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Corporate Acquisitions: A Process Perspective

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Historically, acquisition scholars and practitioners have adopted a choice perspective which portrays the corporate executive analyzing acquisition opportunities as a rational decision maker. This paper suggests that the choice perspective be supplemented with a process perspective *which recognizes the acquisition process itself as a potentially important determinant of activities and outcomes. A series of research propositions is offered suggesting how four impediments present in the process itself might affect acquisition outcomes.*

Acquisitions are an important vehicle for corporate strategic redirection and renewal. But the pace of acquisition research has not kept pace with the level of acquisition activity. Historically, acquisition scholars and practitioners alike have portrayed the executive as a rational decision maker, surveying an efficient marketplace for strategically advantageous acquisition opportunities. A variety of motives may be proposed for undertaking acquisition activity, including increasing shareholder wealth (Salter & Weinhold, 1979), creating more opportunities for managers (Meeks, 1977; Mueller, 1969; Reid, 1968), fostering organizational legitimacy, and responding to pressures from the acquisitions service industry. Despite the diversity of these hypothesized motives, a single basic model — here called the *choice perspective* — has been fundamental to virtually all acquisition research. But mounting evidence that acquisitions do not reliably yield the desired financial returns (Jensen & Ruback, 1983; Lubatkin, 1983) suggests that the choice perspective may provide an incomplete view of acquisition processes and outcomes.

The primary purpose of this paper is to suggest that the choice perspective be supplemented with a *process perspective*, which recognizes that the acquisition process itself is a potentially important determinant of acquisition activities and outcomes (see Figure 1). The proposed process model retains an important role for strategic and organizational fit between firms, but it is suggested here that four impediments present in the process can result in the inadequate consideration or misuse of strategic and organizational fit issues, indirectly affecting acquisition outcomes. Because these impediments are grounded in the process itself, they have been overlooked in previous research.

Prior Acquisition Research

Most acquisition research has employed a rational choice perspective. Such research has

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had two emphases: a narrow focus on strategic fit and an expanded focus that includes both strategic and organizational fit. Research concerning strategic fit has emphasized strategic analysis and negotiation during the preacquisition period, focusing on the analysis of "strategic fit" between suitor and target firms in light of general industry, market, or technology-related issues (Rappaport, 1979; Salter & Weinhold, 1979).

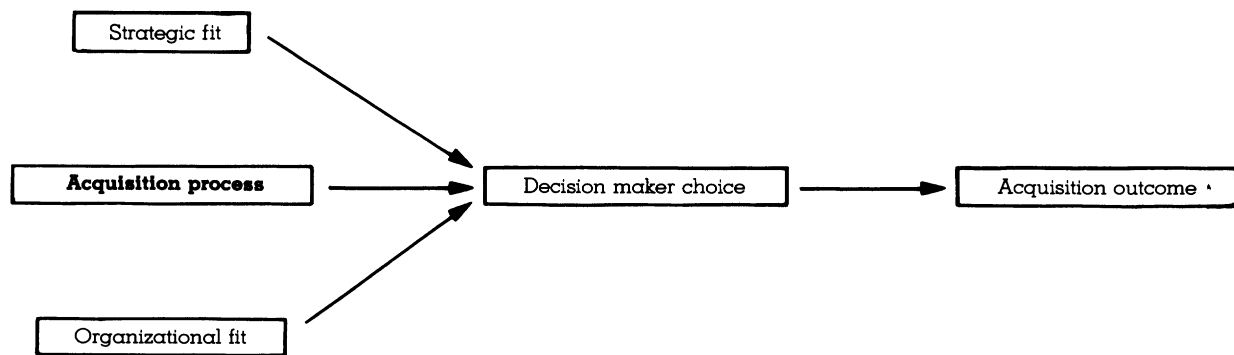
In contrast, issues of organizational fit and postmerger integration have received considerably less attention. This research has attempted to highlight the role of "organizational fit" in acquisition success, focusing on how two firms can be integrated with respect to day-to-day operations once an acquisition has been made (Leighton & Tod, 1969; Mirvis, Marks, & Sales, 1983; Pitts, 1976). Such an emphasis on organizational fit offers one alternative to the predominant strategic fit model of corporate acquisitions.

Most research on corporate acquisitions has been prescriptive, simply asserting the importance of considering strategic or organizational fit, involving key people in the process, or not hurting people. Focusing on successful and unsuccessful practices, these prescriptive approaches are a source of interesting research ideas. However, applied research can sometimes miss key issues that theoretical approaches reveal. Such is the case, the present authors contend, in acquisitions research where clues to understanding acquisition outcomes may be discovered more readily in a variety of theories that direct attention to the underlying process-driven impediments to effective acquisitions.

The present paper is directed toward these more fundamental phenomena and proposes an alternative model, one that highlights the role of the acquisition process itself. Although the acquisition process has not been recognized previously as a key determinant of acquisition outcomes, previous literature has dealt with a range of acquisition-related matters. The literature may be summarized under four headings.

Preacquisition Analysis of Strategic Fit

The literature on acquisitions focuses on the importance of insuring a good strategic fit between businesses. Strategic fit is defined here as the degree to which the target firm augments or complements the parent's strategy and thus makes identifiable contributions to the financial and nonfinancial goals of the parent. Past research has generally assumed that the acquiring firm has a clear, well-developed corporate strategy and argues that market, industry, customer, product, and financial analysis can pro-



Note. The process perspective emphasizes that the acquisition process is another factor, in addition to strategic fit and organizational fit, that affects acquisition outcomes.

Figure 1. A process perspective on corporate acquisitions.

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vide definitive guidance for acquisition decision makers (Rappaport, 1979; Salter & Weinhold, 1979). Successful acquiring firms are frequently cited for their superior analyses of fundamental strategic and economic factors relating to the strategic fit of target companies, including how the distinctive competencies of the target could be combined with those of the suitor to create additional value.

