The influence of Acquisition Experience and Post-acquisition Strategies on the Performance of Emerging Market Acquirers: Empirical Evidence from Turkey

MEHMET EVRAN

School of Business and Management

Queen Mary, University of London

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Statement of Originality

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Abstract

In the last decade, the number of mergers and acquisitions (M&A) activities by emerging market firms has rapidly increased to exploit growing markets at home and abroad. In order to be successful in their M&A goals, these firms need to develop a specific M&A capability and manage post-M&A processes effectively. Drawing on the dynamic capabilities view, I develop a theoretical framework for emerging market acquirers that outlines the development of the acquisition capability mechanisms. I first examine the influence of prior acquisition experience on acquisition performance. I then go on to study the integration capability of emerging market firms and examine the effect of post-M&A integration strategies on the performance of acquisitions by emerging market firms. The overall results indicate that a firm’s focal acquisition performance positively relates to prior acquisition experience that is similar to the focal acquisition. Moreover, post-M&A integration strategies vary depending on the geographical similarity of the focal acquisition. Replacing the target’s top manager is a particularly important determinant of acquisition performance in domestic M&A. Finally, in this research, I also extend the organisational learning view and develop a multi-level analysis that examines the role of business groups alongside firm-level learning from acquisitions.

The usual focus in emerging market studies is on the big emerging economies of Brazil, Russia, India and China (BRIC). I focus instead on the country case of Turkey, one of the second tier of “bighish” growing economies of “MIST” (Mexico, Indonesia, South Korea and Turkey). The empirical results are based on a unique hand-collected dataset of acquisitions in Turkey culled from publicly available data. The final dataset consists of 279 acquisitions between 1998 and 2011.
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CHAPTER 1

Introduction
1.1 Introduction

Mergers and acquisitions (M&A) activities continue to be popular in the business world and are a big part of today’s corporate environment. In 2013, the worldwide volume of M&A deals reached more than $2.319 billion according to Thomson Reuters (Thomson Reuters, 2013). Despite their worldwide sustained popularity, M&A remain highly controversial both in academic and business worlds (Muehlfeld et al., 2012). Making M&A deals has always been a very difficult organisational activity for firms, and about two-thirds of M&A fail to meet expectations (Dobbs et al, 2007). Given that most of the research indicates that M&A activity has an overall success rate of less than 50%, the main questions to ask are which firms succeed in their M&A and what factors lie behind this success. Thus, examining M&A is a good opportunity to study the factors that distinguish firms which perform better from those which underperform or worse.

The vast majority of acquisition researchers, as well as strategic consultants (e.g. Harding et al., 2013 – Bain & Company), have suggested that firms which are active in M&A deals usually outperform those that stay away from M&A. Thus, M&A frequency might be the important determinant of success, and firms with more M&A experience might perform better than those without, as they generate better strategies in the focal acquisition by learning from their previous M&A activities. Apart from the role of acquisition experience in M&A performance, acquirer firms’ skills in finding, evaluating, and executing the transaction, and then especially integrating the two firms in an effective manner during the post-acquisition period, determines the success of M&A activities (Harding et al., 2013). The main takeaway here is that management of the deal-making pre-M&A period and the deal-executing post-M&A period are the important determinants of M&A performance. The pre-acquisition phase includes the identification and evaluation of appropriate targets and the selection of a suitable target from among the candidates, whereas the post-acquisition phase includes the integration process of combining two or more firms into a single firm. In this study, I will focus on the latter and examine the overall influence of
acquisition experience and post-acquisition strategies on the acquisition performance of acquirers.

The majority of M&A scholars in strategic management and finance have largely based their studies on developed-world cases, and the emerging market context remains under-explored. In the last two decades, the world has witnessed a dramatic economic shift from developed economies to emerging market economies, thanks to the globalisation and economic reforms initiated by emerging market countries. By 2010, the emerging market economies together accounted for 40% of world’s global output, as opposed to only half of that (20%) in 1990 (Kumar and Steenkamp, 2013). Given this rapid growth rate and the unique characteristics of emerging market economies, the exploration of the influence of acquisition experience and post-acquisition strategies contributes to both theory and practice for better understanding of the phenomenon in emerging markets.

The aim of this chapter is to introduce the research and to outline the aims and objectives of the study. The chapter also describes the level of analysis, and the concepts and context used in this study. In the next section, I will provide a small summary of the relevant literature for the study. Subsequently, I will discuss the importance of the study and outline the aims and objectives to be examined (Section 1.3). Then, in Section 1.4, I will briefly mention the context of the study. In Section 1.5, I will present an outline of the research methodology. In the last section, I will describe the structure of the research and the order of presentation (Section 1.6).

1.2 Background of the study

Globally, M&A have become a popular corporate activity and firms undertake M&A to fulfil several of their corporate objectives. M&A may provide complementary
resources, new opportunities and new markets, or cost efficiency for an acquiring firm (Hitt et al, 2001). However, M&A may be a risky investment that might cause damage to the organisational structure and affect firm performance. Many scholars find M&A to be a risky strategic change that a firm might pursue, because an acquiring firm may face undesired results via inadequate acquisition strategies, unsatisfactory management, or unsuccessful integration in the post-M&A process (King et al., 2004; Anand et al., 2005).

Managing M&A successfully is a complex organisational task, and in general, deals end in disappointment (Voss, 2008). While some researchers have suggested that M&A increases the performance of the firm (Seth et al., 2002, Healy et al., 1992), the empirical evidence has generally shown that the expected benefits of the M&A were not realised and the acquirer showed poor performance following an acquisition (Hitt et al., 2001, Larsson and Lubatkin, 2001; Birkinshaw et al., 2000). According to a report by McKinsey Quarterly (2010), more than 50% of M&A fail to achieve their business goals. This leads to the implication that some acquirers succeed in building the appropriate strategies for an acquisition, whereas others do not. In an attempt to identify the main reasons behind this failure rate and understand the main reasons behind these poor performances, M&A researchers from different disciplines have increased their interest in the M&A integration strategies of combined firms. M&A have been largely researched in finance and these studies, generally, deal with the performance of the acquirer and target, and examine the causes and shareholder wealth effects of M&A (Rau and Vermaelen, 1998; Conn et al., 2005; Bradley and Sundaram, 2005). On the other hand, strategic management researchers attempt to answer the question of why the acquisition strategies of some firms are more successful than others. The fundamental assumption of strategic management research predominantly focuses on the resource-based view\(^1\) of firms (Penrose, 1959) and suggests that related acquisitions, those with industrial similarity between acquirer and target, are more successful than unrelated ones (Barney, 1988; Kusewitt, 1985; Rumelt, 1982; Singh and Montgomery, 1987).

\(^1\) For a detailed overview of the resource-based view, please refer to Section 2.3.1.
In the next group, some acquisition researchers have studied the acquisition from an organisational learning perspective. These studies prioritised the managerial decisions and learning issues, particularly during the post-M&A process, in order to focus on the factors influencing the process (Krishnan et al., 1997; Pablo, 1994; Nemanich and Keller, 2007). Scholars have suggested that the firm’s past experience and learning is a major determinant of acquisition performance (Haleblian and Finkelstein, 1999; Zollo and Winter, 2002). Lessons from prior acquisition experience have been learnt and can be applied to the focal and future acquisition activities (Haleblian and Finkelstein, 1999). According to organisational learning theory, experience-based learning leads to performance enhancement of the acquisition through its influences on knowledge creation and transfer, and by triggering changes to firm’s strategies and implementations (Levitt and March, 1988). Yet, despite the significant progress of the existing literature on learning from prior acquisitions (e.g. Haleblian and Finkelstein, 1999; Kale and Singh, 2007; Zollo and Singh, 2004; Zollo and Reuer, 2010), it is confusing that there have been many conflicting findings on whether firms learn from their previous acquisition experience: multiple studies have variously found a positive effect, a negative effect, a u-shaped effect, and no effect of acquisition experience on the subsequent acquisition performance of the firms (see Barkema and Schijven, 2008). Thus, the question of whether experienced acquirers are more successful in their acquisition strategies than those that have little or no acquisition experience has remained not fully answered (King et al., 2004). Additionally, the accumulation of acquisition experience may not be enough for an effective learning mechanism, and thus not lead to acquisition performance enhancement. Identification of prior acquisition attributes may help to find the way in which experience affects learning and leads to performance improvement. Answering these questions is highly important to better understand the determinants of successful firms’ acquisition strategy and thereby differentiate the successful acquirers.

Moreover, firms’ prior M&A experience may not be the sole factor for performance enhancement from acquisitions. Strategies specific to the management of the post-M&A period may affect acquisition performance. Thus, a firm may make a successful
acquisition by taking advantage of post-acquisition strategies that would help acquirers achieve higher levels of success and reach their desired goals. For instance, in the case of Cisco Systems, where 140+ firms have been acquired by Cisco since 1993, superior integration capability is one key to their successful M&A approach, and they use this capability to maximise the value of acquisitions (Harvey, 2000; Szulanski, 2000). Evaluating the target and choosing appropriate resources\(^2\) that best fit with the acquirer firm remains one of the most strategic and essential roles of the acquirer’s top management during the post-acquisition period (Zollo and Singh, 2004). Given the risky and complex nature of acquisitions, in order to be successful with the acquisition it is essential to use an appropriate post-acquisition strategy by taking into account the critical evaluation of target’s resources and the acquirer firm’s integration capability, which is an important acquisition-based dynamic capability. The benefit here comes from a successful combination of resources between the target and acquirer. Thus this practice emphasises the importance of the decision-making process of the acquisition and top management (Jemison and Sitkin, 1986). Then, in the post-acquisition period, there appears the question of which resources from the target will be retained or replaced with new ones. To this end, an obvious addition to the literature about post-acquisition management would be examining the relationship between resource replacement and acquisition performance.

A complementary framework is required to better capture and analyse the important corporate development activity of acquisitions. In this study, I investigate learning with respect to the underexplored phenomena of the capability development of acquisition. By drawing upon the multiple theoretical foundations employed in the post-M&A literature, namely organisational learning theory (Hayward, 2002), behavioural learning theory (Haleblian and Finkelstein, 1999), and the knowledge-based perspective (Zollo and Singh, 2004), and using the fundamental insights of the resource-based view of the firm, my analysis draws on a dynamic capabilities view of strategic management as the theoretical foundation of this study. The motivation for M&A is that the firms use acquisitions to obtain new resources and improve their

\(^2\) For a detailed explanation of resources, please refer to Section 2.3.2.
existing resource base (Capron and Anand, 2007). It is necessary to have specific capabilities to be successful in M&A (Helfat et al., 2007). To explore this explanation, benefiting from Voss’s (2008) and Capron and Anand’s (2007) studies, in this study I examine M&A capability\(^3\). M&A capability is a dynamic capability allowing the firm to change its resource base and capabilities in order to stay competitive in dynamic environments. Furthermore, like many of strategic management researchers, in considering the post-acquisition integration strategies I also adopt the view that firms usually use acquisitions in order to reconfigure the target and acquirer businesses as part of the combination process (Steiner, 1975; Seth, 1990; Capron et al., 1998). An integration capability specific to managing the post-acquisition process has been highlighted as a key prerequisite for completing these complex corporate activities (Haspeslagh and Jemison, 1991; Zollo and Singh, 2004). Then, I propose that the firm’s integration capability is the needed ability that helps firms to effectively complete the integration of the combined firms, and achieve a successful post-acquisition process and increase their acquisition performance.

1.3 Study setting: an emerging market case

One important factor which might have contributed to the inconsistent findings in the extant literature is that prior studies have almost exclusively conceptualised and captured acquisition experience and post-acquisition issues from developed-world perspectives (Zollo and Singh, 2004; Capron, 1999; Hayward, 2002) and ignored the emerging market\(^4\) case. Many firms in emerging markets are active in various businesses. Emerging market firms that focus primarily on growth have tended to became more acquisitive during the last decade in order to stay competitive and catch up to their developed-world counterparts (Khanna and Palepu, 2013). Therefore, an investigation of emerging market firms is worthwhile, since the number of M&A

\(^3\) For a detailed overview of M&A capability, please refer to Section 2.3.3.

\(^4\) For a detailed overview of emerging markets, please refer to Section 2.5.2.
activities by emerging market firms has rapidly increased so as to exploit growing markets at home and abroad.

Importantly, by examining the determinants of acquisition performance in emerging markets, I will shed light on the environmental influence of these phenomena. Here, given the unique characteristics of emerging markets and the existing studies’ inconsistent findings, studying the context of an emerging market is the appropriate approach. It provides a good example for investigating whether different acquirers’ strategies for post-acquisition management are systematically related with different performance consequences.

Moreover, what are main characteristics of emerging market acquirers that differentiate them from their developed-world counterparts? Kumar (2009), and Khanna and Palepu (2010) assert that firms from emerging market firms employ M&A as their core globalisation strategy. Unlike the developed-world approach of using M&A mainly to lower costs or direct growth, emerging market firms use M&A, especially cross-border M&A, for more strategic purposes, such as acquiring new technologies and brands, and growing in the long term (Kumar, 2009; Ghemawat et al. 2008). Rather than making several changes in the post-acquisition period soon after the completion of the cross-border acquisition, emerging market firms prefer to keep this process softer and usually retain the target’s resources (Kumar, 2009; Khanna and Palepu, 2013). Given the predominant argument that integration is a major challenge during the post-M&A process, these emerging market firms approach post-acquisition strategies differently than the traditional approach by developed-world firms.

On the other hand, in their domestic markets’ weak institutional environments, lack of corporate governance mechanisms, common relational ties, and family owned management structures give these emerging market firms unique characteristics
relating to their own environment (Khanna and Yafeh, 2007; Young et al, 2008; Khanna and Palepu, 2009; Gammeltoft et al., 2010; Peng et al., 2008). This results in a more path-dependent approach in their domestic acquisitions for managing the post-acquisition integration process. During the post-acquisition period of domestic deals, these firms are more likely to replace the target’s resources, contrary to their behaviour in cross-border deals.

