rigidity of the organizational structure of the Italian firms, with particular emphasis on the small and medium Italian enterprises. Therefore, even if the analysis has showed such a correlation, it might suggest the interest towards the financing provided by external equity by one part of the Italian firms which are inclined to the presence of external management within their organization. The deal type percentage is also positively ($r = 0.233$) and significantly ($p < 0.05$) correlated with the relatedness of the acquisition. That means managers tend to complete larger operations if the industry in which the target firm is pursuing in is similar to their industry. This is easy to comprehend looking at the managerial competences individuals have achieved during the years. In other words, managers will be likely to invest greater amounts through corporate acquisitions if they will make sure of the opportunity to exploit their specific competences. This result has also been supported by prior research which emphasized the superiority of relatedness within studies on the diversification-performance relationship (Rumelt, 1974 and 1982; Bettis and Mahajan, 1985; Christensen and Montgomery, 1981; Montgomery, 1982; Palepu, 1985).

Given the above correlations with the deal type percentage, looking at the deal type financing of the acquisition the strongest correlates are the external advisor ($r = 0.508$), the previous acquisition experience ($r = 0.376$) and the relatedness of the acquisition ($r = -0.343$). These correlations are also statistically significant at the $p < 0.01$. These results are particularly interesting, because they strengthen some of

the basic assumptions of this study. In particular, the strong and statistically significant correlation between the dealt type financing and the external advisor allows to assume the inclination of the Italian companies to opening their organizational structure to the extent to improve their profitability. In this case, the external advisor might represent an instrument through which the probability of the acquisition success should be increased. In fact, this consideration draws up alongside with the simultaneous presence of external equity providers within the organizational structure of the target companies; that is, both the former and the latter can improve the managerial process surrounding the acquisition. Looking at the previous acquisition experience, it is interesting to note that external equity providers (i.e. institutional investors) can be considered as high experienced actors, that generally completed a higher number of acquisitions than other bidders. By a different point of view, it could be argued that external equity providers are just interested in a short speculative participation in the bidder companies, that is why they generally complete a higher number of acquisitions. That should be true if those actors would not be directly involved in the managerial process of the acquisition, and also if their main interest would not be the capital gain associated with the operations, that will turn into a growth and value creating process involving the acquired company too[60]. Moreover, the negative and strong correlation between deal type financing and relatedness of the acquisition confirms another characteristic of the financing provided by institutional investors. That is, those actors generally invest financial resources in unrelated industries, such as food, IT, TLC industries. Finally, another correlate with the deal type financing is the relative size of the acquisition (r = -0.278) at the $p < 0.05$. It shows the usual willingness of external equity providers to invest great amounts in large companies; in fact, the higher is the financing provided by institutional investors, the smaller is the relative size.

Table 5.1 also provides information about the correlations between relatedness and bidder size (r = 0.273). This correlate, statistically significant at the p <

[60] For a more complete analysis of the specific characteristic of the institutional investors, see Chapter II, § 3.3, or Chapter III, § 2.2.

0.05, suggests that the larger are the bidder companies, the greater is their attention to related targets which might represent the object of an acquisition. Large acquiring companies also tend to acquire as large target companies, whereas the correlation between bidder size and target size is positive ($r = 0.256$) and statistically significant at the $p < 0.05$. This correlate is consistent with prior research which considered the relative size of the acquisition, but that at the same time generally did not consider small firms within the research sample. Finally, interesting considerations refer to the external advisor variable. It is significantly ($p < 0.01$) correlated with the target size ($r = 0.338$) and relative size ($r = -0.329$). Both those correlates state that the presence of an external advisor is especially required when the size of the acquisition increases. One reason might be the difficulties related to the acquisition process, whereas these difficulties increase if the target company size becomes greater. In fact, what that correlates tell us is that if the target size tends to increase, then also the presence of an external advisor is more likely to exist.

3. RESULTS OF HYPOTHESIS TESTS

As mentioned in the above pages, the analysis included twelve different models, which can be classified in three groups. In other words, each group including four models refers to one of the three predictors. In order to test the hypotheses of the present work, these models will be presented in the following pages. In particular, three different paragraphs will describe the results related to the economic performance of the acquisition (§ 3.1), the premium savings (§ 3.2), and the survival of the acquisition (§ 3.3). Following this structure, the hypotheses of the study will be presented not in the same order as those have been described in Chapter III, but considering their relation with the three dependent variables; that means, first the hypotheses investigating the economic performance of the acquisition, then the premium savings and the survival of the acquisition.

As it might be necessary, specific considerations will be offered with reference to the different models. Here a general result would be highlighted that can

be associated with all the twelve models. In particular, I have controlled for multi-collinearity among all the variables in order to test if those variables might be in some way related. All the twelve models presented variance inflation factors (VIF) consistently below the rule-of-thumb cut-off of ten (Neter *et al.*, 1990); in particular, VIF were always around the value of 1,1.