Preacquisition Analysis of Organizational Fit

In contrast to strategic fit, organizational fit is defined as the match between administrative practices, cultural practices, and personnel characteristics of the target and parent firms and may directly affect how the firms can be integrated with respect to day-to-day operations once an acquisition has been made. In contrast to the emphasis typically placed on strategic fit, most acquisition guidelines overlook the feasibility and costs of actually integrating the potential target based on organizational fit (Leighton & Tod, 1969). The literature on organizational fit is quite fragmented and typically addresses only those aspects of organizational fit that pertain to the specific problems encountered in a single case. Such aspects include the impact of acquisitions on individual motivation and productivity (Graves, 1981; Levinson, 1973; Mace & Montgomery, 1962; Marks, 1982) and the difficulties encountered in matching firm or CEO operating styles (Barrett, 1973; Costello, Kubis, & Shaffer, 1963; Kitching, 1967) or management control systems (Leighton & Tod, 1969; Mace & Montgomery, 1962). However, even when these individual integration problems have been recognized, they have rarely been placed into a broader organizational context.

Process and Effective Strategic Choice: Involvement of Key People

The acquisition process involves a wide variety of specialists in the analysis of many technical details. Although the selective involvement of stakeholder groups has not been recognized as distinctly process-based, commentators consistently recommend increased participation of operating managers and key staff people throughout the process. Such involvement, they argue, can facilitate better strategic choices by fostering a broader information base and greater commitment from those who will have to implement the decisions made during acquisition negotiations (Drucker, 1981; Searby, 1969).

Process and Effective Organizational Fit: The Need to Ease Individual Stress and Disruption

Related to the involvement of key people is the inevitable impact of acquisition processes on organizational employees. The mere occurrence of an acquisition is a sure predictor of a myriad of people-related problems, especially for members of the acquired firm. The lack of transitional support (Mirvis, Marks, & Sales, 1983) can fuel career uncertainty (Hayes, 1979), concerns about financial security or geographic relocation, feelings of alienation, and lack of co-worker trust (Sutton, 1983) and may tend to result in dissatisfaction and low productivity during the period immediately following an acquisition announcement (Barrett, 1973; Levinson, 1973; Raphael & Zimmerman, 1963). Testimony to the prevalence of such personal casualties can be found in Hirsch and Andrews' (1983) glossary on corporate takeovers, in which the "wounded list" is defined as "executives of an acquired firm who develop health or career problems" (1983, p. 155). Writers who have addressed these concerns note the importance of understanding and anticipating the people-related aspects of acquisitions, stressing the importance of job security (Hayes, 1979), cultural fit (Marks & Mirvis, 1983; Schein, 1985), and establishing clear links between an employee's former work identity and future work roles (Sinetar, 1981).

Impediments to Successful Integration

Prior research on acquisitions has only partially addressed the question of why so many well intentioned and well advised acquisition efforts result in disappointing outcomes. Whereas attention to financial, economic, and product-market concerns has provided an adequate foundation for assessing issues of strategic fit, empiri-

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cal research concerning issues of organizational fit is notably lacking. It may be useful to conceive of strategic fit as a necessary (but not sufficient) condition for acquisition success and organizational fit as an important supplement. Thus, one cannot merely address the strategic fit of an acquisition without understanding that the processes of negotiating the acquisition and integrating the target into the parent firm also may be prerequisites of success.

What can a process perspective contribute to the understanding of corporate acquisitions? The approach taken in this paper emphasizes the extent to which the acquisition process itself (the courtship) may be related to the ability to make the business combination (the marriage) successful. The lack of careful research attention to problems of postacquisition integration appears to reflect the difficulty of recognizing the process itself as part of the problem. Recognizing the acquisition process as a key determinant of acquisition outcomes allows one to glean process-related impediments to acquisition success from the findings of previous scholars and practitioners.

An emphasis on process does not imply a rejection of the choice perspective as an important determinant of acquisition outcomes. To the contrary, strategic analysis may be a necessary condition for success in all acquisitions, and organizational fit may also be a necessary condition in related diversification acquisitions. Further, it is hypothesized that the process, under some conditions, may systematically affect outcome independent of strategic fit and organizational fit. But, the relative strength of strategic, organizational, and process factors has never been tested.

To make the assumptions explicit, the following argument is proposed: (a) inadequate analysis of strategic fit is a sure route to failed acquisitions; (b) in addition, because related business acquisitions require the integration of a variety of organizational activities, issues of organizational fit must also be considered; (c) even when managers recognize the importance of analyzing strategic and organizational fit aspects of an acquisition, they often are prevented from doing this by a series of impediments inherent in the very process of analyzing, negotiating with, and acquiring another firm. It should be noted that impediments to acquisition success discussed in this paper primarily concern related business acquisitions (Rumelt, 1974), in which the espoused purpose of the acquisition frequently is to gain operating synergies between the parent and subsidiary firms. Conglomerate acquisitions, which often depend solely on financial rather than operational integration to achieve stated goals, are not considered here.

In order to make process-based predictions about acquisition outcomes, research outside the traditional acquisition literature has been tapped to identify potential factors that focus on the process itself as an important variable. Four key impediments are proposed that reflect the important role of the acquisition process in determining overall acquisition success and failure: (a) activity segmentation, (b) escalating momentum, (c) expectational ambiguity, and (d) management system misapplication.

Impediment 1: Activity Segmentation

The technical complexity of the activities surrounding an acquisition and the traditional roles of the participants lead to task segmentation. This segmentation produces conceptually and operationally different analyses and a disproportionate attention to strategic fit over organizational fit, thereby decreasing the possibility of successfully combining the businesses.

A generalist's perspective often is presumed to pervade the acquisition process. After all, acquisitions are usually strategic in nature and strategy is the stuff of generalists. However, partially because of the number of tasks to be accomplished, the technical complexity of acquisition analysis, and the traditional roles that different specialists play, duties and responsibilities usually are subdivided. It is hypothesized that this segmentation leads to two related problems: (a) a poor integration of analyses which tends to result in (b) a disproportionate amount of time

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spent on analysis of strategic fit rather than organizational fit. Figure 2 summarizes the dynamics involved in this impediment.

From the perspective of the involved parties, activity segmentation may seem essential. The analytical tasks required in acquisitions are quite varied and technically complex (e.g., industry and competitor analysis, product and market analysis, financial valuation of the target firm, pension fund compatibility, antitrust considerations) and it is logical to assign them to specialists. Because few firms make acquisitions routinely, developing and maintaining such broad internal analytical capabilities may not be economical.