Notably, the usual focus in emerging market studies is on the big emerging economies of Brazil, Russia, India and China (BRIC). I focus instead on the country case of Turkey, one of the second tier of “biggish” growing economies of “MIST” (Mexico, Indonesia, South Korea and Turkey). Furthermore, the Turkish context provides an interesting geographical setting characterised by its nature and attempts to become both a more Western-style market economy and an emerging Muslim country negotiating to join the European Union (EU). Also, recent political and economic uncertainties, and a highly volatile environment, make Turkey a more interesting research setting to focus on. Therefore, the Turkish context provides a good emerging market case to test a number of new theories as well as previously tested variables.

To sum up, we know little about the role of the environment in organisational learning and management of the post-acquisition period. This is an important theoretical gap because evidence suggests that learning is highly specific to context and its resulting environment, particularly when one considers complex organisational activity such as acquisitions (Haleblian and Finkelstein, 1999; Williams, 2007; Muehlfeld et al., 2012). In the present study, by focusing on the emerging market case, I attempt to address this gap by examining the influence of prior acquisition experience and post-acquisition strategies on the acquisition performance of emerging market acquirers.

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5 For a detailed overview of the Turkish economy, please refer to Chapter 3.
1.4 Aims and objectives of the study

In this study, I will focus on emerging market acquirers’ variations in performance and empirically examine the influence of acquisition experience and post-acquisition strategies on the acquisition performance of emerging market firms. My focus will be on the acquirer firm, rather than the target firm. Overall, I aim to assess what factors have contributed to the success of acquisitions in emerging markets.

Firstly, considering the emerging market firms, I will examine the influence of prior acquisition experience on the performance of acquisitions. I aim to extend the literature on organisational learning in acquisitions (Haleblian and Finkelstein, 1999; Hayward, 2002; Zollo and Singh, 2004; Laamanen and Keil, 2008; Zollo and Reuer, 2010) by broadening our knowledge of how and in which conditions firms learn from their prior acquisition activities in the emerging market. To this end, I will address two questions. First, do firms directly learn from their prior acquisition experiences? Second, do firms’ learning patterns depend on the similarity conditions between the prior and focal acquisitions?

Moreover, I aim to provide important insights about organisational learning by examining the different levels involved in the learning process in acquisitions. In this regard, I will also take account of the role of business groups in organisational learning processes. Examining the role of business groups in the emerging market and accounting for how group-level learning affects the groups’ subsidiaries’ acquisition performance is important to capture the linkages between the different levels in organisational learning. I will also discuss how group-level learning shapes the firm’s acquisition capability. Thus, in addition to using the same approach as that

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6 For a detailed overview of business groups in emerging markets, please refer to Sections 2.5.2 and 3.3.1.
of the existing literature on organisational learning, which analyses acquisitions at the firm level, by examining business groups as individual units I aim to contribute to the literature by advancing the level one step further.

Furthermore, given that undertaking an M&A is a complex issue and takes on different characteristics in the emerging market context, an interesting question is how the target’s resources are reconfigured in the post-M&A process. Therefore, in this study, I will examine how post-acquisition strategies influence the economic performance of acquisitions in emerging markets. Through this study, I aim to explore which strategies enhance acquisition performance, and whether there is any difference between domestic and cross-border acquisitions. Additionally, I will consider the role of top manager replacement in acquisitions.

Given that the theoretical base for this study derives from what is referred to as a dynamic capability perspective on strategy, I will address the question of how acquisition capability developed in emerging markets. Furthermore, accepting that the management of the post-acquisition process is an important determinant of acquisition capability, I will further indicate which strategies lead to development of integration capability successfully for emerging market firms.

Consequently, I aim to make some contributions to the M&A literature in the field of strategic management by shedding light on “organisational learning in M&A activities”, “development of M&A capability”, “management of M&A integration strategies in emerging markets”, and “cross-border and domestic post-acquisition strategies of emerging market acquirers”. Practically, I also aim to contribute to the decision-making process of emerging market firms by providing practised cases from the post-M&A process and acquisition performance determinants, and providing contemporary evidence on the corporate strategy of Turkish listed firms.
1.5 Methodology

The aim of this section is to present a brief outline of the data and methods used in this study. The Turkish setting was deemed to be particularly well-suited for my research aims and objectives for several reasons. First, by examining the case of Turkey, I ensure that the firms used in the analysis are relatively uniform in the environmental setting that they faced. Second, Turkey has seen a period of rapid growth during the last decade, and this has led to an increase in the number of M&A deals. Third, in terms of the unique characteristics of emerging markets, Turkey meets these conditions well, and is an appropriate case to achieve the aims of this study. In chapter 3, I will provide an insight into the nature of the Turkish economy.

The research design of this study is as follows. Initially, I conducted fieldwork based on seven informal exploratory interviews and researched the existing literature to gain a deeper understanding of the influence of acquisition experience and post-acquisition strategies on the economic performance of acquisitions. Subsequently, I collected data by focusing on publicly traded firms’ completed and majority-owned acquisitions. Data on acquisition experience, announcement and completion dates, and several of the control measures came from the Mergermarket database. Then, I measured the extent to which the acquirer used resources from the target firm in each deal. Measuring the extent of these resource replacements during the post-acquisition period has allowed me to not only capture the resource fit but also to examine the integration capability of the emerging market acquirer to implement the redeployment of target’s resources. To do so, I collected data specific to post-acquisition strategies by examining the annual reports of the firms, Istanbul Borsa’s official websites, and publicly available reports. After a long process of data collection, I performed a data

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7 The processes of reaching the final dataset can be seen in Section 4.2.
analysis of the resulting dataset using Stata\textsuperscript{8}. Lastly, I also conducted a further set of validated interviews to ensure the established causal relationships and the results gathered from the data analysis were in line with the insights gained from the cases of post-acquisition strategies. These unstructured interviews could be perceived as questioning the hypotheses and results of this study and providing practical interpretations.

The data and methods section is covered in detail in Chapter 5 of this study. Notably, to develop a theoretical understanding of the mechanisms that influence acquisition performance I will use a unique hand-collected dataset of M&A in Turkey culled from the Mergermarket database as well as from publicly available data. The Mergermarket database includes mergers and acquisitions, where there is a transfer of possession of an economic interest in an on-going business concern (Mergermarket, 2012). The Mergermarket database has made acquisition data available for 1998 onwards, and the final sample of this study consists of all publicly disclosed firms’ acquisitions for the fourteen years of 1998 through 31 December 2011. Through the all available datasets of M&A in Turkey, I consider the performance of 279 focal deals that took place between 1998 and 2011. Importantly, the dataset in this study was chosen by examining acquirer Turkish firms only, while the target firm can be either Turkish (domestic acquisitions) or foreign (cross-border acquisitions).

Data analysis of the resulting dataset was performed with Stata. Firstly, an independent samples t-test was conducted to assess the differences in the sub-groups of the determinants of acquisition performance. Then, a multiple regression method was used to assess the predictors of acquisition post-acquisition performance in different settings. The performance of acquisitions was measured objectively using Cumulative Abnormal Returns (CAR) by using the event-study method\textsuperscript{9}, which is the

\textsuperscript{8} Stata is a statistical software package that provides data analysis, data management, and graphics.

\textsuperscript{9} For a detailed overview of the subject, please refer to Section 4 of Campbell, Lo, and MacKinley (1997).
commonly used method to assess event performance within strategic management and finance (Brown and Warner, 1980; 1985; Campbell et al, 1997). Additionally, I conducted a supplemental analysis in which I used an alternative performance measure and estimated models through an accounting method by using Return on Assets (ROA). The predictors of acquisition experience and measures related to post-acquisition strategies were gathered by drawing on the existing literature in strategic management.

1.6 Structure of the study

This study consists of eight chapters. In this introductory chapter, I have outlined the study’s overall research aims and objectives, as well as briefly clarifying its theoretical relevance, and the setting and methods used.

In Chapter 2, I will present an extensive literature review of the theoretical background. First, I will begin the critical review of the literature by providing an overview of literature on mergers and acquisitions in Section 2.2. Then, I will introduce the theoretical base of this study by examining the literature on the dynamic capabilities view. Next, I will critically review the studies on dynamic capabilities in the context of M&A. In the last part, Section 2.5, I will review the characteristics of emerging markets and examine acquisitions by emerging market firms.

Taking account of the importance of the geographical setting of a study, in Chapter 3, I will examine the Turkish corporate structure and M&A environment in the study period. I will start this chapter by briefly analysing the Turkish economic outlook and stock market setting. Then, I will introduce the business atmosphere and corporate governance in Turkey. Specifically, I will emphasise the role of business groups in the Turkish business environment, which is something that possesses distinct
characteristics in emerging markets generally, and especially in the case of Turkey. Then, I will identify and discuss the pattern of M&A strategies of Turkish acquirers. In the last section of this chapter, I will present the post-acquisition strategies of these emerging market acquirers by providing real-world examples. With the help of this chapter, I intend to improve our understanding of the emerging market context through observing the Turkish setting.

The hypotheses of this study will be presented in Chapter 4. In Hypothesis 1, I will emphasise the arguments related to acquisition experience, while post-acquisition arguments will be covered in Hypotheses 2, 3, 4, and 5.

I will present the empirical approach to this dissertation’s research hypotheses in Chapter 5. In Section 5.2 I will outline the deal selection procedure. Then, in Section 5.3 I will discuss the data gathering process. This will be followed by the introduction and operationalisation of the measures used in this study (Section 5.4). Lastly, I will present the models used in this study to test the hypotheses of the research (Section 5.5).

In Chapter 6, I will provide the univariate data analysis of this study. The initial results and insights gained from the data analysis will be presented in this chapter through a descriptive analysis of the characteristics of the dataset, as well as the differences in the sub-groups of the dataset. I will also introduce the general Turkey M&A outlook throughout the study period with graphics and tables.

In Chapter 7, I will present the findings from quantitative analysis, at the firm level, by making use of the independent samples t-test and multiple regression methods. After the presentation of results, I will extensively discuss the findings from each hypothesis and explicate this study’s contribution.
In the final chapter, I will start by discussing the empirical findings of this study. Moreover, to further investigate the findings and identify key strategies of the post-acquisition process, I will also utilise validation interviews conducted after the quantitative analyses. Then, I will provide a brief review of this research’s aims and objectives, as well as key findings, by discussing how this study contributes to management theory and practice. I will also discuss the theoretical and methodological limitations this research faces. Then, I will provide several recommendations for future research. Lastly, I will give a brief description of this research’s potential and value.
CHAPTER 2

Literature Review
2.1 Introduction

Many firms today seek to achieve growth and competitive advantage by entering new markets or developing their existing businesses. The trend toward continuous business growth and evolution of firms’ capabilities is making corporate acquisitions a critical driver of growth strategies and enhanced performance. Undertaking M&A to effectively reach its desired goals requires specific skills to define strategic objectives, and a successful integration management (Vermeulen and Barkema, 2001). Therefore, a clear M&A strategy is a critical first step for firms, and without a strategic rationale and thoughtful approach to M&A it is hard to increase the acquisition’s performance. The complex phenomenon that M&A represent has attracted the interest of a broad range of management, finance, and economics researchers. Given the practical perspective that M&A are usually unsuccessful at achieving desired results (Porter, 1985; Hitt et al., 1991; Capron and Mitchell, 1998), scholars have been continuously attempting to explore the nature of acquisitions from different perspectives, and to study the strategies that firms can use to get more value from this complex corporate activity and sustain their business growth (Haleblian and Finkelstein, 1999; Zollo and Singh, 2004; Shimizu et al., 2004).

One of the initial studies on managing acquisitions, by Haspeslagh and Jemison (1991), examined the subject of how to make M&A work and this is still a crucial topic in the literature. Many scholars are still investigating why is it that some firms are better able to handle M&A decisions and enhance their performance than others. My aim is to contribute to the scholarly discussion in the M&A literature by providing insights into the determinants of acquisition performance and examining the acquisition capability-development mechanisms in emerging markets. Throughout this chapter, by reviewing the relevant theoretical and empirical studies, I will provide an understanding of the context of M&A, the dynamic capabilities view, and emerging markets.
This chapter consists of four sub-sections. These sub-sections will establish the context and rationale for this research project. In Section 2.2, I will critically assess the literature on M&A, particularly focusing on the theoretical and empirical studies in management. Then, I will present the theoretical and empirical studies on the dynamic capabilities view in section 2.3. Next, I will attempt to establish the theoretical foundations through reviewing the studies on dynamic capabilities that see M&A as a potential contributor to success (Section 2.4). Lastly, I will review and synthesise research from strategy and economics in the context of emerging markets, emphasising their M&A strategies and unique characteristics.