3.1. THE ECONOMIC PERFORMANCE OF THE ACQUISITION

Table 5.2 provides information about the test for hypotheses related to the economic performance of the acquisition. Table 5.2 includes four different models built following the variables entry criterion presented in the above pages, that is first the control variables have been considered, then the predictors. The difference between the first two models (Model 1a and 1b) and the second two models (Model 2a and 2b) is that the latter include the relative size of the acquisition as a control variable; the former, the absolute bidder and target sizes[61].

Table 5.2. Coefficients for the dependent variable: ROA

	Model 1a	Model 1b	Model 2a	Model 2b
1. Relatedness	,039	,155	-,038	,119
2. Bidder Size	-,324*	-,237*		
3. Target Size	,213†	,169		
4. Relative Size			-,208†	-,138
5. Previous Acquisition Experience	,057	-,018	,034	-,048
6. External Advisor	,057	-,065	,014	-,114
7. Period Effect	-,010	-,013	,038	,011
8. Deal Type Percentage		-,244*		-,243*
9. Deal Type Financing		,284†		,344*
R^2	,121	,248	,050	,208
Adjusted R^2	,046	,160	-,017	,127
F	1,605	2,809	,748	2,586
p <	,159	,009	,590	,020

Note: * $p < .05$, † $p < .10$

Model 1a and 2a considering the control variables of the analysis were not statistically significant. Opposite consideration can be done with reference to Model 1b and 2b which included also the predictors. Both Models 1b ($p < 0.009$) and 2b ($p < 0.02$) were statistically significant, suggesting the great importance of

[61] This rationale was applied for all the three dependent variables. Therefore, the following Table 5.3 and Table 5.4 follow the same logic that will not be presented again. Furthermore, the analysis of the results related to the control variables will be presented *infra*, § 4.

the predictors for testing the hypotheses related to the economic performance of the acquisition with these models. Models 1b and 2b present a positive adjusted R^2, whereas the predictors explained respectively the 16% and 12.7% of the variance.

Hypothesis 1 links acquiring-controlled strategies to the economic performance of the acquisition. Results reported in Table 5.2 show that the variable for the acquiring-controlled strategies (deal type percentage) is statistically significant ($p < 0.05$) and negatively correlated to the ROA of the acquiring company for both the Models 1b ($r = -0.244$) and 2b ($r = -0.243$). Surprisingly, these results do not support Hypothesis 1 which assumed the positive relationship between the control stake held by the acquiring company and the economic performance of the acquisition.

Hypothesis 4 states that the financing provided by external equity, in particular by institutional investors (i.e. venture capitalists), is positively related to the economic performance of the acquisition. Both Models 1b and 2b present positive (respectively $r = 0.284$ and $r = 0.344$) and statistically significant ($p < 0.01$) coefficients, then supporting Hypothesis 4.

3.2. THE PREMIUM SAVINGS

Table 5.3 presents information about the test for hypotheses related to the premium savings of the acquisition. As it has been highlighted for the economic performance of the acquisition, the models testing the premium savings of the acquisition are statistically significant at the $p < 0.01$ if also the predictors are considered (Models 3b and 4b); otherwise the models are not significant (Models 3a and 4a). Again, that suggests the relevance these predictors have on the explanation of the influence on the premium savings of the acquisition.

Hypothesis 2 suggests that strategies leading to acquiring-controlled acquisitions are negatively, or at least not positively, related to the premium savings of the acquisition. Results provided in Table 5.3 do not support the Hypothesis 2, but those indicate a statistically significant relation at the $p < 0.05$ for both Models 3b ($r = 0.353$) and 4b ($r = 0.364$).

Table 5.3. Coefficients for the dependent variable: PRS

	Model 3a	Model 3b	Model 4a	Model 4b
1. Relatedness	-,129	-,267*	-,108	-,280*
2. Bidder Size	,177	,074		
3. Target Size	-,253*	-,200†		
4. Relative Size			,137	,057
5. Previous Acquisition Experience	-,028	,035	-,028	,029
6. External Advisor	,079	,198	,065	,170
7. Period Effect	-,122	-,127	-,119	-,103
8. Deal Type Percentage		,353**		,364**
9. Deal Type Financing		-,272†		-,290*
R^2	,098	,294	,046	,264
Adjusted R^2	,022	,212	-,020	,190
F	1,283	3,596	,698	3,585
$p <$	,276	,002	,627	,002

Note: ** $p < .01$, * $p < .05$, † $p < .10$

At the same time, Hypothesis 5 links the financing provided by external equity, in particular by institutional investors (i.e. venture capitalists), to the premium savings of the acquisition. Table 5.3 reports results suggesting a negative relationship for Model 3b (r = -0.272) and Model 4b (r = -0.290). Although DTF in Model 3b is marginally significant ($p < 0.1$), whereas in Model 4b it is statistically significant at the $p < 0.05$, both those results support my Hypothesis 5 that predicted a negative relationship between the financing provided by external equity and the premium savings of the acquisition.