Segmentation of these disparate tasks, although necessary, may increase the influence of outsiders on the firm's strategic direction, outsiders with little interest in bringing about the actual integration of the two businesses. The analyses of different groups of experts may be difficult to integrate because of (a) the sequential or temporal isolation of their analyses and (b) their use of fundamentally different perspectives. The only participants with continuity across acquisition phases are typically the senior managers in the two firms; each of the other groups moves in and out of the process as required.

These various groups of analysts and specialists may also have very different perspectives that are difficult to integrate. This could be exacerbated by previously identified preferences that organizations and their CEOs may have for particular types of analyses, preferences that are independent of the characteristics of the acquisition being considered. For example, senior managers' departmental or functional backgrounds may lead to redefining problems to fit familiar types of analyses over unfamiliar types (Dearborn & Simon, 1958). In addition, the functional focus of the activities of the largest or most powerful subgroup within the organization may come to be dominant (Allison, 1971; Cyert & March, 1963; March, 1962). Institutional and resource dependence theorists would argue that the functional focus or practices of the largest or most powerful suppliers, customers, or financiers of the firm will drive the analysis (Meyer & Rowan, 1977; Pfeffer & Salancik, 1978).

These standardized analyses may provide internal consistency and save valuable setup time during the analytical process. But, their presence and use can tend to focus the basic analysis around a few dominant paradigms that restrict consideration of nonstandard data that could materially affect the acquisition's success.

A related factor that is a likely contributor to the limited consideration of organizational fit is that such issues do not often lend themselves to standardization of analysis. For example, consulting firms and investment bankers cannot develop a model of organizational analysis for an acquisition candidate that can be applied from client to client as easily as they can develop a model for the financial valuation of the firm in the securities market. Finally, because acquisition-related activities take place sequentially, it is likely that there are few communication channels between specialists involved in the acquisition during different time periods.

Strategic fit issues receive more consideration not only because of such practical requirements, but also because of the greater availability of data and techniques to perform more sophisticated strategic analyses in a limited time. Strategic fit data usually are summarized in sales and market projections as well as a financial valuation of the target firm based on capital market projections. The calculation of the target's purchase price usually is a function of the present value of the target firm's cash flow plus a premium for synergy, or it is based on its current share price plus a percentage premium determined by the industry and company attractiveness (Rappaport, 1979). These figures usually do not reflect how the business will be run as a subunit of the parent after the acquisition but, instead, reflect the prevailing securities market value of the target and industry norms.

In sum, the division of labor in the acquisition process is proposed to be an insidious contributor to the ultimate lack of success of the acqui-

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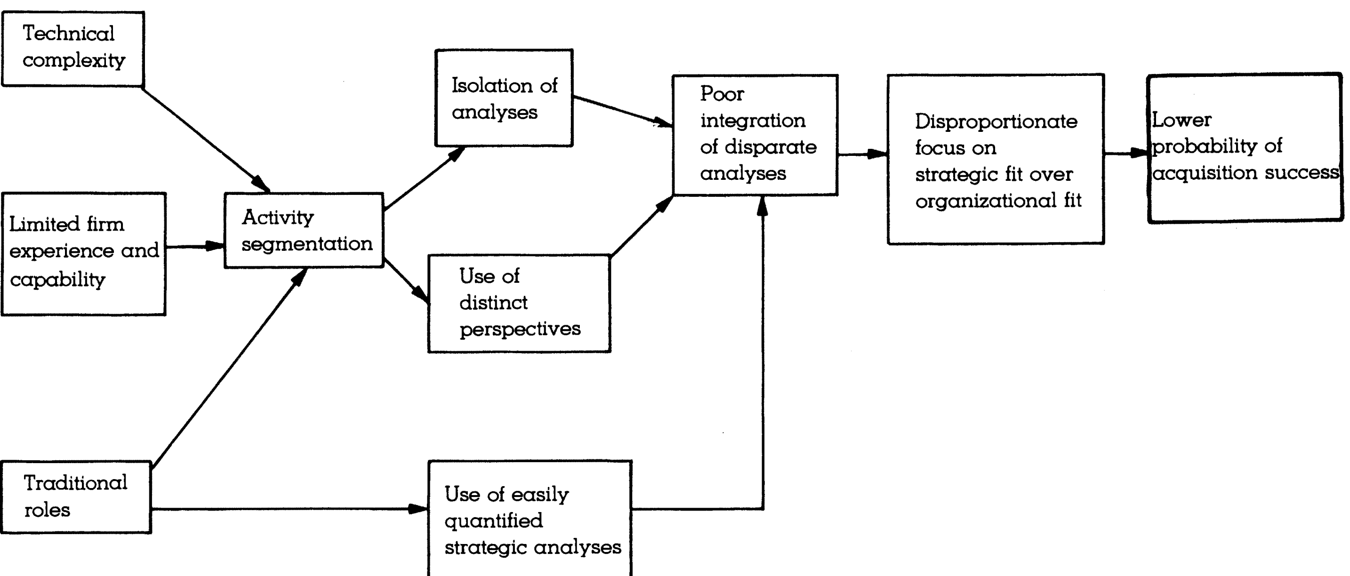

Figure 2. Process by which activity segmentation affects acquisition success.

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sition. The tasks in an acquisition need to be segmented because of their complexity and because firms lack the internal capability to perform the variety of analyses needed. But, task segmentation results in a lack of integration and a focus on strategic rather than organizational analyses. The synthesis that one might expect in the analyses (because acquisitions are usually strategic in nature) is rarely achieved in practice. Because the arguments presented here have not been subjected to empirical study, testable propositions regarding the impact of the activity segmentation impediment on postacquisition integration problems are given in Table 1.

Impediment 2: Escalating Momentum

The forces that stimulate momentum in the acquisition process are stronger than those forces that retard its momentum. The net effect of these forces is an escalating desire to complete the process quickly, which, in turn, results in premature solutions, less consideration of integration issues, and lower chances for a successful outcome.

The acquisition process is frequently described as having "a life of its own," characterized by alternating periods of waiting and frenetic activity. Tension, pace, and involvement rise relentlessly while participants apparently feel unable to stop the process or even slow the tempo. Usually described in vague, emotion-laden terms by those involved, this sense of inexorable momentum presents a stark contrast to the traditional portrayal of acquisitions as carefully calculated strategic acts.