2.2 What we know about Mergers and Acquisitions (M&A)

In this section, I will critically review the mainstream M&A studies, particularly those that have appeared in strategy, finance, and economics studies. The main questions to be addressed in this section are as follows:

- Why would one firm seek to merge with or acquire another firm? What are the main reasons behind this corporate development activity? (Section 2.2.1).
- What are the main discipline lines that strategic management scholars base their studies on? What is the main focus of M&A according to these disciplines? (Section 2.2.2)
- What are the main phases of an M&A? What are the strategies for executing the pre-M&A phase? (Section 2.2.3)
- What are the determinants of acquisition performance according to the prior research on post-acquisition performance? What are the main factors influencing M&A outcomes? (Section 2.2.4)
- Do firms learn from their previous acquisition experiences? (Section 2.2.4.1)
- What are the main post-acquisition integration strategies? What factors influence the management of the post-acquisition phase? (Section 2.2.4.2)
• What are the other factors specific to the deal that impact the M&A outcome? (Section 2.2.4.3)

What are the main predictors for measuring acquisition performance? (Section 2.2.5)

2.2.1 Motives for Mergers and Acquisitions (M&A)

Why would firms merge with or acquire other firms? Many researchers over the years have provided many patterns of acquisition motives, but have not yet reached a single theory that gives a comprehensive explanation. Theoretical research and studies offer a lot of possible reasons for why firms would choose M&A as a way of growth. According to Martin and McConnell (1991) there are two broad motives for corporate acquisitions. The first and most common cited motive is the creation of synergy, where acquisition benefits are recognised through combining business units of acquirer and target firms and the combined firm gains efficiency. The second motive focuses on disciplinary acquisitions, where acquisition benefits are realised by changing the target’s top management in order to use decision-making strategies effectively. Nevertheless, there are several other factors, such as market power, diversification, tax benefits, etc., which serve as reasons for mergers and acquisitions. For instance, Trautwein (1990) grouped theories of merger motives into seven, which were efficiency, monopoly, valuation, empire-building, process, raider, and disturbance theories. The author found the valuation, empire-building, and process theories to hold the highest degree of plausibility (Trautwein, 1990). Another perspective by Mueller and Yurtoglu (2007), classified these motives into managerial discretion, corporate control, the hubris theory, and overvaluation. Moreover, three major groups were observed by Seth et al. (2002), namely managerial aspects, hubris, and synergy. In another categorical classification Mukherjee et al. (2004) also provided more than one group, such as tax considerations, diversification, and management incentives, in order to examine the motives that drive acquisitions to take place.
A review of the literature suggests that there are numerous motives and taxonomies that explain why firms merge with or acquire other firms. The M&A motives investigated in the received literature can be, however, assessed by including both financial and strategic motives at the same time with a broader classification. This will also fulfil the need for a common categorisation and allow a better assessment of M&A motives. Drawing on the various suggestions for motives of mergers and acquisitions, I will examine the main motivations behind undertaking an M&A within four broader categories: value creation, managerial factors (managerialism), strategic moves, and environmental factors.

2.2.1.1 Value Creation

The value creation motive implies that acquisitions exist because of the economic gains after the combination of the resources of two firms (Bower, 2001). The acquirer firm’s value after the acquisition is greater than the values of the single firms operating individually. Firms seek to maximise shareholder wealth and engage in acquisition activity only if both sides expect to achieve more shareholder wealth (Martin and McConnell, 1991).

Market power is considered as one of the sources for creating value. It is an attempt to appropriate more value from customers when firms reach greater size and use this ability to control prices (Haleblian et al., 2009). Firms can create value by being a monopoly in their market and this is the main reason given by the market power hypothesis, which states that it can be reached by pushing customers to agree to higher prices. Firms can also create value by being a monopsony, and this could be reached by pushing suppliers to agree lower prices (Sharma and Ho, 2002). Researchers investigate whether decreases in firm numbers in an industry increase firm-level pricing power by measuring rival firms’ stock market returns for horizontally related mergers (Stillman, 1983; Eckbo, 1983). However, in the initial
stages of the market power theory, researchers found no support for their argument that fewer firms in a business augment pricing power at the firm level. Then, by following a similar methodological approach, Prager (1992) found some support for the market power theory through investigating the railroad industry, and observed an increase in rivals’ market prices following the acquisition announcement. Likewise, Kim and Singal (1993) found a relationship between the market power of merged firms and rival firms’ market prices through an analysis of the 1980s airline industry. It can be seen that there is some evidence to support the view that firms undertake M&A to gain more market power.

Researchers also examined the value creation motive from the efficiency perspective, in which firms create value through lowering their costs after an acquisition. In general, researchers found some support for their efficiency arguments when both acquirer and target firms share the same industry (Banker et al., 2003; McGuckin and Nguyen, 1995). On the other hand, Banerjee and Eckard (1998) found evidence in support of their efficiency argument from the first great merger wave (early 1900s) and concluded that operational efficiency was the probable source of value gains from horizontal mergers. However, the findings were not straightforward and more analysis is required to ensure a valid explanation.

Scholars have pointed out that economies of scale and scope are the main elements for creating value through operational efficiency (DeLong, 2003). Economies of scale are reached by generating cost efficiency through increase in production units (Sudarsanam, 2003). For this motive, size matters and acquirer firms gain the ability to discuss prices with their suppliers, plus an acquirer firm can borrow with lower interest rates by using economies of scale. Economies of scale were the major drivers behind Henry Ford’s world-shattering assembly line, and still lead to many mergers and acquisitions (Hindle, 2008).
In order to generate economies of scope, managers view horizontal mergers and acquisitions as facilitating reconfiguration of resources and skill transfers (Capron et al., 1998). In line with the resource reconfiguration argument, Karim and Mitchell (2000) found that acquisitions play a vital role in resource reconfiguration, offering greater opportunities for both developing existing resources and obtaining different resources. They investigated 3000 U.S health sector firms to study the reconfiguration of product lines between acquirers and non-acquirers. Notably, acquirer firms tend to use acquisitions either for deepening their existing resources and developing their skills or for extending resources and gaining new skills. More specifically, economies of scope arise during the usage of the same resources in the joint production of products (Singh and Montgomery, 1987). For instance, when an automobile manufacturer’s assembly facility is used both for cars and light trucks, there might be an increase in operational efficiency and this leads to operation of scope economies (Singh and Montgomery, 1987). In that case it is the complementarity, rather than similarity, that presents the greatest opportunities to achieve synergy and create value (Harrison et al., 1991). In a similar vein, King et al. (2008) reported that there is a positive relationship between the degree of resource complementarity of target and acquirer firms, and acquirers’ stock market returns. More recently, investigating internet firms, strategic management scholars have argued that firms engage in acquisitions in order to obtain scarce resources, which leads to positive stock market returns for the acquirer (Uhlenbruck et al., 2006). It is important to note that the acquisition of firms with similar resources may generate more short-term economic performance due to economies of scale, which are easier to achieve than economies of scope. However, the combination of firms with different but complementary resources may create new and unique opportunities for the acquirer, depending on the success of integration (Harrison et al., 2001).

Finance researchers have also claimed that another way of value creation through mergers and acquisitions could derive from managerial discipline. The main idea behind this motive is that firms with less effective management teams are acquired by firms with better management teams, and this combination in managerial resources leads to higher performance and greater shareholder wealth. Agency theorists have
suggested that acquisition can help enhancement of firms’ shareholder wealth due to inefficient management within target firms (Jensen and Ruback, 1983). Consistent with the agency motive, research found cases where the acquirer’s management team had greater competencies than that of the target firm, which was the main reason behind the acquisition, and less competent managers within the target firm were dismissed in order to increase managerial efficiency and gain shareholder wealth (Martin and McConnell, 1991). In line with this idea, Agrawal and Walkling (1994) asserted that acquisition reduced target firms’ dependence on management and resulted in a decrease in management compensation. However, that is not the case all the time, and firms with similar managerial capabilities could engage in merger and acquisition activities as well. Wang and Zajac (2007) showed that similarity in resource increase between both parties increases the likelihood that firms combine their resources through an acquisition rather than an alliance. Because two firms evaluate each other’s assets and the potential targets, and this evaluation decreases the information asymmetry problem, as a result both parties generate information about each other. In conclusion, the value creation motive assumes that gains to the acquirer and target firms are positively correlated with each other.

2.2.1.2 Managerial Factors

In this type of study, researchers propose that managers seek to maximize their own self-interest and this behaviour by managers destroys shareholder value. Some researchers have argued that acquisitions are made to maximise the quality of the managers’ own conditions and not of the firm’s conditions, and thus that managers use acquisitions for their own self-interest (Halebian et al., 2009). The first motive in this category is the hubris hypothesis, which refers to managerial confidence and ego in an acquisition process. Narcissism, a successful career, the acceptance of praise without any criticism, and exclusion from procedures are the main sources of hubris (Kroll et al., 1997). Finance scholars were the first to examine the hubris issue and found that CEO hubris caused mistakes in evaluating target firms and that the total synergy gain from such acquisitions was near zero (Roll, 1986). In line with the
hubris theory, management researchers also demonstrated that CEO hubris, expressed as exaggerated self-confidence, plays an important role in acquisition process, and found that greater CEO hubris increases the acquisition premium to be paid and decreases shareholder wealth (Hayward and Hambrick, 1997). This can be explained by the acquirers’ overconfident CEO’s behaviour in overestimating target companies and their judgement that they are correct in their evaluation ultimately causing overpayment for target firms due to misjudgement (Malmendier and Tate, 2008).

The second value-destructive motive in this category is the compensation issue. Agency theory holds that the acquirers’ management’s self-interest is the motivation behind acquisition activities. This leads to the problem that managers seek their own wealth and interest by gaining extra power and prestige for themselves, rather than benefitting the firm’s shareholders’ wealth and being interested in their firm’s profitability from acquisitions (Hopkins, 2002). Finance and management scholars have found links between acquisition behaviour and CEO expectations of compensation. For instance, sectors where higher CEO compensation is required mostly exhibit more acquisition activities (Agrawal and Walkling, 1994). Finance scholars have also found evidence that increases in acquiring firms’ CEO wealth and firm performance are positively correlated (Harford and Li, 2007). Acquirer firm CEOs seek to increase manager utility through acquisitions with obtaining new stock and control of larger units, resulting in higher pay levels and bonuses (Harford and Li, 2007). In addition to this argument, Haleblian and Finkelstein (1993) found that CEOs’ power increases and they perform better when they are in charge of larger firms. Accordingly, CEOs tend to engage in acquisition activities due to overpay in acquisitions and to maximize their own interest. However, this self-interest effect may decrease when owner-controlled acquiring firms place limits on CEO compensation and associate this reward with shareholder returns (Kroll et al., 1997).

In summary, in contrast to the value creation motive, there is a negative association between the acquirer and target gains when self-interested managerial factors exist in acquisitions.
2.2.1.3 Strategic Moves

In this category, the motivations behind acquisition are regarded as a strategic decision in order to sustain and enhance the competitive advantage of the firm. Mergers and acquisitions are used as a method to seek entry into new markets and new distribution channels, to gain a strategic position in the market, to develop capabilities through organisational learning, and to enhance resources (Hitt et al., 1997).

Acquiring a firm provides additional skills and resources in order to achieve competitive advantage and organisational growth. DiGeorgio (2003) claimed that acquisition is the fastest way for firms to take strategic actions, as opposed to creating resources internally via organic growth. Unlike the 1980s acquisition trend, which aimed at gaining control of undervalued and dissimilar assets, at present firms are, rather, strategic and operational in their actions. Firms are aiming to acquire new capabilities and extending strategic opportunities in new markets through acquisitions (Vasilaki, 2009). This is because rapid changes in technology and market conditions require the restructuring of firms’ resources (DiGeorgio, 2003). Additionally, maintaining innovation and R&D is essential for firms to stay competitive in the market. When firms realise a lack of innovativeness and R&D activity, they target and aim to obtain appropriate resources through acquisitions, which seems to be the quickest solution to this problem (Hitt et al., 1991). The main strategy behind these acquisitions is obtaining target firms’ skills and a mixture of high-level resources that leverages and extends strategic opportunities within the combined firm. Therefore, the acquirer may be interested in targets from dissimilar industries or may possess distinct business lines in this type of acquisition (Vasilaki, 2009).
Product diversification is also implemented by firms as a corporate-level acquisition strategy. Firms usually evaluate the acquisition option when they operate in an industry with rapid technological changes, reliance on continuous innovation, and depth of knowledge-based assets (Sirmon et al., 2007). Acquisition is seen as the quickest way to implement a product diversification strategy and increase the profitability of the firm through extending market reach and accessing more buyers. Moreover, acquisition also provides immediate new market access to the acquirer when firms seek risk reduction for entering a new geographical market, in order to lower barriers to entry (Bower, 2001). Established firms that exist in this market may already hold larger portions of market share, and competition with these firms may be tough. The only way to overcome barriers to entry and broaden market operation is practicing mergers and acquisitions activities.

Moreover, firms also use acquisitions as a mode of entry into other geographies. Firms in this group consider acquisitions as a strategic move that allows them to be active across borders and seek capability development. The strategic motive within this category is developing the strategic positions of the firm. The main idea of this theory is that firms’ strategic positions in their home country and interest in going global influences their overall corporate decisions to seek expansion through M&A. Recently, internationalisation process of emerging market firms has received increasing interest from strategic management scholars through theoretical studies on the increasing involvement of emerging market firms in the global economy and their impact on global competition. For instance, Demirbag et al. (2009) examined 522 foreign subsidiaries of Turkish MNEs and suggested that emerging market MNEs use corporate development activities as springboards to acquire strategic resources required to compete more effectively with their global counterparts. Additionally, some researchers further argue that the internalisation strategies of emerging market firms are different to those of developed world firms (Cuervo-Cazurra, 2007; Khanna and Palepu, 2006; Luo and Tung, 2007). Mainly, emerging market firms aim to undertake M&A for more resource-oriented activities. Focusing on international strategy, Harzing (2002) empirically showed that developed world firms following a global strategy would prefer corporate greenfield activities over acquisitions, where
firms following a multi-domestic strategy would prefer acquisitions over greenfield. Thus, taking account of the institutional perspective, the strategy followed by the MNEs in the developed world has a significant effect on the choice of corporate development activity. Multi-domestic firms are more likely to undertake M&A, whereas due to firm-specific advantages global firms are more likely to pursue greenfield strategies to enter a new market (Harzing, 2002). According to the author, the core capabilities of multi-domestic firms lie in the exploitation of firm-specific location advantages in their home country. Thus these firms pursue acquisitions, whereas firms following global strategies would be more likely to establish greenfield ventures to avoid internal isomorphism and the disadvantages of cultural distance (Harzing, 2002). The subsidiaries of MNCs may be subject to institutional pressures to become isomorphic to the parent firm (Kostova and Zaheer, 1999). Moreover, Graebner and Eisenhardt (2004) considered the target’s perspective and found that when target firms face difficult strategic hurdles they pull sellers toward interest in being acquired, whereas when target firms are not facing these hurdles they pull sellers toward accepting attractive acquirers.