3.3. The survival of the acquisition

Table 5.4 presents information about the test for hypotheses related to the survival of the acquisition. All the models referring to the survival of the acquisition were statistically significant at the $p < 0.01$, indicating the goodness of the model in order to measure the influence of different variables on the dependent variable.

Hypothesis 3 states that strategies leading to acquiring-controlled acquisitions are positively related to the survival of the acquisition. Table 5.4 reports results that do not support my hypothesis. Even if the sign of the coefficient is negative (r = -0.30 for Model 5b, and r = -0.26 for Model 6b), suggesting an opposite relation to what has been predicted, those coefficients are not statistically significant.

Hypothesis 6 links the financing provided by external equity, in particular by institutional investors (i.e. venture capitalists), to the survival of the acquisition.

My findings support Hypothesis 6 for both Models 5b and 6b. The deal type financing is always positively related (r = 0.233 for Model 5b, and r = 0.246 for Model 6b) to the survival of the acquisition, even if the coefficient in Model 5b is marginally significant ($p < 0.10$), instead of in Model 6b where it is statistically significant at the $p < 0.05$.

Table 5.4. Coefficients for the dependent variable: SUR

	Model 5a	Model 5b	Model 6a	Model 6b
1. Relatedness	-,161[1]	-,101	-,193*	-,114
2. Bidder Size	-,072	-,015		
3. Target Size	-,066	-,084		
4. Relative Size			,022	,055
5. Previous Acquisition Experience	,090	,025	,076	,013
6. External Advisor	-,028	-,134	-,051	-,151
7. Period Effect	-,626*	-,641*	-,594*	-,623*
8. Deal Type Percentage		-,030		-,026
9. Deal Type Financing		,233[1]		,246*
R^2	,416	,448	,407	,444
Adjusted R^2	,366	,383	,366	,388
F	8,300	6,891	9,757	7,877
p <	,000	,000	,000	,000

Note: * $p < .05$, [1] $p < .10$

4. CONTROL VARIABLES

To look at the control variables included in the analysis helps us to understand if some influence there might be upon the relationship between dependent variables and predictors. Some considerations can be argued. In general, what can be noted is that few of the control variables were resulted statistically significant as some other prior research has found, showing no influence on the several models. Moreover, a separate analysis that did not consider the period effect has been run. This alternative analysis has been implemented in order to follow prior research considering the period effect as a control variable (Haunschild, 1993; Hayward, 2002), to the extent to investigate if some influence might depend on the specific year of the focal acquisition. In general, but apart from the analysis associated to the survival of the acquisition which will be presented soon, the period effect is always not significant, indicating there is no difference in the impact of predictors and control variables on the dependent variables (Haunschild, 1993). Therefore, several relations can be highlighted and will be presented following the order of

the above tables, that is looking at the influence on the three different dependent variables.

First, considering the influence of the absolute measures of size of the acquiring and acquired companies (Model 1b in Table 5.2), the bidder size has been found negatively related to its economic performance; that is, the larger is the acquiring company, the lower can be its economic performance after the acquisition. This influence can not be confirmed by the analysis of the relative size of the acquisition (Model 2b in Table 5.2) because it resulted not significant, this result being consistent with some prior research (Fowler and Schmidt, 1989; Haunschild, 1993; Bruton *et al.*, 1994; Singh and Zollo, 2000; Bergh, 2001). Same consideration can be argued with reference to the previous acquisition experience which has also been found a non-significant predictor of performance (Bergh, 2001; Singh and Zollo, 2000). Interesting could also be the result showing a negative influence of the presence of an external advisor within the acquisition on the economic performance of the acquiring company. Even if this relation presents the same direction indicated by prior research (Hayward, 2002) in both the Models 1b and 2b considering respectively the absolute and relative measures of the size of the acquisition, nevertheless it is resulted not statistically significant, therefore not allowing any considerations.

Secondly, an interesting consideration can be argued with reference to the relation between the relatedness of the acquisition and a new measure of the acquisition success I presented in this study, that is the premium savings (Table 5.3, Models 3b and 4b). In particular, both the Models 3b and 4b highlighted a negative and significant relationship between these two variables. That suggests, acquiring companies are more likely to pay a lower price than the value of the target company if they are acquiring companies pursuing in a related industry or market. This result, as will be discussed in the following paragraph (§ 5), is especially interesting because it denies what prior research argued (Barney, 1988; Harrison *et al.*, 1991 and 1993). The same suggestion is offered with reference to the size of the target company. The smaller is the acquired company, the lower is the cost of the acquisition to the value of the target.

Third, the only control variable that has been found statistically related to the survival of the acquisition was the period effect (Table 5.4, Models 5b and 6b). This result is not surprising, given the higher precision of the information related to the older operations; the more time ago the acquisition has been completed, the better the integration between the companies has been completed, this assumption having a direct consequence on the results showed by the operation.