The escalating momentum of the acquisition process is dysfunctional when it forces premature closure. This is not to suggest that early conclusions cannot occasionally be quite functional and appropriate. However, premature closure can reduce the opportunity for more careful and dispassionate consideration of issues of both strategic and organizational fit. Premature closure results because the forces that stimulate the momentum of the process are greater than the forces that restrain the momentum, thus leading to a collective desire to complete the process more quickly. Figure 3 summarizes the proposed interaction of these forces.

Forces that stimulate and feed the momentum in the acquisitions process are often stronger than those restraining it. Several discernible characteristics are an integral part of this sense of escalating momentum: (a) participant commitment; (b) secrecy; (c) decision-maker isolation; (d) overconfidence; (e) decision making under conditions of ambiguity; (f) self-interest of the participants; and (g) resistance of the target firm to the acquisition attempt.

Participant Commitment as a Stimulating Force. The participants in an acquisition negotiation often can become committed to consummating the deal regardless of its logic or ultimate benefit to the firm. As one CEO observed in explaining the most recent wave of acquisitions, "For in many of these acquisitions, managerial intellect wilted in competition with managerial adrenaline. The thrill of the chase blinded the pursuers to the consequences of the catch" (Buffett, 1982, p. 5). Acquisition analyses and negotiations are activities that frequently require a substantial and uninterrupted time commitment from participants. Factors such as intensive personal involvement, time pressure, and reliance on past experience can lead to an increased commitment and unwillingness to walk away from the deal. This time commitment may impute an importance to the acquisition that often is out of proportion to its relative meaning to the firm.

The CEO's lack of acquisition experience can also build commitment to completing the deal. CEOs may feel pressure from both peers and subordinates to play out the role of the decisive, risk-taking leader by overseeing an acquisition negotiation. Such pressures may be especially strong for those CEOs who have never "made a deal," since they may sense that because so many of their fellow CEOs have, they are somehow among the uninitiated. This emphasis on leader image (Staw & Ross, 1978) would also make it increasingly difficult (especially for the acquisitions novice) to walk away from a deal as

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Table 1

Testable Propositions Concerning Impact of Impediments on Corporate Acquisitions

Activity Segmentation

1. As activity segmentation increases, there is an increased relative focus on issues of strategic fit rather than organizational fit.
2. The more influence outside advisors have in the process, the less consideration will be given to issues of organizational fit.
3. Analysts examining organizational fit issues will have lower status and less influence than those examining strategic fit issues.
4. The more involved line managers are in the acquisitions process, the more attention will be given to issues of organizational fit.
5. The more complex the acquisition, the more different groups of outside specialists will be involved in the analysis.

Escalating Momentum

1. Executives in the acquiring firm have a desire, ceteris paribus, to complete the acquisition as quickly as possible.
2. The further the acquisition negotiation process has progressed:
   - 2.1. The more committed participants will be to closing the deal.
   - 2.2. The more optimistic participants will become of the ultimate success of the acquisition in their terms.
3. The more deeply individuals are involved in the negotiations, the more focused they will be on minutiae of the deal and the less they will be willing and able to focus on the process itself and postacquisition integration as important concerns.
4. The momentum of the process will increase and chances for consideration of integration issues will decrease if:
   - 4.1. The target is a publicly held vs privately owned firm because of a greater need for secrecy to prevent volatile swings in share prices.
   - 4.2. The takeover attempt is resisted by the target firm. The purchasing firm will attempt to act quickly so as to prevent or preempt defensive measures (e.g., white knight, cyanide pill) from working.
   - 4.3. The target is so attractive financially that the parent wants to get it before someone else does and is willing to incur substantial costs during the integration phase.
   - 4.4. The CEO of the suitor has never made an acquisition before as CEO.
   - 4.5. The parent is weak (financially, organizationally, technically) and these weaknesses require management attention, the process will be speeded up to let managers get back to their other duties.
5. The momentum of the process will be slowed and chances for consideration of integration issues will be greater if:
   - 5.1. The board of directors has experience in the acquisitions process and encourages careful deliberation about acquisitions.
   - 5.2. The top management team of the parent has a history of successful related acquisitions of the type being considered.
   - 5.3. There is organizational slack in the parent.
   - 5.4. There is broad debate in the board about strategic and operational fit.
6. The relative size of the suitor to the target firm and the momentum of the process are related in a U-shaped function with very small and very large acquisitions having the most momentum: the former because they are not very important to the buyer and management wants to get back to work; the latter because they are quite important and management wants to make sure no one else buys them first.

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Table 1 — continued

Testable Propositions Concerning Impact of Impediments on Corporate Acquisitions

Expectational Ambiguity

1. Ambiguous agreements made during the negotiating phase are seen at the time as entirely functional and nonthreatening by both parties.
2. These ambiguous agreements made during the negotiation phase lead to a cycle of escalating conflict as the ambiguities are clarified after the acquisition.
3. Ambiguity will be seen as helpful in negotiation but prove to be dysfunctional in integraton:
   - 3.1. The greater the speed with which agreement is reached.
   - 3.2. The more related the target firm is to the suitor.
   - 3.3. If the target is a public company.
   - 3.4. The more slack there is present in the target relative to the parent.
   - 3.5. If the takeover is resisted by the target.
   - 3.6. The greater the cultural differences between the two firms.

Management System Misapplication

1. The more successful the parent has been with its management systems, the more likely the parent is to impose these systems onto the subsidiary.
2. The more defensive the parent is about its inability to help the subsidiary, the more likely it is that standard practices will be imposed on the subsidiary.
3. The more defensive the subsidiary is about how it fits into the parent's plans, the more likely it will be to attract the imposition of inappropriate practices or systems from the parent.
4. Parent management systems are more likely to be imposed on the subsidiary:
   - 4.1. The greater the size disparity between the parent and subsidiary.
   - 4.2. The more related the subsidiary and therefore the more presumptive the parent managers will be about how to run the business.
   - 4.3. If the idea for the deal originated with the CEO or the corporate staff.
   - 4.4. The less the parent needs to use the skills/resources of the target.
   - 4.5. If the acquisition attempt is resisted by the target.