Given the increasing strategic importance of cross-border acquisitions by emerging market firms, examining the value of these corporate international expansions from the dynamic capabilities view contributes to the literature by providing theoretical insights about the phenomenon. From the dynamic capabilities perspective10, acquisitions take place to reconfigure acquirers’ existing resource bases in order to achieve a competitive advantage in changing environments.

10 The dynamic capabilities perspective will be examined broadly in the next section (Section 2.3).
2.2.1.4 Environmental Factors

Scholars from the field of strategic management have examined whether a close fit between the environment and corporate expansion strategy motivates M&A to take place (Haleblian et al., 2009). For instance, Folta (1998) examined how the management strategy is affected by technological uncertainty, which was explained as being exogenous to the firm, and found that equity collaborations are useful when faced with exogenous uncertainty because they provide a choice for acquisition of a firm. In a similar vein, Schilling and Steensma (2002) asserted that uncertainty increased the opportunity for acquisition than undertaking a licence agreement. Furthermore, drawing from transaction cost economics, researchers test if there is a link between environmental uncertainty and acquisition activity. Bergh and Lawless (1998) suggested that managers of highly diversified firms are more likely to take part in acquisition activities when exogenous uncertainty decreases. Likewise, Thornton (2001) showed that failure in firms’ strategy changes due to environmental shift increased the likelihood of acquisition. Finance scholars have also examined environmental factors. By focusing on differences in laws and regulation, Rossi and Volpin (2004) found that the number of mergers and acquisitions activities is greater in countries with improved accounting standards and advanced shareholder protection. On the other hand, much debate surrounds the literature on the driving forces of emerging market firms’ strategies in expanding abroad (Brouthers et al., 2005; Peng et al., 2008). Many studies based their assumptions on the institutional perspective, since the political, legal, and societal improvements in emerging markets shape the firms’ growth strategies in pursuing more M&A activities (Dacin et al., 2007; Peng et al., 2008). This improvement prepared the ground to study the nature of M&A in emerging markets and further explore the context of M&A.

Another motive for acquisition is the resource dependence asserted by management literature. Through re-examining Pfeffer’s (1972) pioneering study on inter-industry merger patterns, Finkelstein (1997) replicated the study’s arguments and found analogous but weaker results than the original. The main finding from the Pfeffer’s
(1972) study was that resource dependencies described merger patterns. Later, Casciaro and Piskorski (2005) extended the resource dependence theory and stated that while mutual dependence is main driver of mergers and acquisitions, a power imbalance functions as a hurdle to their integration.

The last motive in this category is the importance of network ties as an explanation of mergers and acquisitions. For example, Haunschild (1993) argued that firm managers imitate the mergers and acquisitions activities of other firms on whose boards they hold places. Another organization theory-based paper examined whether firms’ acquisition decisions were affected by the acquisition activities of competitors. This paper identified that when similarity between “tied-to” firms, which offers an actual model that boosts imitation by the focal firm and other firms in their sector, is greater, similarity between the acquisition activity of the focal firm and other firms is greater (Westphal et al., 2001). This study pointed out that managerial attempts to achieve peer isomorphism are an important antecedent of M&A.

All in all, as can be seen from the big picture of the studies reviewed above, there is a mixture of motivations for M&A and their performance implications. Given the increasing role of emerging market firms in global economies, integrating institutional and dynamic capabilities-based motivations would be a way for further research to contribute to the literature on why M&A occur in emerging markets and what the performance implications of these acquisitions are. Reviewing the literature highlights that the institutional perspective is more likely to drive domestic acquisitions, and this will be discussed later in this study, whereas the dynamic capabilities perspective is more likely to drive cross-border acquisitions, and this will be discussed in Chapter 4.
2.2.2 Schools of Thought in Mergers and Acquisitions Literature

The academic scholars that seek to develop insights on mergers and acquisitions area fall into several schools of thought from different perspectives. In the most advanced and widely accepted classification, Haspeslagh and Jemison (1991) divided these schools of thought into four, which are the capital market school, the strategic management school, the organisational behaviour school, and the process school.

Firstly, the capital market school is mostly concerned with the question of whether a merger or acquisition activity leads to value creation and corporate control, and how this value is shared between the shareholders of the acquirer and the target. The main research areas in this group are agency issues, the efficient market, the role of investors, and corporate governance. Jensen and Ruback (1983) presented some initial work and found that gains from acquisitions accrue to target shareholders but not acquiring shareholders. From the market of corporate control perspective, more recent work has showed that Canadian acquirer firms produce more positive returns than their US counterparts (Eckbo and Thorburn, 2000).

Secondly, the strategic management school has examined the acquisition performance of firms by focusing on issues such as the characteristics of acquisitions, how the acquirer firm selects targets, and the determinants of successful acquisitions. The core concept for these researchers is the influence of a merger or acquisition activity on acquiring firm performance, and I will rely on this group to formulate my research aims and objectives. To a large extent, this area is focused on diversification strategy and how industrially related and unrelated acquisitions perform relative to each other (Haspeslagh and Jemison, 1991).
Thirdly, the organisational behaviour school has examined the effects of acquisitions on the organization and the people in it. Thus, researchers in this group have investigated the question of how people react to acquisition activity. Cultural and organisational fit and turnover due to acquisition activity are the main elements for this school’s researchers and they use qualitative conceptual studies for their arguments (Teerikangas and Very, 2006; Gertsen and Soderberg, 1998).

Lastly, the process school scholars have studied how the acquisition process (pre and post) determines the opportunities for successful acquisition. Different from the previous schools, the process school is not result oriented and is generally interested in the acquisitions’ decision process (Haspeslagh and Jemison, 1991). The process school focuses on the important role of the choice of M&A processes (Cartwright and Schoenberg, 2006). Its scholars have highlighted conceptually that inappropriate decision-making during pre- and post-acquisition phases can lead to poorer acquisition results (Schweiger and Very, 2003; Haspeslagh and Jemison, 1991).

Another classification has been suggested by Bower (2004), and he offers three groups for mergers and acquisitions research. The first group examines the effects of acquisition on the performance of target or acquirer firms. The second group attempts to explore the effects of acquisitions on other corporate strategies such as foreign direct investment (FDI) and learning. The third group investigates the process of an acquisition. Another researcher has identified four different theoretical perspectives, namely financial economics, agency theory, strategic management research, and organisational learning theory (Voss, 2008).

As can be seen from this section, M&A research has been characterized by a high degree of diversity. Therefore it is hard to offer an exact theoretical perspective that describes how to examine the M&A phenomenon. Haspeslagh and Jemison’s (1991)
model reflects the particular interests of several different groups of M&A scholars better than others.

2.2.3 Pre-Acquisition Phase

A general overview of academic papers in the M&A literature (Gomes et al., 2013; Cartwright and Schoenberg, 2006) divides M&A studies into two phases, which are pre-acquisition phase-based studies and studies based on the determinants of post-acquisition performance. The main element in this consideration is the closing date of the deal, at which the new owner of the target can now make direct changes (Gomes et al., 2012). Below, I will review and discuss these two areas of interest in the M&A literature. Particularly, I will focus and give more details on the determinants of post-acquisition performance.

During this initial stage of the pre-M&A phase firms typically search through their opportunities, explore the range of possibilities that would fit their pre-M&A strategies, and think of their comprehensive post-M&A strategies (Haspeslagh and Jemison, 1991). During the pre-acquisition phase, acquirers generally evaluate a number of probable target firms. Target and acquirer firms typically sign confidentiality agreements in order to get admission to private information for a due diligence process. Following successful negotiations they sign a preliminary contract. Then, they announce the deal officially and the acquiring firm applies to obtain the required regulatory approval. This is the process for the pre-acquisition phase.

Scholars have investigated the pre-acquisition phase from different angles. Following capital market theories, Sanders (2001) investigated the effects of stock ownership and stock option pay, and found that they had utterly reverse effects on the propensity of a firm to undertake acquisition and divestiture activity. Building from the agency
school arguments that mergers and acquisitions are disciplinary mechanisms, scholars have argued that after a failed attempt at an M&A activity, the board of directors’ characteristics can help corporate strategies refocus (Chatterjee et al., 2003).

In studies by the strategic management school, scholars have investigated the pre-acquisition phase through empirical studies. Anand and Delios (2002) examined the choice between acquisition and greenfield modes of international entry by linking it to upstream (technological) and downstream (marketing) capabilities. Moreover, Vermeulen and Barkema (2001) studied the influence of greenfield and acquisition on a firm’s later expansions and asserted that undertaking an acquisition enhances the practicality of its later ventures through broadening a firm’s knowledge base. Some scholars have focused on the target selection process from the organisational learning perspective and examined why acquirers take over a specific target rather than others that are better options for them. For instance, establishing organisational learning as a conceptual framework, Baum et al. (2000) examined acquisitions from 1971 to 1996 to determine why they acquired a particular target rather than others. They suggested that experiential and vicarious learning processes lead to a basis for understanding the locations of chains’ acquisitions. Moreover, Capron and Anand (2007) investigated the pre-acquisition phase from the dynamic capabilities perspective. In order for a firm to be successful in the pre-acquisition phase, it should possess acquisition selection and acquisition identification abilities (Capron and Anand, 2007). With the selection ability, firms can accurately assess the need for new resources and capabilities, whereas identification ability helps firms to appropriately detect and negotiate with the potential targets. Then, of course, the firms will need the ability to complete the pre-acquisition phase successfully, but I will focus on the post-acquisition phase of the M&A process in this study.
2.2.4 Determinants of Post-Acquisition Performance

Post-acquisition performance studies have commonly analysed the impact of four issues: whether the acquiring firm’s learning from acquisition experience influences acquisition performance, the role of post-acquisition integration management on acquisition performance, whether the characteristics of the deal in terms of industrial and geographical relatedness affect acquisition performance, and measurement issues of assessing acquisition performance.

2.2.4.1 Learning from Acquisition Experience

Empirical research has consistently attempted to identify the role of acquirer firms’ acquisition experience on acquisition performance. I will discuss the organisational learning from acquisition experience perspective’s assumptions and present findings from the relevant literature in this section.

Organisational learning is an iterative and dynamic process where a firm learns through engaging in experiences, drawing inferences from their experiences, and storing these inferences in order to use them in their future activities (Levitt and March, 1988; Weick, 1979). One way of framing this is that firms learn “by encoding inferences from history into routines that guide behaviour” (Levitt and March, 1988, pp. 320). Previous experience enables firms to respond to issues that could occur during acquisitions and to develop routines and policies to deal with them (Hayward, 2002). Experienced acquirers are more self-confident and flexible in their acquisition-related decisions and better able to find policies for varying situations (Brutton et al., 1994). Taking account of the individual effect, lack of prior acquisition experience
may make a top executive particularly subject to escalation of commitment that can drive them to the successful completion of deals at unreasonably high costs (Haspeslagh and Jemison, 1991). For that reason, experienced top executives are more familiar with implementing an acquisition due to the capability of evaluating, valuing, and managing this process gained from past experience, which also leads to better acquisition results (Shaver, 2006). Moreover, as discussed in the “pre-M&A phase” section, knowledge from prior acquisition experiences can also help firms to achieve better selection and identification ability. In turn, these pre-acquisition based capabilities may lead to improvement in the post-acquisition integration process by realising synergies between combined firms more quickly and efficiently (Hitt et al., 1998).

Based on the notions above, the literature in organisational learning expected that acquisition experience should positively influence the acquisition performance of the acquirer firm (Lubatkin, 1983). However, data from organisational learning studies has not confirmed this assumption of a positive relationship, and the literature on learning through acquisition experience has yielded contradictory outcomes. Despite the noteworthy development by the existing literature, scholars have variously found a positive relationship, a negative relationship, a u-shaped relationship, and no relationship between acquisition performance and acquisition experience. I visualised these relationships in Figure 2.1. Additionally, a review of the main studies related to learning from acquisition experience can be found in Appendix A.
The existing literature on organisational learning in corporate expansion has mainly focused on firm-level learning and has investigated how a firm’s prior acquisition experience shapes subsequent acquisition performance by focusing on developed world or US cases. The empirical studies show that “learning curve” explanations are of limited relevance (Zollo and Singh, 2004). For instance, some scholars have reported that such acquisition experience positively impacts subsequent acquisition performance (Lubatkin, 1983; Fowler and Schmidt, 1989; Hitt et al., 1993; Bruton et al., 1994; Barkema et al., 1996; Beckman and Haunschild, 2002). The main idea behind this group is that firms develop routines and capabilities from prior experience and this allows them to handle same situations in the future (Anand and Khanna, 2000). A firm with greater acquisition experience is more likely to have a greater economic gain in subsequent acquisitions due to this learning effect. In one of these positive effect studies, Hitt et al. (1993) considered twelve acquirers and found that the acquirer’s prior experience led to better synergy realisation and a quicker and more effective acquisition integration process. Following this study, Bruton et al. (1994) looked at a sample of distressed firms using the subjective assessment method,
and found that experienced acquirers outperformed inexperienced ones. However, due to the small samples used in these studies, we need larger-sample research to conclude that acquisition performance is inevitably higher for acquirers with prior acquisition experience (Haleblian and Finkelstein, 1999).