5. DISCUSSION

The findings suggest controversial considerations referred to the strategic management of the acquisition process. The acquisition success seems to be driven by in some way surprising strategic choices in charged to the acquiring management. At the same time, these findings offer the need to enlarge the relevant debate on the role of the acquired management within the acquisition process. In general, the results support the argument that the acquisition success depends on the managerial intention by the acquired company to modify its organizational structure, but only if this change is linked to the presence of professional management which is able to provide strategic and financial resources allocated for the main corporate growth of the acquiring and acquired companies. On the one hand, the control of the acquisition through majority stakes does not influence the economic performance of the acquiring company; on the other, the managerial competences employed in the acquisition process and deriving from the exploitation of external equity forms of financing can play an important role for reaching the acquisition success. The combination of these two findings also shows a way through which companies can be allowed to overcome the biases related to agency theoretical conflicts between the acquiring and acquired management which restrict the acquisition process.

The notion of acquisition success has been presented in this study following a different and broader perspective. Alongside with the economic performance of the acquisition, the acquisition success has been also investigated pointing the attention on the efficient planning of the acquisition process as well as on the dura-

bility of the relation arising from the operation. The former has been illustrated through the premium savings capability of the acquiring company, that is exploiting the notion of price of the acquisition compared to a book value of the acquiring companies; the latter through the survival of the acquired company after the operation, that implies the notions of retaining or divesting the acquisition. Therefore, these three different factors allowed us to comprehend whether the acquisition of a control stake as well as the financing of the operation through external equity might help the acquisition success. In other words, three different models have been constructed to the extent to investigate if those might explain rather more effectively and efficiently the economic performance of the acquisition, than the presence of managerial competences related to the acquisition process. What results tell us is that by acquiring a larger stake of the target companies does not improve the acquisition performance; on the other hand, the performance of the acquisition can increase if the operation is financed by external equity. Specular considerations indicate that the greater is the amount of stakes acquired, the less is the probability to cover the cost of the operation achieving solid earnings; this is not true if the acquisition has been financed by external equity. Finally, the percentage of a target's stock acquired does not influence the survival of the acquisition; instead, the operation outlives throughout the years if external management is involved financing the acquisition by external equity. Given the above considerations, the results presented in this study have several implications for research on the managerial process leading to the acquisition success.

First, the results indicate that acquiring-controlled acquisitions do not necessarily imply that the acquiring company will be able to reach above-normal economic performance. In particular, the percentage of a target's stock acquired is negatively related to the ROA of the acquiring company. Surprisingly, this result tells us that the acquisition will better perform if the acquired company is in charge of the control. In fact, the lower is the acquired stake, the higher is the economic performance of the acquiring company. This result is particularly interesting if related to the strategic management and financial prior research which have respectively investigated the different organizational forms of control characteriz-

ing bidder and target companies, and the managerial concern associated with the loss of control. By a managerial point of view, the present study tests the definition of corporate control provided by previous studies referring to the corporate control through acquisitions. In particular, if the *corporate control* has been defined as the power to govern the management of firms' resources (Jensen and Ruback, 1983), then this result suggests that the *corporate acquisition control* does not seem related to the percentage of stock acquired. In other words, the performance of the acquisition is influenced by other factors different from the percentage of stock acquired by the bidder company; furthermore, much attention seems to be due to the acquired side of the operation. For example, one of those resources might be the management of the acquired company. By this point of view, this result also confirms and extends those previous studies focused on the relationship between the acquired management turnover and the economic performance of the acquisition (Walsh, 1988 and 1989; Cannella and Hambrick, 1993; Bergh, 2001). Those studies suggested that the economic performance of the acquisition is negatively related to the acquired top management turnover; looking at the result provided by the present study it is possible to argue that the acquired-controlled acquisitions reach better economic performance, that is to say that the acquisition performance is higher if the control is still in charge of the acquired management. On the other hand, prior financial research stated that managers increase their commitment if they are able to control a greater stock of the acquired company (Amihud *et al.*, 1990; Martin, 1996; Jung *et al.*, 1996). Following the present study, the management in charge of the acquisition success seems again to be the acquired management; that is, the acquired management has to have the control of its own resources to the extent to gain above-normal economic performance after the acquisition.

Interestingly and surprisingly this result does also not confirm the only previous research which has investigated the percentage of stock acquired (Fowler and Schmidt, 1989). That study found a significant and positive relationship between the percentage acquired and the acquisition result, revealing the consideration that as the percentage acquired increases, more control is exerted over a target, and in-

tegration effectiveness is enhanced (Fowler and Schmidt, 1989). Herein, I offered opposite results which suggest some considerations. In general, it might be argued that more effort is required with reference to the analysis of the deal type percentage of the acquisition to the extent to confirm or deny one of these two opposite conclusions. In particular, it might also be argued that the opposite results can depend on the specific characteristic of the companies included in the two samples, one considering U.S. companies, the other Italian companies. By this point of view, the specific characteristics of the Italian companies, especially considering the target companies, can have a direct influence on the acquisition performance. This consideration might confirm the rigidity of the organizational structure of the Italian companies, whereas the Italian acquired companies are able to achieve positive economic performance only if their structure is not distorted.