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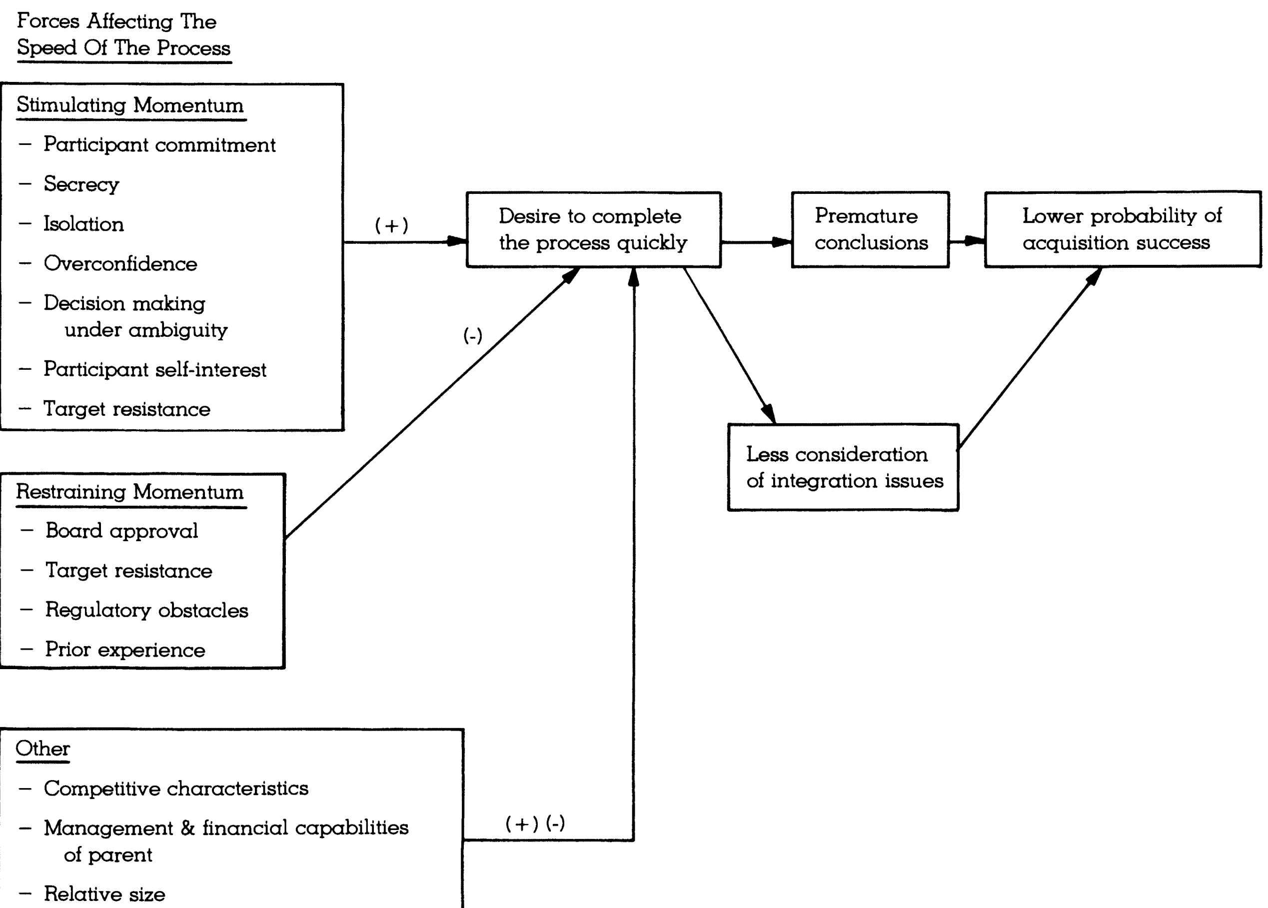

Figure 3. Process by which escalating momentum affects acquisition success.

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it progresses. Feeling that they have put their reputation for sound, decisive judgment on the line, CEOs may exhibit a classic case of escalating commitment (Staw, 1981), increasing their desire to complete the deal, in part to prove that their earlier judgments were correct.

Secrecy as a Stimulating Force. Secrecy is seen to be important and stimulates the momentum of the process for several reasons. Knowledge that an acquisition is pending creates fundamental uncertainties among the employees in both firms as well as uncertainties for key suppliers, customers, and competitors. After an acquisition intention is announced, "business as usual" virtually ceases and a period of upheaval may set in until certainty is reestablished (Levin, 1984). Accordingly, there is a desire to consummate the deal before news is leaked that could cause organizational disruptions. Secondly, if the target firm's stock is publicly listed, insider trading for windfall profits can begin, driving up the stock price and making the target relatively more expensive. Hence, there is a perceived need to keep the possibility of an acquisition secret until the last possible moment to avoid these dysfunctional consequences. In addition, there are legal restrictions on the interaction between management from the two firms to prevent them from gaining an unfair competitive advantage.

Decision-Maker Isolation as a Stimulating Force. Isolation of the acquisition team and decision makers can also contribute to acquisition-related momentum. Both a concern for secrecy and requirements for short-term concentration of effort may lead key participants to become physically and/or cognitively isolated from other firm activities and information during the negotiation period. As a result of uninterrupted decision maker attention to highly uncertain decisions, the perceived importance of the acquisition may grow and, as personal tension mounts, a sense of momentum may set in. The tension that builds may not be released until the announcement of the acquisition.

Overconfidence as a Stimulating Force. Overconfidence can speed up the process and reduce the consideration given to integration issues by causing managers to feel more in control of the situation because of prior experience or expertise. This overconfidence can manifest itself in several ways. For example, Duhaime and Schwenk (1985) suggest that the illusion of control (Langer, 1975; Lefcourt, 1973) may cause managers to evaluate acquisition candidates less thoroughly. Similarly, overconfidence in a firm's ability to enter a related business has caused managers to limit their consideration of management skills needed in the new business (Duhaime, 1981). Thus, overconfidence can lead to premature solutions and less consideration of integration issues by creating unwarranted feelings of control over and familiarity with the process.