Conflicting with the works that showed a positive effect, Kusewitt (1985) predicted a drop in acquisition performance as the number of acquisitions rise. It appears that this negative effect was only statistically significant in a univariate analysis, due to the importance of relative size because both very small and very large sizes of target to acquirer were associated with negative performance (Kusewitt, 1985). So far this is the only study that I have come across which reports a direct negative effect between acquisition rate and performance. On the other hand, Haleblian and Finkelstein (1999) found that the relationship between the number of acquisition experiences and acquisition performance was non-linear and U-shaped. They emphasised the novice problem and argued that the first acquisition appears as a baseline for acquirer knowledge. Following that, inexperienced acquirers are still novices after the first acquisition, and they inappropriately apply knowledge gained from the experience, so that these acquirers perform less well than the initial acquisition. Yet as the firms gain experience from acquisitions and develop capabilities, they are more able to avoid the missteps that were previously made and they will achieve greater performance.

On the other hand, although some scholars mentioned above found conflicting direct effects on acquisition performance and acquisition experience, other researchers have suggested that no such linear relationship exists (Lubatkin, 1987; Lahey and Conn, 1990; Baum and Ginsberg, 1997; Kroll et al., 1997; Hayward, 2002; Zollo and Singh, 2004; King et al., 2004). In one of the initial analyses of the relationship between acquisition performance and acquisition experience, Lubatkin (1982) examined a large merger series of listed firms and did not find a significant relationship between acquisition experience and acquisition performance. More recently, King et al. (2004, pp.195) cumulated the scholars’ findings on the subject of the relationship between acquisition experience and acquisition performance and concluded that “the true
population relationship between the presence of M&A activity and performance of acquiring firm is very near zero or negative beyond the day a merger or acquisition is announced”. Both Zollo and Singh’s (2004) and King et al.’s (2004) studies found no sign that acquisition experience, on average, increased the focal acquisition performance of the acquiring firm after the announcement day.

Nevertheless, King et al. (2004) suggested that moderating effects between acquisition performance and acquisition experience were present and these moderators may be interpreted as evidence of the significant influence of organisational learning. In support of this argument, Hayward (2002) found that prior acquisition experience increased focal acquisition performance when both firms’ businesses were not too similar or different to one another. This means that when prior acquisitions are highly similar to the focal one, the acquirer firm may not generalise previous learning, whereas when prior acquisitions are completely different to one another, the acquirer firm may not specialise in specific learning. Therefore, the author suggested following a midcourse action when pursuing an acquisition. This argument seems somewhat vague, as it is difficult to justify as well as apply generalist and specialist skills in all settings, such as when emerging market firms are active in various industries and we are not sure where these learning skills are coming from.

Hayward (2002) also asserted that the success of acquisition learning was related to the quality of a firm’s prior experience, such as the average success of past acquisition, rather than the quantity. In that case, acquisition experience is a necessary but not sufficient condition for organisational learning. Firms can also learn by giving attention to the nature, performance, and timing of acquisition experience (Hayward, 2002). Haleblian and Finkelstein (1999) also emphasised “target-to-target similarity” in terms of targets’ businesses, and found that when the similarity of an acquisition to prior acquisitions by the same firm increases, so does the focal acquisition performance of the acquirer firm.
More recently, while Haleblian and Finkelstein (1999) and Hayward (2002) stressed the importance of acquisition timing and sequencing, Laamanen and Keil (2008) extended the firm-level moderating variables. Based on a sample of the most active US acquirers in the 1990s, Laamanen and Keil (2008) found that there is a negative effect between acquisition performance and a high rate of acquisitions as well as a high variability in terms of rate. Additionally, the negative relationship was weakened when the size of an acquirer, the scope of its acquisition program, and acquisition experiences were employed to moderate the relationship (Laamanen and Keil, 2008). In this study, Laamanen and Keil (2008) used the acquisition experience measure as a proxy for a firm’s acquisition capability.

Moreover, Zollo and Singh (2004) offered support for the moderator effect, and by examining the US banking industry they reported that acquisition experience alone did not positively impact subsequent acquisition performance, but when the degree of knowledge codification from prior acquisition experience rose, the acquirer firm performed better. This is because codification of knowledge through past acquisitions is a necessary precondition in order to manage the post-acquisition process effectively (Zollo and Singh, 2004). From another perspective, Delong and Deyoung (2007) showed that large commercial banks learned through observing other banks’ acquisition successes and failures. Thus, indirect learning may positively influence the decision-making process.

2.2.4.2 Management of the Post-Acquisition Integration Process

The post-acquisition integration process is an important aspect of mergers and acquisitions literature. Scholars support the idea that the post-acquisition integration process is a vital factor for the success of the focal acquisition. Where acquisitions fail to provide the anticipated outcome, poor integration in the post-acquisition phase is the principal reason for that failure (Muehlfeld et al., 2012). This is determined by the
process acquiring firms use to coordinate and control the activities of the acquired firms, so as to realise the potential of the interdependencies which drove the focal acquisition (Shrivastava, 1986). The failure or success of acquisition depends mainly on the management of the post-acquisition process (Zollo and Singh, 2004). Thus, top management plays a critical role in integration success.

Scholars, mostly from the process school, as well as from the organisational behaviour school, have focused on the decisions and actions taken by management in order to organise the post-acquisition integration process. Studies on the post-acquisition integration period suggest that a division of strategic, financial, organisational, and cultural analyses leaves the top management holding various and usually competing perspectives on how to combine two firms (Vasilaki, 2008). The post-acquisition integration literature is reasonably consistent in terms of its conceptualisations of the different perspectives used by decision-makers (Ellis, 2004). Given the consistency between different research streams for the post-acquisition integration period, I identified four main research strategies in the literature, which are the cultural dissimilarities view, the level of integration between firms, the degree of resource redeployment, and lastly the retention of top management, and their performance implications.

2.2.4.2.1 Cultural Dissimilarities

The cultural dissimilarities view has focused on how much autonomy exists between combined firms (Nahavandi and Malekzadeh, 1988). The target firm can be integrated more easily when cultures are more similar between acquirer and target. To put it another way, as organisational cultures vary, it can be more difficult to combine acquirer and target firms. Therefore, greater autonomy is required to help preserve tacit knowledge and to ease the disruptions that can occur (Ranft and Lord, 2002).
More recently, scholars have argued that the most challenging part for acquirer firms’ managers after the completion of the focal acquisition period is managing the transition from two organisations to one combined organisation (Stahl and Voigt, 2008). Acquiring a new firm also means acquiring a new culture, a new management system, and a new organisational structure as well. This requires that an integration process be managed properly and decisions consider such differences, so that anticipated synergies can be achieved (Stahl and Mendenhall, 2005). One of the potential difficulties for reaching integration benefits is the presence of cultural differences between combined firms, and this represents a risk for acquisition integration. On the other hand, those cultural differences may lead to value creation and enhance the performance of the combined firm. Considering these contradicting views, Stahl and Voigt (2008) have argued that the effects of cultural dissimilarities differ depending on the degree of relatedness and the dimensions of the cultural dissimilarities separating the combined firms.

### 2.2.4.2.2 Level of Integration

Strategic and organisational fits offer the potential for synergies between combined firms, but realisation of synergistic resources depends entirely on the management’s ability to coordinate the post-acquisition process effectively (Jemison and Sitkin, 1986; Haspeslagh and Jemison, 1991). Scholars have argued that conceptualizing acquisitions from the decision-making perspective may boost researchers’ understanding of acquisition activity and its outcome (Pablo, 1994; Jemison and Sitkin, 1986). Therefore, theoretical attempts that aim to explain integration consequences should first take into account the managerial judgements which ultimately form a firm’s integration strategy (Pablo, 1994).

Integration may include a multifaceted and interactive mutual adjustment process between combined firms, but the change is normally one-sided, taking place mainly
within the target firm (Hambrick and Cannella, 1993). The top management of acquirer firms is expected to coordinate and manage these adjustments. So it is vital and enlightening to examine the post-acquisition process from the perspective of the acquirer firm’s management.

The level of integration is defined “as the extent to which the functions of the acquired unit are linked to, aligned with, or centralized in, the equivalent functions of the acquired organization” (Zollo and Singh, 2003, pp. 1236). It is a key factor for the acquisition management process, because in theory while high levels of integration add to recognition of interdependency-based synergistic potential, they may also cause inter-organisational conflict and increase coordination costs. Thus, negative synergies may be recognised (Pablo, 1994). Datta and Grant (1990) tested the performance implications of decisions about the level of integration and found a positive relationship. Pablo (1994) also studied the antecedents of level of integration decisions and asserted that the level of integration depends on the type of acquisition and on similarities between the firms’ operational characteristics.

Opportunities to exploit synergies are associated with the resources of either the target or the acquirer (Capron and Pistre, 2002). Acquisitions are strategic actions that often allow firms to transfer their resources and reconfigure their businesses in order to stay competitive in their environment (Kogut and Zander, 1996; Capron et al., 2001). Following the acquisitions, firms can modify their capabilities. Modifying capabilities takes account of the redeployment of resources to or from the target and allows firms to benefit from new resources or capabilities (Capron et al., 2001). These resources can be redeployed and reconfigured for new productive use and create new value (Mazzola and Kellermans, 2010).

For instance, Karim and Mitchell (2000) have argued that in order to change their resource base, acquirers frequently use targets’ resources. Initial studies of these
important dimensions of the post-acquisition integration process triggered more fine-grained research. Capron (1999) extended the theory and examined the extent of resource redeployment and knowledge transfer between the combined firms by considering horizontal mergers and acquisitions. She provided evidence that some degree of integration between the target and acquirer can contribute to acquisition performance (Capron, 1999). Then, scholars found that post-acquisition resource redeployment led to divesture of assets from the receiving firm (Capron et al., 2001). In general, acquisitions provide a means of reconfiguring resources within firms, and following this reconfiguration process asset divesture appears as a rational result (Capron et al., 2001). Following these studies, Capron and Pistre (2002) attempted to identify the conditions under which acquirers gain economic benefits. The authors found that there is a positive association between the contribution of the acquirer’s resources and the economic gain of acquirers, whereas this is not the case for the target’s resources (Capron and Pistre, 2002). While this research confirms the importance of redeployment of resources, it does not explain how resources are redeployed and how the process of decision-making takes place. With the help of detailed interview data and questionnaires, Birkinshaw et al. (2000) investigated the sub-processes of human integration and task integration, and showed that effective integration was reached through a two-phase process. They argued that the human integration process led to more exhaustive integration than a task integration process, and expected synergies between firms was achieved more rapidly.

Additionally, Saxton and Dollinger (2004) examined the relationship between attractiveness of target assets and acquisition outcomes by considering managerial satisfaction of acquirer firms. According to the paper’s findings, perceived positive target reputation enhanced the acquisition satisfaction, as did greater integration (Saxton and Dollinger, 2004).
2.2.4.2.3 Degree of Resource Transfer

Acquisitions provide an opportunity for firms to attain new resources of knowledge. However, the degree to which resources within the target firm that existed before the acquisition are replaced or dismissed is a major strategic decision for post-acquisition management (Zollo and Singh, 2004). Different cultures, different organisational structure, and different nature of resources can impact on the degree of changes in the acquirer firm’s resource base. In order to enhance economic gain from the acquisition, the ability to transfer strategic and organisational resources appropriately is required (Hitt et al., 2001). Therefore, management of resources is an important subject and scholars put much effort into clarifying the issue.

In line with the resource transfer argument, Brock (2005) found that managing the resource transfer effectively led to performance development of combined firms, as compared to the aggregated performance of the target and acquirer firms if they remained independent. In a similar study, scholars asserted that there is a positive association between the amount of resource transfer and organisational performance (Kanter and Dretler, 1998). Moreover, Anand and Singh (1997) studied the acquisition strategies for firms in declining industries and concluded that it is imperative for firms to transfer resources and capabilities in order to reach the anticipated outcome. Similarly, scholars stressed the importance of resource transfer and emphasised that value is not created until resources are transferred and people from the acquirer and target firms work together to create expected synergy (Haspeslagh and Jemison, 1991; Birkinshaw et al., 2000).

Another empirical analysis emphasised the strategic importance of resource transfer between target and acquirer firms following horizontal acquisitions. Drawing on prior research (Amit and Schoemaker, 1993; Teece and Pisano, 1994), Capron et al. (1998)
firstly defined a typology of resources, which are R&D, manufacturing, marketing, managerial, and financial resources. They defined R&D resources as laboratory materials, process and product designs, and research staff. In their definition the manufacturing resources may include equipment for production, guidelines, and related staff. Whereas the marketing resources may involve brand names and their management, distribution channels, customer service, and sales networks. These marketing resources frequently represent socially complex incentive mechanisms and tacit knowledge in regards to the competitive environment (Dierickx and Cool, 1989; Anderson and Schmittlein, 1984). In their categorisation, the managerial resources were defined as reporting systems, planning tools, and other management skills related to organisational operation, and manager transfer counted as a physical resource transfer between firms. Lastly, financial resources may help firms to raise capital on the financial markets more efficiently. After empirical analyses Capron et al. (1998) concluded that R&D, manufacturing, and marketing resources are redeployed from and to targets, where acquirer firms redeploy managerial and financial resources to targets only.

Some scholars have examined the speed of resource transfer and its effects on acquisition success. For instance, Homburg and Bucerius (2006) investigated the speed of integration and found that speed is an important determinant to lessen customer uncertainty, and it is more beneficial to transfer rapidly when organisational fit is high. On the other hand, slower integration may be beneficial for combined firms during the post-acquisition period. Scholars have stated that transferring resources too quickly may damage the target firm’s socially complex knowledge-based resources (Birkinshaw et al., 2000; Ranft and Lord, 2002). For instance, unclear responsibilities may cause key employees to resign, and power imbalances may occur.
2.2.4.2.4 Retention of Top Management

Another important issue in the post-acquisition period is management turnover within the target firms. Researchers attempted to find association between managerial turnover and acquisition performance. The role of top management is important, as capabilities and un-codified learned knowledge in organisational resources depend upon these individuals.