What the results also suggest is that the economic performance of the acquisition increases depending on the form of financing that has been used. In particular, if the acquisition has been financed by external equity, then the acquiring companies are able to reach above-normal economic performance. This result is of greater importance because it provides interesting considerations compared to the prior research. Prior research has rarely investigated the financing of the acquisition through external equity; it has usually focused the attention on the debt financing of the acquisition (Kim and McConnell, 1977; Van Horne, 1977; Hitt, *et al.*, 1990; Seth, 1990b; Harrison *et al.*, 1991; Chaganti and Damanpour, 1991; Hoskisson *et al.*, 1994; Mizruchi and Stearns, 1994). Herein, the financing provided by external equity has been hypothesized and found positively related to the economic performance of the acquiring company. In particular, the deal type financing has been measured as the financing provided by external equity providers (i.e. venture capitalists), whereas this measure allowed me to suggest other important considerations related to the acquisition success. In fact, given the specific characteristics of the institutional investors involved in the acquisition, it is possible to argue that the above-normal economic performance they achieved will be at the same time a possible evidence of the future value creating process which the acquired companies will benefit of too. Institutional investors are experienced

managers which have a specific interest in acquisitions, whereas those interests are associated with the capital gain they can achieve in the medium or long-term period. Therefore, the positive relationship between the presence of institutional investors and the economic performance of the acquisition indicates the importance and the advantages for both the bidder and target companies related to the financing of the operation through external equity. Moreover, the crucial point seems to be, as predicted in this study, the direct participation of the acquiring company in the management of the operation. In general, institutional investors provide their managerial competences to the extent to let the target company grow, and subsequently reach their capital gain interests. At the same time, acquired companies will benefit first of the above managerial competences that are usually difficult to build and sustain within the organization; secondly, their organizational structure will not be completely altered, with the promise that after a certain number of years the buy-out of the institutional investor from the organization will guarantee the way back to "normality". Institutional investors' participation in the acquisition also seems to solve some of the agency theoretical conflicts between the acquiring and acquired management; often, institutional investors do not require the control of the acquisition to improve the target company's profitability. Most of the time, they operate as consultants in charge of the new orientation or restructuring of the acquired companies to the extent to improve the corporate growth process. Therefore, acquired companies seem to be more likely to transform their rigid structure if the partner is an institutional investor, which will be temporarily embedded in the acquired organization. This consideration is especially interesting referred to the Italian case, where the high concentration of SMEs has been always associated with the rigid organizational structure of those companies. Those are the reasons why the present study predicted the presence of institutional investors as a catalyst of the acquisition. In some way, these results were mentioned in prior research which has rarely related the presence of institutional investors to the success of the acquisition (Shleifer and Vishny, 1986; Hill and Snell, 1988; Black, 1992; Wright *et al.*, 1996 and 2002; Martin, 1996). Moreover, my result is confirmed by the negative correlation linking the deal type financing to the deal type percentage of the acquisition (see the above Table 5.1),

nancing to the deal type percentage of the acquisition (see the above Table 5.1), whereas the lower is the target's stock acquired, the higher is the probability that the operation has been financed by external equity.

By this point of view, this result has been confirmed controlling for the absolute size of the acquiring and acquired companies; in particular, the only bidder size has been found significantly and negatively related to the economic performance of the acquisition. That means, the smaller are the bidder companies, the higher is the economic performance of the acquisition. If we consider that institutional investors are generally small or medium enterprises, it is easy to relate the positive economic performance of the acquiring firms found in this study to the presence of institutional investors within the acquisition process. This result is also in some way different from prior research which has investigated the absolute size of the involved companies (Bruton *et al.*, 1994; Bergh, 1995; Singh and Zollo, 2000). For example, Bruton and his colleagues (1994) tried separately the absolute target and acquirer firm sizes and found to have no impact on the results. The same did Singh and Zollo (2000); they found the acquirer's size not significant respect to the acquisition performance. Finally, controlling for the influence of the parent firm size on the relatedness of the unit sold, Bergh (1995) found those positively correlated.

Secondly, Italian acquisitions also seem unable to guarantee a premium savings for the bidder companies if the percentage acquired is too large. Italian acquiring companies generally pay a higher price than the value of the target, whereas that price increases as the percentage of the target firm's stock acquired is larger. This result is provided by the positive relationship between the deal type percentage and the premium savings of the acquisition. Both researchers and practitioners have generally highlighted the importance of considering the cost of the acquisition. The former has suggested the role of the premium assessment on the overall acquisition success (Lubatkin, 1983; Jemison and Sitkin, 1986; Barney, 1988 and 2002; Hitt *et al.*, 1990 and 1998; Datta *et al.*, 1992; Harrison *et al.*, 1991 and 1993; Bruton *et al.*, 1994), but it has rarely investigated with empirical analyses the relationship between the efficiency of the acquisition and its performance.