Decision Making Under Conditions of Ambiguity as a Stimulating Force. Ambiguous information and the heightened tensions that accompany it can also foster the desire to complete the process quickly. Limited human tolerance for ambiguity can lead, in decision making, to premature solutions that are tension relieving but ultimately dysfunctional (Janis, 1972). Alternating periods of waiting and frenetic activity also may contribute to the managers' perception of the acquisition's significance and the managers' lack of control over events. The ever-building tension that surrounds the acquisition process may tend to reduce tolerance for ambiguity and increase inclination toward premature closure. Typical of crisis decision-making contexts, time for considering a wide range of options may be reduced and information that is difficult to analyze (e.g., information concerning postacquisition integration) may be shunted aside in favor of more easily analyzed numerical data (Janis & Mann, 1977).

Self-Interest of Participants as a Stimulating Force. The self-interest of different groups of participants sometimes contributes to the gathering momentum of the process. For example, investment banks are compensated on a transactions basis. Since their fee does not vary dramatically if the deal takes three weeks or nine months to close, it is plausibly in their interest not to prolong the process any more than necessary.

Target Resistance as a Stimulating Force. A

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final factor that can stimulate momentum and increase the desire to complete the process quickly is resistance to the acquisition attempt by the target firm. Ironically, the net result of such resistance may be increased resolve on the part of the suitor firm's executives and a hostile takeover attempt. In addition to exhibiting escalating commitment, executives may see target resistance as a direct challenge, or an affront to their firm's image, and feel compelled to respond. Finally, once a target firm resists an acquisition attempt, further pursuit activities do change in nature, and typically they require speed to counter quickly the forms of resistance that the target puts in place as well as competitive bids from other firms for the same target.

Escalating momentum characterizes an acquisition when restraining forces are not as strong as the forces that propel it. Restraints include board approval, target resistance, regulatory obstacles, and CEO prior experience. In many situations, these forces offer only limited resistance to the tendency toward increasing momentum, partly because of identifiable limits on their effectiveness.

Board Approval as a Restraining Force. Under law and most corporate bylaws, the board of directors must give ultimate approval to an acquisition. The extent to which the board approval process slows an acquisition's momentum may depend on the board's experience with acquisitions, the diversity of the directors as a group, and the depth of their understanding of the corporate strategy. If members of the board have little personal experience with acquisitions, board deliberations may focus on the review of financial or market information made available by the firm's management or investment bankers instead of encouraging management to initiate operational analyses also important to predicting postacquisition success. In addition, if the board has advocated acquisitions as a way to reshape corporate strategy, its members may tend to focus on results (i.e., was a deal made or not) and avoid process issues, perhaps presuming that opportunities have been adequately evaluated by management.

Target Resistance as a Restraining Force. Although it typically facilitates momentum, target resistance to the acquisition can occasionally effectively reduce the escalating momentum of the process. However, it seems that target resistance would be successful only when it is manifest in the legal arena (e.g., changing corporate bylaws to require a certain percentage of shareholders' approval for a merger).

Regulatory Obstacles as a Restraining Force. The Federal Trade Commission must sanction acquisitions as not being in violation of antitrust law. Although the FTC's involvement occurs after an offer to purchase a firm is made, insuring that the deal has few anticompetitive aspects can slow the process and impede the escalation of momentum.

Prior Experience as a Restraining Force. Other restraints on momentum are limited opportunities for organizational learning over time and deference given to expert advisors who are more likely to speed up the acquisition process. Most firms do not make acquisitions in a serial fashion with several acquisitions coming close together. However, if a firm has had prior experience in successfully integrating acquisitions, this experience may tend to decrease momentum.

In summary, the acquisition process takes on a life of its own that becomes difficult to stop, and once begun, there are few restraints on this escalating momentum. This increasing momentum can lead to overconfidence and a desire to complete the process at all costs — both of which are dysfunctional in terms of successfully integrating the acquired firm. The dilemma of escalating momentum has imbedded in it a series of propositions that suggest further research on acquisition success. Specifically, conditions that might facilitate or restrain the tendency toward escalating momentum are noted in Table 1.

Impediment 3: Expectational Ambiguity

The presence and use of ambiguity during the negotiating phase of an acquisition are often quite purposeful. But this same ambiguity, when carried to the integration

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phase, can be dysfunctional and reduce the chances for successful integration.

Both the suitor and the target firm enter into negotiations with certain expectations about the purpose of the acquisition, future performance levels, and the timing of particular actions. Because there is great potential for disagreement on these points between the two firms, ambiguity during the negotiation phase of the acquisition process serves both parties well. It provides maneuvering room in negotiations, opportunities to save face in public announcements, and it helps both parties find a common denominator for agreement on seemingly intractable issues during the fast-paced process in which they are involved.

Once the managers begin to integrate the acquisition, the ambiguity so essential to successful negotiation ironically becomes a major source of difficulty and conflict. After the deal is closed, the parties must eventually clarify and make explicit those key parts of the agreement previously left ambiguous. When the parties' interpretation of these points is significantly different, relationships established during the negotiation process, including fragile bonds of trust, may begin to unravel. As trust breaks down, both parent and subsidiary managers may overreact — conjuring scenarios of rapacious acquirers or inept subsidiaries.

The reactions of parent and subsidiary managers often can result in a cycle of escalating conflict leading to further distrust and polarization of preconceived attitudes about the other party. For example, in order to regain a sense of control, parent company executives may impose rigorous or standardized performance expectations and milestones onto the new subsidiary. Such standards may be inappropriate for the special business requirements of the subsidiary. Yet, when performance expectations are not met (often predictably), parent firm managers may react as though their fears of weak or incompetent subsidiary management have been confirmed. In response, subsidiary managers may vigorously defend their autonomy against all parent firm requests, fueling the parent's perceived need for increased control and intervention. As the cycle of escalating conflict continues, subsidiary managers may see this as confirmation of their worst fears of a malevolent takeover. Figure 4 summarizes the process by which this impediment is hypothesized to affect acquisition success.

Such acquisition behavior is typical of decision-making behavior in ambiguous situations. For example, in similarly ambiguous contexts, researchers have noted a tendency for decision makers under conditions of ambiguity and stress to become hypervigilant, and focus on familiar practices, easily digested information, and easily controlled minutiae (Allison, 1971; George, 1980; Janis & Mann, 1977). Research concerning contractual relations between organizations (Williamson, 1975) and international negotiations (McGuire, 1965) have noted comparable responses to unverifiable or incomplete information. Ambiguous information also has been found to polarize preexisting attitudes (Lord, Ross, & Lepper, 1979), thereby suggesting one unexpected source of increased antagonism between groups. Such findings help to explain the fierce polarization often characteristic of routine acquisition processes. They also provide empirical support for commonsense notions of why, when problems inevitably arise, acquiring firms would turn to familiar control mechanisms (e.g., financial reporting practices, personnel policies) and the overmanagement of subsidiary activities.