Taking account of the resource-based perspective, top management retention is required for acquisition success because these managers are familiar with the target firm’s resources, its organisational structure, and its on-going culture (Ranft and Lord, 2000). At least in the short term, the target firm’s managers can help to integrate the two firms effectively and gain economic benefits (Graebner and Eisenhardt, 2004). The top management team is considered a valuable component of the target firm’s resource base (Castanias and Helfat, 1991) and these assets may directly contribute to a firm’s economic performance (Michalisin et al., 2004). Saxton and Dollinger (2004) stated that the managerial capability within the target firm plays a vital role in successfully transferring skills and knowledge, especially for tacit knowledge. For instance, the turnover of many key executives from Chrysler is one of the main reasons for the struggle of Daimler-Benz’s mergers (Saxton and Dollinger, 2004). They went on to find a strong relationship between acquisition outcomes and retention of the target firms’ top management.

Cannella and Hambrick (1993) also found that executive change was detrimental to acquirer firm acquisition performance and that the influence went up in magnitude when more executives were changed. Krishnan et al. (1997) pointed out the same negative relationship and noted that complementary backgrounds, defined as
differences in functional backgrounds between combined firms, have a positive influence on acquisition performance in both related and unrelated acquisitions.

While many studies have reported a positive relationship between management retention and acquisition performance, some studies have examined the antecedents of the top management replacement decision. Walsh (1989) predicted that when the target firm’s executive team was familiar with the acquirer firm’s businesses, there would be higher turnover within the target firm because the acquirer firm can compensate when dropping the target firm’s managers. In that case, acquirer firm managers even encourage departure of the target firm’s managers because they do not have to rely on them for specialized skills. By contrast, if there are considerable differences in operational backgrounds, the acquiring firm may be interested in keeping the target firm’s managers because they cannot afford to reduce the target firm’s management abilities and experiences (Walsh, 1988). In a subsequent work, Walsh and Ellwood (1991) asserted that if the pre-acquisition profitability of the acquirer firm was to increase, the post-acquisition management turnover of the target firm would decrease.

Lubatkin et al. (1999) used social capital theory to argue that executive replacement is dependent on perceived cultural dissimilarities. They found that there is a high level of executive replacement when there are great cultural differences between the combined firms. Using the human capital perspective, Buchholtz et al. (2003) tested the influence of industry and firm specificity on management turnover. They concluded that there is a positive relationship between level of relatedness and rate of management turnover.

Drawing upon the resource-based view; Bergh (2001) suggested that retaining the target firm’s top management with longer organisational tenure improved the acquisition’s outcomes. However, Buchholtz et al. (2003) argued that organisational
tenure is related to higher turnover rates. The main idea behind Bergh’s (2001) theory was that longer-tenure executives have tacit knowledge and this knowledge can generate value (Vasilaki, 2008).

More recently, researchers have attempted to investigate the role of executives’ experiences and characteristics in corporate development. The prior literature examined how the firm’s prior experiences in organisational learning influence post-acquisition performance (Barkema and Schiven, 2008); however, despite the importance of the prior experience issue, research examining when or how firms learn is largely unexplored in the literature (King et al., 2004). In order to refine the understanding of how firms learn in corporate development, McDonald et al. (2008) examined how the nature of outside directors’ prior experience impacts on acquisition performance. However, they miss the point that these outside directors, being board members, are usually not directly involved with the acquisition decision process. Meyer-Doyle (2012) extended the work and investigated how the experience and prior acquisition performance of those top managers influences the performance of the focal acquisition. Experienced managers may help with the integration of the target firm by providing the benefits of their practical knowledge, as they can help solve problems that may be encountered.

2.2.4.3 Deal Characteristics

**Relatedness:** As discussed before, achieving synergy between combined firms is the critical aim of acquisitions (Hitt et al., 2001). Synergy can be defined as the added value to the combined firm and this can be achieved from cost savings through the exploitation of economies of scale and scope, or revenue enhancement through accessing complementary assets (Capron, 1999). Cost reduction can be obtained through the combination of two industrially related firms. Related and unrelated mergers and acquisitions are the two major forms of M&A literature and they have
been deeply examined by researchers in the last few decades. Unrelated or diversifying acquisitions and related or horizontal acquisitions are terms used interchangeably in the M&A literature. Scholars usually define relatedness in terms of resource or product-market similarity, where unrelated acquisitions refer to the combination of two firms from different industries with different resources and markets (Harrison et al., 1991; Datta, 1991).

Industrial relatedness between the acquirer and the target firms influences the acquisition performance of the acquiring firms (King et al., 2004). However, the results examining the impact of relatedness on acquisition performance are not consistent. While a group of researchers has suggested that, in terms of post-acquisition performance, acquiring firms with related acquisition outperforms acquiring firms with unrelated acquisition (Rumelt, 1974, 1982; Lubatkin, 1983; Shelton, 1988; Harrison et al., 1991; Morosini et al., 1998; Capron, 1999; Hitt et al., 2001), some researchers have argued the opposite (Elgers and Clark, 1980; Chatterjee, 1986; Dubofsky and Varadarajan, 1987), while others have found no effect (Lubatkin, 1987; Lubatkin and O’Neill, 1987).

Scholars have also employed the term “strategic fit” (Lubatkin, 1983; Shelton, 1988; Hitt et al., 1998) in order to indicate the possibility of synergy through complementary resources. The pioneering study examining “strategic fit” was conducted by Lubatkin (1983). He reported that some degree of relatedness between the acquirer and the target firm can lead to enhanced performance results when compared to unrelated acquisitions. He also noted that related acquisitions can be seen as a way of expansion of market limits beyond existing boundaries (Lubatkin, 1983). This market power argument may not be a generalizable case. George (1989) found no evidence that related acquisitions usually led to an upsurge in market power concentration. Later, Shelton (1988) expanded Lubatkin’s (1983) theory and offered four categories to show how a target firm changes the product-market capabilities of an acquirer firm. These categories are: related-complementary, unrelated, identical, and related-supplementary. Shelton (1988) also found that related acquisitions create
more shareholder value for the acquirer firm than unrelated ones. In line with these value creation arguments, scholars have posited that allocating and managing more similar resources between the target and the acquirer firm leads to synergies and, therefore, increased acquisition performance (Harrison et al., 1991).

Following this line of thought, Capron (1999) attempted to examine related acquisitions on a large-scale basis, where previous literature basically relied on case-studies or lesser samples. Capron (1999) concluded that both asset divesture, defined as the extent to which the combined firms dispose of their tangible assets, and resource redeployment, defined as the extent to which the combined firms use the other resources that existed before the acquisition, contribute to post-acquisition performance. This is because similarity between the businesses of combined firms can eradicate or considerably reduce the necessity of the target firm, and this industrial familiarity can help firms to learn from each other during the acquisition process per se (Hitt et al., 2001). Acquisitions also require significant managerial participation. Managers more familiar with the target firm’s market have better chances to be successful in the post-acquisition integration process (Roberts and Berry, 1985). Thus, managers can leverage the acquiring firm’s pre-existing resources more efficiently, where those resources are more likely to be related (King et al., 2004).

Above all, it is assumed that if the acquiring firm can only find the right target, the firms can be effectively integrated and the acquisition will achieve its desired results (Jemison and Sitkin, 1986). Otherwise, if those combined firms are not perfect identical partners, then the notion of fit is not consistent. Chatterjee et al. (1992) found that although there are many studies that suggested that related acquisitions increase the acquisition performance, there are some cases where combined firms do not find any strategic fit effect. For instance, conglomerate firms are usually characterised as those displaying a substantial amount of unrelated product-market diversification (Rumelt, 1974). Therefore, conglomerate firms are more likely to pursue unrelated M&A activities. Campa and Kedia (2002) found that due to many conglomerate firms’ possession of business integration capability, they are more
likely to create value from unrelated M&A rather than simply creating value from related M&A activities. Additionally, King et al. (2004) argued that since conglomerate firms’ financial performances are aggregated from several divisions, it is hard to predict their cash flows and make appropriate inferences.

**Domestic/Cross-Border:** The impact of globalisation and better trade liberalisation has escalated the opportunities and pressures to undertake cross-border mergers and acquisitions (Hitt et al., 1998; Shimizu et al., 2004). Given the growing number of cross-border mergers and acquisitions and their increasing importance in the global market, strategic management and finance scholars have been giving more attention to understanding the opportunities and challenges for firms following cross-border mergers and acquisitions (Shimizu et al., 2004). Studies on cross-border acquisitions have focused on different issues, such as the mode of entry (Madhok, 1997; Barkema and Vermeulen, 1998), cultural perspectives (Stahl and Voigt, 2008; Teerikangas and Very, 2006), and post-acquisition outcomes from domestic or cross-border acquisitions (Morosini et al., 1998; Vermeulen and Barkema, 2001; Very and Schweiger, 2001; Anand et al., 2005; Collins et al., 2009). Bringing together all these studies on domestic/cross-border mergers and acquisitions, Shimizu et al. (2004) offered three theoretical classifications, namely mode of entry, dynamic learning process, and value creating/destroying strategy.

There is a similarity between the dynamics of cross-border and domestic acquisitions. But, due to their international nature, cross-border acquisitions may face certain challenges, such as differences in economic, institutional, and regulatory structures (Harzing, 2002). On the other hand, firms can achieve some advantages through cross-border acquisitions by expanding their market portfolio, acquiring new capabilities, and developing their knowledge (Anand et al., 2005). However, these advantages cannot be achieved easily. Firms undertaking a cross-border acquisition may face unique challenges such as “Liability of Foreignness (LOF)”, which is all the additional costs of operating across the border that result in a competitive disadvantage (Zaheer, 1995), and “double-layered acculturation”, which suggests that
firms can face operational challenges from both partner and host country national culture differences (Barkema et al., 1996). Cultural, structural, regulatory, and customer-oriented differences can prevent firms from fully achieving synergy between combined firms (Kogut and Zander, 1995). Those firms expanding their activities through cross-border acquisitions may face uncertainty and information asymmetry problems and these serve as barriers to synergy realisation and capability development, thus potentially affecting acquisition performance (Shimizu et al., 2004).

Firstly, cross-border acquisitions as a mode of entry into foreign markets were mentioned extensively in the M&A literature (Kogut and Singh, 1998; Harzing, 2002). Greenfields, alliances, and strategic agreements are some of the other entry tools for firms. The selection of cross-border merger or acquisition activity as a mode of entry into a foreign area is usually influenced by firm-level, industry-level, and country-level factors (Shimizu et al., 2004). The firm-level factors involve multinational experience, international strategy, and diversification (Barkema and Vermeulen, 1998; Harzing, 2004). The industry-level factors include technological and marketing intensity, while the country-level factors involve market growth and culture-based issues (Shimizu et al., 2004). Barkema and Vermeulen (1998) found that product diversification and multinational experience create opportunities for capability development through setting up new ventures rather than through cross-border acquisitions.

Secondly, once the firm selects cross-border merger or acquisition as a mode of entry, the routine pre- and post-acquisition processes begin, and firms can learn from these dynamic processes. Prior cross-border experience and past mistakes might be helpful for the focal acquisition. Some scholars have examined the influence of the learning process on cross-border acquisitions. For instance, Very and Schweiger (2001) revealed that organisational learning from cross-border acquisitions depends on the acquirers’ experience in a particular target country. Another study by Anand et al. (2005) found that accessing a multinational target is very important for capability
development. “Multinational targets provide additional sources of value creation by
drawing on national differences and diverse environments, while acquired firms
present in a foreign country may not provide the same richness of resources” (Anand
et al., 2005, pp. 213).

Moreover, Vermeulen and Barkema (2001) stressed the importance of learning in the
foreign market, as cross-border mergers and acquisitions are more complex than
domestic mergers and acquisitions. They suggested that cross-border acquisitions may
revitalize the target firm and develop its capabilities to react adequately to changing
environments. Following initial success, firms enhance their capabilities through
repetitive momentum and they repeat their past actions (Collins et al., 2009).

From the other perspective, Anand and Delios (2002) contended that cross-border
acquirers mainly undertake acquisition activity to gain upstream (technological) and
downstream (marketing) capabilities, which are complementary to the acquirers’
existing resource base of the. On the other hand, the degree of cultural differences in
the cross-border acquisitions may negatively affect the integration process, which also
influences acquisition performance. For instance, Hitt et al. (1997) determined
significant differences between US and Korean managers in terms of strategic
orientations. US managers emphasised the necessity of financial returns, where
Korean managers stressed growth instead (Hitt et al., 1997). Furthermore, it is also
suggested that managers from different countries are more likely to use diverse
managerial practices. Supporting the argument, national cultural differences and
diverse managerial practices may negatively affect the integration process through
serious problems in transferring complementary resources, thereby decreasing the
performance of the combined firm (Shimizu et al., 2004). Therefore, top management
and interaction between combined firms’ managers are important to create a global
vision (Hitt et al., 2001).
Thirdly, scholars examined the cross-border acquisitions from a value creation strategy. Some researchers (Markides and Ittner, 1994) have stated that cross-border acquisitions create value for both acquirer and target firm, whereas others (Kaplan and Weisbach, 1992) argue that cross-border acquisitions reduce the acquirer’s shareholder value but enhance the target’s shareholder value. Lastly, Seth et al. (2002) examined the factors that create or destroy value in cross-border acquisitions. They found that the value-creating acquisitions originated from synergy-oriented deals, in which the acquirer firms and the target firms seek to combine their complementary resources. Conversely, value-destroying acquisitions arise from managerial motivation, such as hubris, self-interest problem, and cultural differences (Seth et al., 2002).