Practitioners have noted the relevance of this problem as well[62]. On this matter, the present study proved the importance of considering the premium to be paid for an acquisition as one of the critical factors which can influence the acquisition success. The price assessment has to be regarded as an important stage of the acquisition process, whereas an overestimation of that premium might generate diseconomies difficult to cover. This result implies the crucial role of acquiring managers within the acquisition process; they have to chose the right target company, carefully judge the interests in acquiring that companies, that means to correctly evaluate the possible synergies that might derive from that specific operation, and finally identify the right premiums to be paid, over which those synergies could not create value for both the acquiring and acquired companies. Following this economic perspective of the managerial process surrounding the acquisition, it is easy to comprehend how the premium savings related to an acquisition is a key issue for achieving the acquisition success. The present study found the Italian management did not generally put the necessary attention to the extent to complete efficient operations. Often, it is blinded by the opportunity of closing a deal just because, for example, there might be the occasion to reach the control of the target company, but the consequences stated by my results showed themselves in some way harmful for the acquisition success. Again, as it happened measuring the economic performance of the acquisition, the control exerted by the acquiring company does not positively influence the acquisition success if related to the premium savings in charge of the bidder company. This result does not mean that acquiring-controlled acquisitions represent an impediment to the success of the acquisition, but that much more attention has to be given to the selection of the target company, and consequently to the maximum price to be paid for that acquisition. Therefore, the managerial implications of considering the premium savings as a variable affecting the acquisition success are of great interest.

[62] For example, Robert Stefanowski, managing director of GE Commercial Finance, notes that a fundamental reason behind the decline in M&A activity is the fact that many deals simply did not create additional value. In the *Knowledge@Wharton Newsletter* of September, 2003, he explained that "*... high acquisition premiums, in turn, made solid earnings growth increasingly difficult to achieve, even in a strong economy*".

Different considerations can be argued with reference to the deal type financing of the acquisition. In particular, those operations financed by external equity have been found significantly more efficient than the others; that means, the premium paid by bidder companies has resulted lower than the value of the target companies. This result states that the operations in which institutional investors have been involved were able to guarantee a premium savings, that in turn can be associated with the higher probability of reaching a successful acquisition. The following managerial implications can be assumed. As mentioned, institutional investors are experienced managers with specific interests in the acquisitions. Their prior experience represents the advantage associated with a better implementation of the acquisition process. That is, if the acquisition process has to be managed throughout each of its stages, then greater experience is required to achieve better results. However, given the prior research on the relationship between the previous experience and the performance of the acquisition (Lubatkin, 1983; Fowler and Schmidt, 1989; Haunschild, 1993; Bruton *et al.*, 1994; Ingram and Baum, 1997; Hitt *et al.*, 1998; Haleblian and Finkelstein, 1999; Singh and Zollo, 2000; Bergh, 2001; Hayward, 2002), it does not surprise that acquisitions driven by institutional investors perform better than others. Moreover, this assumption is partially confirmed by the statistically significant and positive correlate between the deal type financing and the previous acquisition experience (see Table 5.1). Furthermore, if the bidder companies gain a premium savings allowing them to exploit financial resources which has not been spent for the acquisition of a target company, related advantages can be underlined for the acquired firms too. In particular, these advantages refer to main corporate growth objective which is attained through the acquisition. As mentioned, acquired companies will benefit of the presence of external management which will let them grow.

The analysis of the premium savings of the acquisition also allowed me to highlight some interesting results which can enlarge prior research referred to the relatedness and size of the acquisition. In fact, controlling for the industry effect characterizing the acquisitions included in the sample, new worth has been added to that research. In particular, the acquisitions involving related firms showed

themselves less expensive than the others, that is the price of the acquisition has been found lower than the value of the target total assets if the acquiring and acquired companies operated in the same industry or market. Of greater interest is the fact that this result denies what prior research argued (Barney, 1988) or empirically investigated (Harrison *et al.*, 1991). In particular, Harrison and colleagues (1991) explained that their findings were primarily a result of the competitive bidding process for acquisitions, which tends to result in acquiring firms paying higher premiums when they are strategically similar to their targets (Barney, 1988; Harrison *et al.*, 1991 and 1993). Here, my results suggest that because of that similarity managers can be more likely to identify the right premium to be paid. Moreover, to consider the premium savings aspect of the acquisition success allows the present study to give more support to that part of prior research which has emphasized the superiority of related acquisitions, or more generally, of related diversification strategies (Rumelt, 1974 and 1982; Bettis and Mahajan, 1985; Christensen and Montgomery, 1981; Montgomery, 1982; Palepu, 1985). Some considerations can be argued. By a managerial point of view, the *ex ante* selection and valuation of the target companies will be considerably easier if those companies operate in the same industry which the bidder is pursuing in. Therefore, acquiring managers will be more likely to invest their company's resources in related acquisitions if they want to achieve a premium savings. In general, those managers will have the advantages of *a)* knowing the strategic factors characterizing that specific industry, *b)* sharing with the target companies the same difficulties, but especially the advantage of *c)* making in some way easier the post-acquisition integration process involving the target companies. In sum, what is important here to underline is that the usual advantages associated to the relatedness of the acquisition have positive implications also on the premium savings of the acquisition. Therefore, empirical evidence by the present study suggests that managers can not disregard the economic implications and advantages of implementing related acquisitions if they want to complete successful operations.