The implications of this dilemma are significant and especially problematic. It has been argued that ambiguity is useful—if not essential—during the negotiation phase. Yet the ambiguity that aids in negotiations can concurrently sow the seeds for later postacquisition problems. Thus, it appears that managers of acquisitions face a difficult paradox: ambiguity is essential and at the same time potentially highly dysfunctional. This ill-understood dilemma requires additional empirical exploration to determine the factors that have the most significant effects on acquisition success and to assess whether any significant factors are malleable enough to be treated ambiguously in one phase and explicitly

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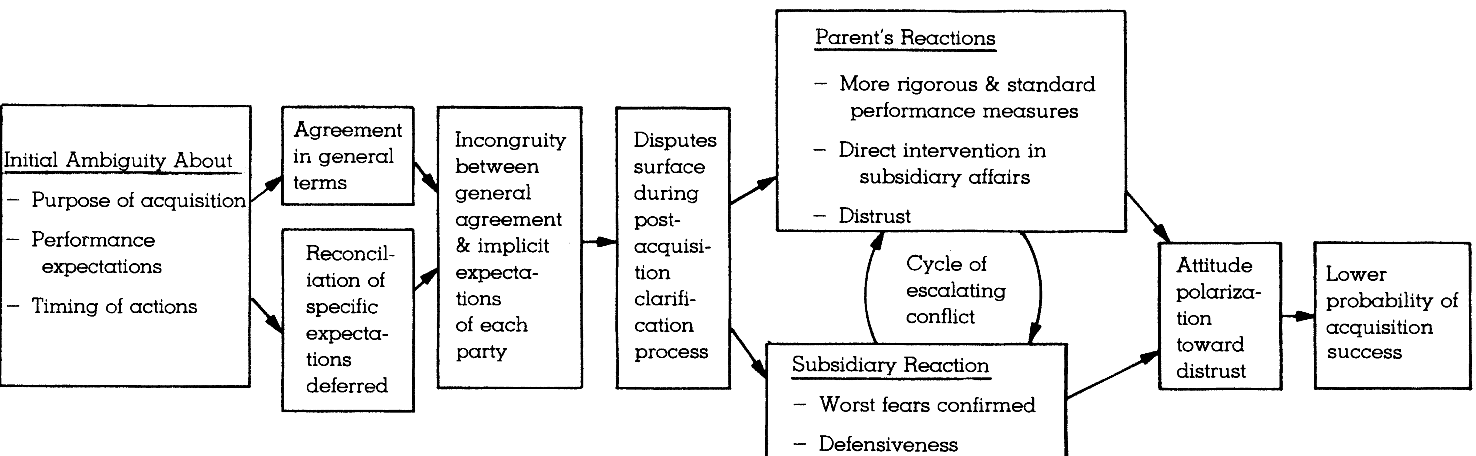

Figure 4. Process by which expectational ambiguity affects acquisition success.

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in another without undermining acquisition success. Table 1 provides a series of propositions to initiate such an exploration.

Impediment 4: Management System Misapplication

The parent's desire to help the new subsidiary and their confidence about their own capabilities often lead to a misapplication of management systems which reduces the chances for the acquisition's ultimate success as a subunit of the parent firm.

Most acquisitions have as their basis some degree of strategic vision whereby value will be created by combining two businesses. The acquiring firm usually has an idea about how to integrate activities to utilize the strengths of both parent and subsidiary more fully. However, in part due to pressures to obtain quickly a return on acquisition premiums paid, the parent's strengths are often applied in a heavy-handed fashion, imposing the parent's approaches and practices on the subsidiary. After the acquisition, fundamental competencies and capabilities of the subsidiary may be dismissed by parent firm managers — even if these competencies and capabilities were what initially attracted the parent firm to the target.

This behavior can be understood in terms of two related forces: defensiveness and arrogance. Both firms can exhibit a mixture of defensiveness and arrogance to the detriment of their cooperative relationship. These forces, in turn, can lead to the misapplication of parent firm managerial systems (see Figure 5). Both parent and subsidiary may exhibit a certain amount of defensiveness because they are unfamiliar with each other's business, style, and procedures. This lack of knowledge can lead to frustration for both parties. Parent managers may want to help without knowing how. At the same time, the subsidiary managers may be afraid to admit what they do not know for fear of reprisal. This can lead to a defensiveness on the part of the new subsidiary managers and a reduced chance that they will be candid with parent company managers. Parent defensiveness may result from an inability to help (because they do not know the business) and the subsidiary's desire to show the parent about its business (without appearing to "know it all" or seeming to resist corporate control).

Parent firm arrogance is another force leading to misapplication of management systems and can arise from three forms of organizational chauvinism: interpersonal arrogance, cultural arrogance, and managerial arrogance. Interpersonal arrogance on the part of the parent involves an attitude (usually unfounded) that "since we acquired you, we are smarter than you are." This comparative evaluation of competencies is often accompanied by a presumption (on the part of the parent firm's managers) that the parent firm's style, values, beliefs, and practices are superior to those of the subsidiary and thus should be imposed on it. This also may take the form of a cultural arrogance, whereby key symbols in the subsidiary that provide continuity and meaning for the employees may be cast aside (e.g., flexible schedules, first-class travel, role of the CEO) without an understanding of the detrimental effects of such capricious actions (Deal & Kennedy, 1982).

Managerial arrogance is indicated by a presumption that the administrative or operating systems of the parent are superior and thus should be uniformly adopted by the subsidiary. Without considering that the subsidiary may have some superior systems or that the two types of systems may both be well adapted to different technological or environmental needs, the parent managers may descend on the subsidiary with a "SWAT" team to solve perceived problems unilaterally through direct intervention. The presumption is of subsidiary incompetence, rather than simply differences of opinion, style, or contextual requirements.