In this section (Section 2.2.4), I have attempted to critically review how scholars in financial economics, strategic management, and organisational learning have examined and discussed the performance implications of M&A. In general, scholars have focused on the role of acquisition experience and post-acquisition integration strategies as potential factors that might influence the acquisition performance of the acquirers. The evidence, however, suggests that no one clear factor can explain the increase in the post-acquisition performance. It is still an important question why so many M&A are reported to have disappointing results. Exploring the factors that have contributed to the success of the acquisitions from the emerging market context by taking account of the role of dynamic capabilities might be a promising direction to follow. In the next section, I will present the main predictors for measuring acquisition performance.

2.2.5 Post-Acquisition Performance Predictors

There is considerable heterogeneity in respect of the explanation of post-acquisition performance measurement, as well as the measurement criteria to assess acquisitions
impacts (Voss, 2008). By combining the findings of published studies, scholars have attempted to analyse current literature on post-acquisition performance and to guide researchers on their future M&A research (Datta et al., 1992; King et al., 2004; Zollo and Meier, 2008; Halebian et al., 2009). Despite the large amount of work done, it is hard to say that the empirical findings on acquisition performance measures are conclusive. There is little or no agreement in the M&A literature on how to measure the success or failure of the acquisitions accurately (Zollo and Meier, 2008). Table 2.2 distinguishes the studies that employed financial and accounting based M&A performance measures.

For example, in their meta-analyses of post-acquisition performance, King et al. (2004) analysed 93 empirical published studies of M&A activities over 74 years. Meanwhile, Zollo and Meier (2008) analysed 88 studies employed in M&A literature and those published in top finance and management journals between 1970 and 2006. The largest group of studies within these M&A performance measurement studies used the short-term window abnormal return method (35-40% of all analysed studies). A second strong measure for acquisition performance studies was the long-term accounting measure method (25-30% of all analysed studies). The use of the long-term window abnormal return method, which is employed nearly exclusively in finance journals, ranked as a third strong measure (15-20% of all analysed studies). Other studies adopted subjective performance measures or used the variance of integration process in order to assess overall acquisition performance.
<table>
<thead>
<tr>
<th>Financial Measures</th>
<th>Accounting Measures</th>
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<tbody>
<tr>
<td>Agrawal et al., 1992</td>
<td>Anand and Singh, 1997</td>
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<tr>
<td>Capron and Pistre, 2002</td>
<td>Barkema and Schijven, 2008</td>
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<td>Capron and Shen, 2007</td>
<td>Cannella and Hambrick, 1993</td>
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<td>Carow et al., 2004</td>
<td>Chang, 1996</td>
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<td>Chatterjee et al., 1992</td>
<td>Clark and Ofek, 1994</td>
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<td>Clark and Ofek, 1994</td>
<td>DeLong and DeYoung, 2007</td>
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<td>DeLong and DeYoung, 2007</td>
<td>Fowler and Schmidt, 1989</td>
</tr>
<tr>
<td>Fowler and Schmidt, 1989</td>
<td>Harrison et al., 1991</td>
</tr>
<tr>
<td>Haleblian and Finkelstein, 1999</td>
<td>Hitt et al., 1996;1998</td>
</tr>
<tr>
<td>Hambrick and Cannella, 1993</td>
<td>Krishnan et al., 1997</td>
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<tr>
<td>Harrison et al., 1991; 2005</td>
<td>Kusewitt, 1985</td>
</tr>
<tr>
<td>Hayward, 2002</td>
<td>Morosini et al., 1998</td>
</tr>
<tr>
<td>Hayward and Hambrick, 1997</td>
<td>Ramaswamy, 1997</td>
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<tr>
<td>Hoskisson et al., 1993</td>
<td>Ravenscraft and Scherer, 1987</td>
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<tr>
<td>Jensen and Ruback, 1983</td>
<td>Zollo and Singh, 2004</td>
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<tr>
<td>Kroll et al., 1997</td>
<td></td>
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<tr>
<td>Kusewitt, 1985</td>
<td></td>
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<tr>
<td>Laamanen and Keil, 2008</td>
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<tr>
<td>Lubatkin et al., 1997</td>
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<tr>
<td>Seth et al., 2002</td>
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<tr>
<td>Singh and Montgomery, 1987</td>
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<tr>
<td>Walker, 2000</td>
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</table>

Source: Zollo and Meier, 2008
In most cases, scholars used short-term financial measures (e.g. Capron and Pestre, 2002; Chatterjee et al., 1992; Krug and Hegarty, 2001; Haleblian and Finkelstein, 1999; Seth et al., 2002; Harrison et al., 2005; Haleblian et al., 2006; Hayward and Hambrick, 1997; Hayward, 2002; Kroll et al., 1997). Many researchers observed abnormal returns through short windows (2- to 4-day) around the announcement date (Haleblian et al., 2009). A Cumulative Abnormal Return (CAR) around the announcement date of an acquisition reveals investors’ reaction to the firm’s acquisition activity, which is based on present expectations about the future performance of the combined firms (Haleblian et al., 2009). Moreover, short-term abnormal return effect can diminish other confounding factors, such as changes in market-product portfolio, and management and regulatory as well as strategic changes that may impact firm performance (Haleblian et al., 2006). Thus, scholars have argued that short-term abnormal returns are representative of long-term performance (Sirower, 1997; Kaplan and Weisbach, 1992; Haleblian et al., 2006). Therefore, depending on the market efficiency assumption, the short-term Cumulative Abnormal Return (CAR) is the most effective and the generally accepted technique for predicting post-acquisition performance (Haleblian et al., 2009; Capron and Pestre, 2002; Anand et al., 2005; King et al., 2004); though even it is not a perfect measure (Kaplan and Weisbach, 1992).

Given the notion of imperfection of short-term abnormal return as an acquisition performance measure, some scholars have used longer-term financial measures (Zollo and Reuer, 2010; Kusewitt, 1985; Lubatkin et al., 1997; Fowler and Schmidt, 1987; Chatterjee, 1992); whereas some scholars (Anand and Singh, 1997; Cannella and Hambrick, 1993; Harrison et al., 1991; Krishnan et al., 1997; Zollo and Singh, 2004; Morosini et al., 1998) tested acquisition performance through accounting measures, such as Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS). Technically, these long-term measures can allow an estimation of the post-acquisition period. However, “confounding events outside of the acquisition may produce significant noise” and it may be difficult to distinguish the effect of the acquisition (Haleblian et al., 2009, pp. 493).
Lastly, some scholars have simply applied managers’ subjective assessments in order to study acquisition performance (Hayward, 2002; Zollo and Meier, 2008; Puranam et al., 2006). For instance, Hayward (2002) contacted professionals, who were experts in the industries they examine, or investment bankers, and assessed the acquisition performance of the sample through survey analysis. Even this method reduced the social desirability bias; it may also reduce the objectivity of acquisition performance by employing managers’ subjective opinions.

All in all, it can be seen from the M&A literature that there is no agreement both across and within the disciplines on how to measure acquisition performance. Current empirical literature on M&A shows that the short-term Cumulative Abnormal Return (CAR) around the announcement date of the deal is regarded as the most broadly acknowledged measure of the post-acquisition performance, and it is convergent with other performance measures (Kale et al., 2002; Halebian et al., 2009). However, in order to increase the effectiveness of acquisition performance measurement and better test the broad effect of post-acquisition implications, scholars suggest using various methods together, such as stock market and accounting measures.

2.3 Towards a Better Understanding of the Dynamic Capabilities Context

I propose that managing the post-M&A phase successfully requires specific dynamic capabilities. This builds on the research on the dynamic capabilities view as scholars suggest that through M&A capability firms can successfully reconfigure their existing resource bases in response to the changing environment (Winter, 2003; Zollo and Singh, 2004; Voss, 2008; Zollo and Winter, 2002). Building on this, organisational learning through acquisition experience and the ability to adapt new resources and reconfigure them appropriately are not only important success factors for acquisitions and important elements of dynamic capabilities (Teece and Pisano, 1997), but also they can be considered as a dynamic capability itself. Based on this consideration, I
use dynamic capabilities as the main theoretical framework for this research. In this section, I will review the theoretical and conceptual studies on the dynamic capabilities view. I will start the review by introducing the foundations of dynamic capabilities (Section 2.3.1). This will be followed by the main conceptual definitions and sources of confusion regarding the phenomenon (Section 2.3.2). Then, in Section 2.3.3, I will introduce the conceptual definition of this study. Next, I will discuss the role of micro-foundations in shaping the firm’s M&A capability, which is an important element of dynamic capabilities (Section 2.3.4). Lastly, in Section 2.4, I will review the studies on dynamic capabilities in the context of M&A that consider how they contribute to M&A success.

2.3.1 The Foundations of Dynamic Capabilities

The dynamic capabilities framework was introduced to highlight the importance of an organisation’s internal strategy. The dynamic capabilities context is seen as an important factor for the success of firms (e.g. Helfat et al., 2007; Barreto, 2010; Teece, 2009). After Teece et al.'s (1997) original contribution to the field, there has been an increasing range of research on dynamic capabilities. Despite the increasing attention paid by strategy scholars to the concept of dynamic capabilities, however, it is generally argued that there are still theoretical and practical problems in understanding them (Zehra et al., 2006; Helfat and Winter, 2011; Peteraf et al., 2013). Then, the main questions are: what are dynamic capabilities? Where does the dynamic capabilities view come from?

First of all, given the limited understanding of dynamic capabilities, we should understand where this view comes from so as to better understand the concept. The dynamic capabilities framework draws from many theoretical streams, namely behavioural decision theory, organisational theory, transaction cost economics, evolutionary economics, and the resource-based view (Teece, 2009).
The behavioural theory of a firm considers it a political foundation of organisational purpose; a set of anticipations and rules, and bounded assumptions about how the interactions between these parameters affect the decision-making process in an organisation (Wright, 1984; Cyert and March, 1963). Thus, management plays significant role in reflecting the organisational goals, and determining the political conceptions of an organisation by diagnosing particular problems. Firms are seen as heterogeneous; they have only limited rationality (March and Simon, 1958). Organisational and managerial structures differ in terms of their decisions. Managers' abilities and experiences shape firms' strategic positions and paths. This is because, according to the theory, information is costly and requires appropriate search activity from managers. Therefore decision-making in behavioural theory is affected by managerial and organisational preconceptions and their response to a problem (Teece, 2009). The planning of adaptation and the significance of organisation heterogeneity are the fundamental additions to the dynamic capabilities view from behavioural theory (Winter, 2003).

Secondly, the relationship between dynamic capabilities and transaction cost theory arises from the necessity of good governance and the idea of how jobs and tasks should be organised (North, 1990). Herein, the firm's performance is impacted by production and investment choices, which are directly related to making convenient choices with respect to governance. Governance is important, but making appropriate choices and using the right assets is the key to a correct business model within this theory (Teece, 1982). In terms of relevance to dynamic capabilities, the main contribution of transaction cost theory is the importance of the selection process. But then Winter (1988, pp.59) contended that, “to fully develop its capabilities, transaction cost economics must be joined with a theory of knowledge and production.” Therefore researchers began looking elsewhere to improve the theory.
In order to develop the foundation of dynamic capabilities, Teece et al. (1997), and Winter (2003) specified the importance of evolutionary theory. In evolutionary theory, the firm is accepted as a knowledge-creating and learning unit (Kogut and Zander, 1993). The development of the firm depends on the efficiency of learning and internal knowledge absorptive capacity (Teece, 2009). Penrose (1959) initially recognised the firm as an entity endogenously seeking to create itself a productive opportunity set. Penrose (1959) also asserted that the ability of managers to look from different perspectives and sense opportunities is an important capability of the firm in order to acquire new resources and also develop existing ones; this vision can also be illustrated with the entrepreneurial mindset (Teece, 2009). She also identified that know-how can be used to change physical resources for other purposes. She emphasised that the firm’s resources can be reshaped and that the services extracted by these resources are the main elements for a firm’s specific production processes.

Nelson and Winter (1982) additionally built on this view and argued that over time firms’ knowledge can be accumulated through a “learning-by-doing” mechanism, which is embedded in bundles of routines that are associated with the genetic component of the firm (Zollo and Winter, 2002). They described the firm as a historical entity which possesses heterogeneous capabilities which are rooted in the skills and routines of the firm through repetitively executing productive activities (Ethiraj et al., 2005). Thus, history matters and firms can learn from their prior experiences in the evolutionary perspective.

More recently, it has become accepted in the literature that the dynamic capabilities view is an expansion of the resource-based view (RBV) of the firm (Teece et al., 1997; Eisenhardt and Martin, 2000; Ambrosini and Bowman, 2009). The resource-based view emphasises the characteristics and resources that make firms different from one another and help them to gain a competitive advantage in the market. Even in the same industry, firms perform differently in terms of the resources and capabilities they possess (Amit and Schoemaker, 1991; Petaraf, 1993). The heterogeneity of resources is the underlying assumption in the RBV (Barney, 1991). It is vital for resources to be valuable, rare, inimitable, and non-substitutable (VRIN) in their characteristics in order to gain strategic consequence and sustain the competitive
advantage (Lockett and Thompson, 2001). Moreover, the resource-based view pays substantial attention to the firm's internal strengths. However, internal development of resources can take a long period of time. According to the resource-based view, VRIN resources create value by being possessed. However, how future VRIN resources are created or how existing valuable resources can be re-organised in changing environments is not covered by the RBV. Essentially, creating new resources and developing new ones depends on the use of valuable resources. In this respect, RBV disregards the importance of the managerial factor for the growth of a firm. In line with this argument, Barney and Arikan (2001, pp.174) state that “resource-based theory has a very simple view about how resources are connected to the strategies the firm pursues”. Along with VRIN resources, the skill of top management is a required condition for value creation (Castanias and Helfat, 2001).