Looking at the absolute measure of the target size, other considerations can be argued. In particular, my findings suggest that bidder and target companies' size

must be similar if the acquisition has to better performance[63] (Kitching, 1967; Waldman, 1983; Cannella and Hambrick, 1993; Bruton *et al.*, 1994; Very *et al.*, 1997; Loughran and Vijh, 1997). Furthermore, if we consider that target firms included in this sample are generally small or medium enterprises, then the alternative idea that it is better to acquire larger companies can be questioned; in particular, some support is provided to the general assumption that SMEs can be a source of valuable resources otherwise difficult to obtain or replicate by other, usually larger, companies.

Finally, some considerations derive from the analysis of the results related to the third measure of the acquisition success. In particular, what seems to notice with reference to the survival of the target companies after the acquisition is the form of financing. The positive relationship linking the deal type financing to the survival of the acquisition suggests that the presence of institutional investors can help the acquired company to complete its corporate growth process started with the focal acquisition. That means, the acquired company is not completely merged into the bidder, once again its organizational structure seems to survive to the acquisition and to the entrance of external managers, and in general its organizational tenure is positively influenced by the external equity form of financing of the acquisition[64]. At the same time, once again acquiring a control stake does not improve the success of the acquisition. Given the negative relationship resulted by the analysis, the influence of the deal type percentage on the survival of the acquisition has been found statistically not significant.

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[63] This result can be interesting, even if is important to not that the target size is resulted just marginally significant at the $p < 0.1$ (Model 3b, Table 5.3). Moreover, this result is not confirmed by the analysis of the relative size of the acquisition, which has been found statistically not significant (Model 4b, Table 5.3).

[64] The term *organizational tenure* used in this work is borrowed by prior research (Bergh, 2001). In particular, Bergh (2001) referred to the organizational tenure analyzing the relationship between the acquisition performance and the divesting or retaining process of the acquired top executives. His findings suggested that keeping acquired company top executives with longer organizational tenure will lead to more successful acquisition outcomes, as those executives have organization-specific knowledge that would facilitate effective implementation of the acquisition. The present study followed the same logic of that notion of organizational tenure considering the measure of the survival of the acquisition, which was clearly inspired by that work. At the same time, herein a broader perspective was considered: not just the organizational tenure of the acquired top executives, but the organizational tenure, here called *survival*, of the acquisition as a whole, measured through the longevity of the acquired company after the focal acquisition.

6. CONCLUSION

The strategic management research is showing greater interest in the acquisition topic, because of the rising importance those operations are assuming. During the past years the increasing number of acquisitions which have been completed has also showed the need for a deeper comprehension of the strategic implications related to these specific operations through which firms try to grow. In spite of this positive trend, many acquisitions still fail, and researchers and practitioners were not able to untangle the causes of this result. Much has been done, but something else is still necessary in order to comprehend how to manage the acquisition process if both bidder and target companies want to gain positive economic performance and start a value creating process related to the implementation of the external growth strategies.

In order to provide new insights on the strategic management of the acquisitions, the present study investigated the influence on the acquisition success of two specific factors: the control of the acquisition held by the acquiring or acquired companies, as well as the form of financing characterizing the operation. In so doing, a new and broader definition of acquisition success has been suggested, based on the measurement of the economic performance, premium savings and survival of the acquisition. Contrary to a common definition of corporate control (Jensen and Ruback, 1983) according to which the higher is the control, the greater is the possibility of influencing the corporate strategy and its performance, acquisitions do not seem to follow this assumption. Acquiring managers trying to reach the control of the acquired companies are not able to gain above-normal economic performance, as well as to save resources that could be diverted to other development activities. Furthermore, these results do not have implications for the acquired firms in terms of its longevity which does not suffer the control in charge of the bidder company. On the other hand, managers of both the acquiring and acquired companies should point much more attention on the form of financing characterizing the operation. In particular, the external equity provided by institutional investors can generate advantages having direct consequences on the eco-

nomic performance and premium savings of the acquiring companies, as well as on the longevity of the acquired firm. Moreover, indirect positive consequences can especially follow with reference to the management of the acquired side of the acquisition, in order to improve the benefits associated to an acquisition leading to the corporate growth of the target company. On this matter, I like to underline that this study has been thought and based on the comprehension of a new and broader managerial perspective which should imply both the acquiring and acquired points of view. In fact, acquisitions are made and managed not just by one side of the operation (i.e. the acquiring side), but those must be considered and investigated as a two-way relation in which both the acquiring and acquired firms play a crucial role for gaining and sustaining the corporate growth objective.