These reasons for misapplication of management systems may be rooted in the selective perception of parent firm employees and can play an important role in acquisition failure (Marks & Mirvis, 1983). Ironically, they may tend to become

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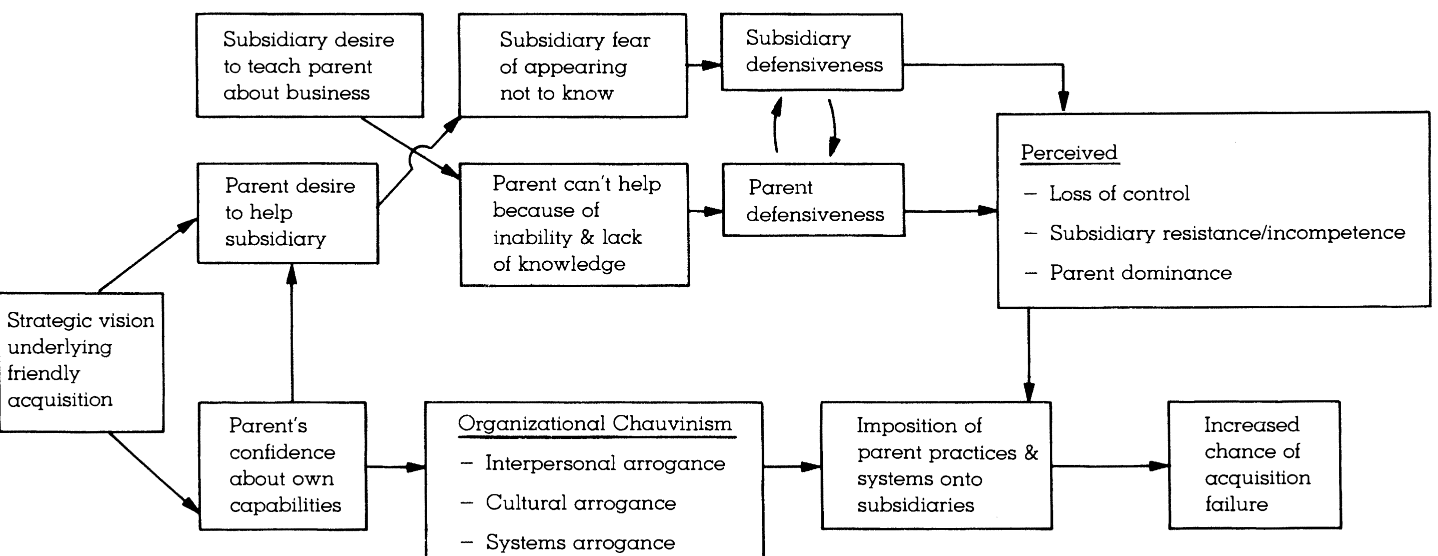

Figure 5. Process by which management system misapplication impediment affects acquisition success.

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factors even in acquisitions in which the unique capacities of the subsidiary are clear and needed by the parent. Thus, the tendency toward these different types of actions may represent an important dysfunctional predisposition of acquiring firms and their employees, especially because the employees who impose the systems usually were not involved in the negotiations.

Table 1 presents a series of propositions concerning the conditions under which integration problems due to management system misapplication are likely to be present.

Discussion and Conclusion

This paper's fundamental argument is that acquisitions should be seen as a *process* with distinctive characteristics that may affect important organizational activities and outcomes. Acquisitions are strategic, complex, occur sporadically (for most firms), and affect varied stakeholder groups and multiple actors whose involvement is temporally and functionally divided. These factors, in combination, result in an acquisitions process that is both discontinuous and fractionated.

Acquisition as a Discontinuous Process

Few firms make acquisitions on a routine basis. As a result, their activities are more structured toward management of their ongoing businesses. Although many firms employ acquisitions staffs, these groups generally are engaged in economic analyses of potential candidates rather than carrying out acquisitions or integrating acquisitions that have already been made. When an acquisition opportunity presents itself, most senior managers are unfamiliar with the subtleties of what will transpire. Thus, firms often rely heavily on outside advisors whose interests may not coincide with those of the firm and whose expertise concerns acquisition analysis and deal negotiation rather than postacquisition integration.

In addition, and more importantly, the present authors believe that the acquisition process is seen by managers in a different light from their other strategic management responsibilities. Specifically, in contrast with other strategic responsibilities, the follow-through, which is so critical to acquisition success, is overlooked because of the discontinuous nature of the process. This may be because managers imbue the acquisition process with a synoptic, rational aura, in part because acquisitions are usually justified on strategic grounds and rationality is presumed for strategic decisions. This is in marked contrast to the logically incremental process that characterizes most organizational activities (Lindblom, 1959; Quinn, 1980). It is felt that this misleading frame of reference can lead to the neglect of the acquisition process and postacquisition implementation. A synoptic, rational viewpoint encourages the use of hard, concrete, and predictive analyses that are typified by the economic analyses of strategic fit. In contrast, the softer, more subtle, and emergent issues of integrating the operations of the two businesses are open to more ambiguous interpretations. Because managers see the acquisitions process itself as synoptic and rational, these softer issues are not given much credence.

Acquisition as a Fractionated Process

Many different groups from both inside and outside the firms are involved in an acquisition. Although each may qualitatively shift the focus of the process toward their interests, few of these groups have a stake in how the combined firms will be run after the acquisition. Instead, they are more concerned with their particular interests (e.g., getting a higher price for the acquisition, saving jobs at a manufacturing facility, insuring a job or golden parachute for themselves after the acquisition). Thus, there typically appears to be a lack of forces in place to draw attention to the impact of the acquisition process itself on ultimate acquisition success.

Conclusion

The discontinuity and fractionation of the process reinforce the impact of the four impediments examined in this paper. The impediments discussed here occur at different stages of the acqui-

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sition process. Because different groups are involved at different stages of the process and because all groups are not affected by the impediments, it is difficult to recognize the process as a source of the problem. Also, acquisitions are typically viewed substantively in strategic or, more recently, in organizational terms.

It is proposed that attention be directed to a previously overlooked and potentially critical determinant of acquisition outcomes — the acquisition process itself. The acquisition process presents managers and scholars with a series of impediments that may fundamentally affect their ability to understand how to achieve desired benefits from their acquisition strategies. In addition, many of these impediments may be inherent in the process itself and therefore not amenable to direct managerial control. It is hoped that this paper will be a stimulant for additional research on and attention to the acquisition process as a factor in acquisition success and failure.

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