The findings presented in this study can also provide some indications in order to help managers to think of an alternative way of managing acquisitions. By this point of view, the form of financing of the acquisition revealed great importance. In particular, this work investigated the influence on the acquisition success by institutional investors providing external equity. The presence of institutional investors has been supposed and found as a catalyst of the acquisition, whereas a twofold consideration can be argued. On the one hand, institutional investors can reach positive economic performance after the focal acquisition, as my results stated. On the other and most important, managers in charge of the growing process of a company might better do to consider the external equity financing provided by those actors as an instrument to reach their objectives. Managers who need to handle the strategic growth of their companies not always hold the specific competences which can allow them to manage the acquisition process. That is why those managers can get those specific competences on the external market. In fact, institutional investors will manage the acquisition and the relationship with the acquired managers acting as external consultants in charge of directing the strategic growth of the acquired company. Moreover, this study illustrated that most of the part of the Italian managers still prefers usual forms of financing that not imply the change of the organizational structure of their company. The financing provided by debt or capital increase financed by shareholders are typical ex-

amples of how managers usually obtain resources in order to finance the acquisition. As far as almost the 70% of the Italian acquisitions is not financed by external equity, the remaining 30% performs better than the former.

Italian managers, and at a higher level Italian companies, are still persuaded that expanding the organizational structure, that is making the organizational structure more flexible, is the first step to the loss of control of their own firm. At the same time, what should be important to comprehend would be the need to grow and respond to the continuous stimuli coming from the external and revolutionary environment which organizations are pursuing in. It is in this context that the other result provided by this study assumes greater importance. If the control of the acquisition does not enable acquiring companies to reach positive economic performance and, at the same time, reveals itself as the first source of a too high price of the acquisition, then other considerations might be taken into account by both acquiring and acquired managers. That is, bidder firms have to develop the right competences to the extent to be able to manage the acquisition process as a whole; target firms have to overcome their constraints associated with a rigid organizational structure.

Given the above managerial implications of this study, of course it also presents some limits. First, I only considered some of the crucial aspects of the acquisition process which can influence the success or failure of these operations. I focused my attention on the control and form of financing of the acquisition because I assumed those are some of the most important and unexplored issues that refer to and influence the management of both the acquiring and acquired companies. Nevertheless, these predictors not always provide a deep representation of a specific operation. For example, looking at the deal type percentage of the acquisition has to be a way to consider the acquisition as a unit of analysis, to the extent to measure how much control is held by the acquiring instead of the acquired company. I'm conscious many other factors can influence the control of the acquisition. The deal type percentage does not allow to consider if a minority stake acquisition is also influenced by previous acquisitions. That is, it does not tell us if a specific target company is already controlled by other companies. At the same

time, I'm also aware of the difficulties and weakness of researches aiming to investigate, for example, the internal control within the bidder or target companies. In other words, often prior research has generalized the issue of the control held by managers or owners of the acquiring company in order to analyze the influence on the acquisition result; in so doing, I think an as much weak generalization has been assumed, too often considering the acquiring side of the acquisition as the acquisition as a whole. Therefore, more work is required in order to better comprehend the control of the acquisition. Secondly, I introduced a broader definition of acquisition success, based on the notion of economic performance, premium savings and survival of the acquisition. If this would be an attempt to deepen the research on the acquisition success, to the extent to not limit the analysis to the only economic performance of the acquisition, I'm sure this new definition can present some constraints. Finally, by a methodological point of view this work can be criticized for two main reasons. On the one hand, I used a large enough sample, but increasing the number of operations can improve the reliability of my results. On the other, a few part of those operations are probably too recent to provide complete information on the post-acquisition process, that is on the acquisition success.

Finally, some suggestions for future research can be offered starting from the reading of this study. First, I think more research should take into account some interesting and new assumptions stated in this work and supported by the results. For example, the cost of the acquisition is one of those factors which might influence the management of the acquisition process, and which too often has been recognized but disregarded. This is also to say that a broader definition of the acquisition success is required. Identical considerations can be argued with reference to the small acquisitions, that is the small companies not considered in prior samples. I'm absolutely aware of the difficulties related to the collection of information on SMEs, but that does not have to be a justification to ignore those companies. Too often prior research has motivated the absence of SMEs within the analysis because of the weak interest those companies should have on the results. Herein, the findings would be a representation of the importance those companies

can have on the comprehension of the acquisition process. Third, more research is required on the presence of an external advisor within the operations. Not enough has been done to comprehend if this factor can really influence the acquisition success or failure. Finally, other variables which were not considered in this study and their influence on the acquisition success can be analyzed. One of those is the value of intangible assets that often has been recognized as one of the reasons of the acquisition failure.

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