Moreover, another criticism of the RBV is the unclear treatment of changing environments, which makes RBV static in its nature. The rationale is that the resource-based view has not sufficiently explained how and why some firms have a competitive advantage in the context of rapid and unpredictable change (Teece et al., 1997). In these conditions, where the competitive landscape is shifting, RBV is inadequate for expressing how firms sustain their competitive advantages. With the effects of globalisation and a rapidly changing business environment, RBV faces difficulties in clarifying how the firm’s resource base is re-organised and manipulated in such conditions (Ambrosini and Bowman, 2009). For dynamic capabilities, on the other hand, it is important to emphasise the rapidly changing nature of the external market of business life. The dynamic capabilities perspective takes the major role of the strategic decision-making process, in which firms are required to make decisions to shape their major strategic moves in a timely manner, into consideration, especially in terms of VRIN resources. (Eisenhardt and Martin, 2000; Winter, 2003). Indeed, value is created from corporate activities when resources are assessed, operated, and organised appropriately within the firm’s environmental context (Lippman and Rumelt, 2003). Therefore, it can be seen from the established literature that the dynamic capabilities view can complement the resource-based view, which only expresses half of the story, by redefining the role of managerial and environmental
factors for value creation. In the next section, some of the key definitions in the dynamic capabilities literature will be discussed as a first move to introduce the conceptual definition of this study.

2.3.2 Definitions and Some Sources of Confusion

A remarkable number of papers in the management literature concentrate on the dynamic capabilities view. Such an impressive scope has resulted in a wealth of conceptualisations, but also caused complexity and confusion in the field. More recently, Peteraf et al. (2013, pp.1349) made a crucial point regarding the understandings of the dynamic capabilities construct that “the two seminal papers (Teece et al., 1997, and Eisenhardt and Martin, 2000) represent not only different but contradictory understandings of the construct’s core elements”. The differences between these two ground-breaking and most cited papers have emerged due to their dissimilar theoretical approaches, different types of reasoning, and different ultimate conclusions (Peteraf et al., 2013).

The stream started with the Teece et al.'s (1997, pp.516) original definition: "dynamic capabilities are the firm's ability to integrate, build, and reconfigure internal and external competences to rapidly changing environments.” Since this original contribution, many researchers offered their own definitions of the dynamic capabilities view. Some of the key definitions are presented in Table 2.3.
Table 2.2: Key definitions of Dynamic capabilities

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Eisenhardt and Martin, (2000, pp.1107)</td>
<td>Dynamic capabilities are the firm's processes that use resources – specifically the processes to integrate, reconfigure, gain and release resources – to match or even create market change. Dynamic capabilities thus are the organisational and strategic routines by which firms achieve new resources configurations as markets emerge, collide, split, evolve and die.</td>
</tr>
<tr>
<td>Zollo and Winter, (2003, pp.340)</td>
<td>A dynamic capability is a learned and stable pattern of collective activity through which the organisation systematically generates and modifies its operating routines in pursuit of improved effectiveness.</td>
</tr>
<tr>
<td>Winter, (2003, pp.991)</td>
<td>Dynamic capabilities are those that operate to extend, modify or create ordinary capabilities.</td>
</tr>
<tr>
<td>Zahra et al., (2006, pp.918)</td>
<td>The abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision makers.</td>
</tr>
<tr>
<td>Helfat et al., (2007, pp.1)</td>
<td>The capacity of an organisation to purposefully create, extend, or modify its resource base.</td>
</tr>
<tr>
<td>Wang and Ahmed, (2007, pp. 35)</td>
<td>A firm's behavioural orientations constantly to integrate, reconfigure, renew and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage.</td>
</tr>
<tr>
<td>Teece, (2007, pp. 1319)</td>
<td>Dynamic capabilities can be disaggregated into the capacity 1) to sense and shape opportunities and threats, 2) to seize opportunities, and 3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets.</td>
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Reviewing the literature and the definitions reveals that there are confusions and contradictions in the field. These confusions and the proposed components of dynamic capabilities will be analysed in terms of their essential characteristics, purpose, separation from organisational capabilities, role of environmental context, and changeability issues.

As can be seen from Table 2.4, in terms of their essential characteristics, dynamic capabilities have been conceptualised as abilities or capacities or patterns, but also defined as being routines or processes. In the initial study of the stream, Teece et al. (1997) as well as Helfat et al. (2007) and in, an updated study, Teece (2007), espoused the term capacities (or abilities) in order to emphasise the main role of the firm's strategic management. The word capacity is used to explain not only “the ability to perform a task in at least a minimally acceptable manner” but also to emphasise that they are “repeatable and can be reliably executed to at least some extent” (Helfat et al., 2007, pp. 5). In a similar way, Zahra et al. (2006) defined dynamic capabilities as abilities and as routines, not onetime changes, in their nature. It seems that these usages define ability or capacity in terms of success. Using these terms may lead to some sort of tautology. On the other hand, Eisenhardt and Martin (2000) introduced dynamic capabilities as processes of the firm that can be distinguishable. For instance they pointed out that “Toyota has used its superior product development skills to achieve competitive advantage in the automotive industry” (Eisenhardt and Martin, 2000, pp.1107). This product development routine for Toyota requires strategic decision-making in which managers use their knowledge and practical backgrounds to select a strategic move for the firm. Processes refer to the way tasks are performed in the firm, and they are the firm's routines of current practices. But it can be said that processes are actions which are explicit, and sets of resources which can be interchangeable within or between firms (Zahra et al., 2006). On the other hand, capabilities address the abilities of the firm, which are unique to it. Thus, dynamic capabilities are hidden in their processes; they are not just processes in their nature. Therefore, it is critical to differentiate dynamic capability from a one-time specific change in an organisation.
Next, there are many diverging functions that can be identified with regards to the purpose of dynamic capabilities and whether they lead to a gain in competitive advantage. Teece et al. (1997) employ the terms “integrate and build” to explain the dynamic capabilities’ task; Eisenhardt and Martin (2000) use the word “gain”; Zollo and Winter (2002) utilise the terms “generates and modifies”. More recently, Helfat et al. (2007) adapt the terms “create, extend, or modify” to introduce their concepts. In a parallel direction, Wang and Ahmed (2007) use “renew, recreate”; Teece (2007) employs the word “enhance” to reflect the sense of intention. It can be inferred from these terms that dynamic capabilities usually lead to a gain, at least indirectly, in competitive advantage, allowing better use of resources. So almost in all cases in the literature are associated with success. Helfat et al. (2007), however, have suggested that dynamic capabilities do not necessarily lead to gain, and point out that a renewal of the resource base may also imply no change in performance, or even failure. Then, we cannot separate organisational capabilities from dynamic capabilities, and there is no convincing argument to talk about dynamic capabilities. There are some studies in the literature which quantitatively associate the types of dynamic capabilities with gain in performance. For instance, Arthurs and Busenitz (2006) employed stock price performance as a proxy for dynamic capabilities, while McKelvie and Davidsson (2009) identified several types of dynamic capabilities that are measured by performance.

Another inconsistency arises from different perspectives between organisational and dynamic capabilities. In Teece et al. (1997) definition, the affected component that matter is the resource base of the firm. In a similar line, Helfat et al. (2007) use the 'resource base' of an organisation as the component determined by dynamic capabilities. According to Helfat et al. (2007, pp.4), the resource base indicates "tangible, intangible, and human assets (or resources) as well as capabilities which the organisation owns, controls, or has access to on a preferential basis." They consider capabilities to be resources, essentially collecting all the elements in a big tent. For instance, firms do not own their workers. Firms also have access on a preferential basis to various resources and capabilities which they do not own, (e.g. alliances). On the other hand, some authors have opted for a two- or more level hierarchy to identify
differences between various capabilities. Winter (2003) makes the point that capabilities can be divided into two groups, namely “zero level” capabilities which emphasise the ordinary capabilities observed in the short term, and “higher level” capabilities related to change in the firm's zero level capabilities to make a living in the long term. Similarly, Zahra et al. (2006) distinguish “substantive capabilities” from other ordinary capabilities to stress the firm's dynamic capabilities. In their conception, substantive capabilities serve to solve problems and change other capabilities in the firm to improve performance. Furthermore, Wang and Ahmed (2007) have asserted that resources and capabilities should be considered in a hierarchical order. Therefore, the foundation of the firm is its resources, which are called zero level capabilities; whereas capabilities are necessary in a dynamic environment to sustain the firm’s competitive advantage, so capabilities are “first order”; finally, “core capabilities” are important to integrate resources and capabilities for competitive advantage on a strategic level (Wang and Ahmed, 2007). But these dichotomies may cause confusion when identifying the higher or lower order. That is to say, in earlier studies, researchers have suggested that the resource base comprises every internal component of the firm. More recently, researchers have tried to distinguish these components into various groups. These later attempts, however, may cause further lack of clarity in the literature when it comes to identifying which is dynamic capability and which is not.

Another source of confusion in the field stems from the requirement of a dynamic environment as part of the concept. In their seminal article, Teece et al. (1997) stress the necessity of a rapidly changing environment for the emergence of dynamic capabilities. Teece et al. (1997) and Teece (2009) have argued that dynamic environments lead to international trade, many entries into the market, systematic technological and business changes, and the existence of advanced goods and service markets. They have also suggested that it is more convenient to create and develop dynamic capabilities in these environments. By contrast, Eisenhardt and Martin (2000) have asserted that dynamic capabilities arise not only in “high velocity markets” but can also be observed in “moderately dynamic environments”. They proposed diverse degrees of dynamic capabilities based on whether a firm exists in a
high velocity market or a moderately dynamic environment. From the other point of view, Zahra et al. (2006, pp. 6) have said that “the use of dynamic capabilities is greater in dynamic environments, but one should not confound external conditions with organisational capability”. That is, dynamic capabilities can be found in an environment with a lower rate of change. Zollo and Winter (2002) have also followed Zahra et al.’s (2006) view and denied the necessity of dynamic or stable environments. They argued that even in stable environments changes can occur both externally and internally, so there is no need to specify the importance of rapidly changing environments for the concept. This lack of clarity in regard to the environmental context of dynamic capabilities is also disadvantageous for a better understanding and operationalization of the concept.

Another point that needs to be observed in the literature is the changeability issue from an evolutionary development perspective. In the initial stream, Eisenhardt and Martin (2000) followed the evolutionary economics perspective and emphasised the importance of past mistakes and the role of experience in the learning and development process. They also argued that choosing a learning strategy differed based on the external environment. For instance, Dougherty and Lindbo (1992) examined 18 product development projects in 5 multinationals, including Kodak. According to the study, regular client visits and their opinions were important factors for successful product development capability. From the other perspective, Zollo and Winter (2002) pointed out the significance of more deliberate cognitive approaches including knowledge codification (such as written tools) and knowledge articulation (discussions) to specify the learning patterns to improve effectiveness. Moreover, Zahra et al. (2006) categorised learning mechanisms in terms of firm characteristics by defining trial and error; imitation is for new ventures whereas experience is more relevant for big firms. Therefore, the existing approaches to explaining learning perspectives also make the functionality of dynamic capabilities more difficult to understand.
2.3.3 Conceptual Definition of Dynamic Capabilities for This Study

The review of the dynamic capabilities literature up to this point allows us to emphasise what is within its scope and what is outside it. However, it seems that the desire to advance the approach causes further inconsistencies and contradictions in the literature. This criticism is the main reason underlying many of the conflicts raised in these studies. That is why a theory should include clear links to the constructs or variables of interest. Furthermore, without specifying its boundaries, a theory may lose its expected outcomes and its accuracy. Most research within the field has not paid enough attention to boundary issues, especially in regard to environmental settings and the nature of corporate conditions (Oliver and Holzinger, 2008). Hence, drawing on these conditions, I find the following conceptual definition more inclusive for a general understanding of dynamic capabilities.

“A Dynamic Capability is the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base” (Barreto, 2010, pp. 271).

There is no doubt that single phrase cannot include everything, but it can be inclusive enough to consider the main constructs of interest in a study. As using the term “formed” implies, the study considers the link between all four dimensions, which also implies that it is an aggregate multidimensional concept. Each dimension has some links to other dimensions. For example, the propensity to change the firm’s resource base is appropriate only if there is also a propensity to make decisions. Also, the inclination to make decisions is considered only when the firm has the intention to identify opportunities and threats, which is also an important element of entrepreneurship. Furthermore, this concept fits better in a more entrepreneurial environment, such as that of emerging markets. Moreover, these changes within a firm can achieve great effect only if there is a propensity to make timely and market-
oriented decisions (Barreto, 2010). This view is also in line with the M&A context, as firms seize opportunities or avoid threats as they undertake an acquisition. Then they need to make timely and market-oriented decisions in order to reconfigure their resource bases and maintain their competitiveness.

The word “potential” here refers to the characteristic of dynamic capability that must apply at all times in order to produce the expected effects (Winter, 2003). Firms should fulfil their commitments, as well as requiring an adequate management and an appropriate organisational structure to achieve superior performance. Without meeting these requirements, it is hard for a firm to reflect its high potential and develop the most adequate resource base. In my analysis, this can be achievable with an acquisition-based “integration capability”. Secondly, using the noun “potential” in the conceptual framework excludes any sort of capability classification (Barreto, 2010). Rather than the existence or nonexistence of capabilities (such as first/second order), there can be always high or low potential levels in real business life. Here, the intention to use the word “potential” is also coherent with the interest of this research. As used here, the word “potential” implies the possibility of achieving higher performance or lower performance. It refers to a firm’s ability to learn from prior corporate actions and make appropriate decisions in its future activities.

Reviewing the literature reveals that researchers have tended to define dynamic capabilities as an absolute element that leads to success. However, rather than using the terms “modify, increase, extend”, this study uses the term “change”, which implies the potential for the firm to do something different rather than staying constant. In this study, “change” refers to a change in the resource base of the acquirer firm so as to seek improvement of its existing resources. Thus, dynamic capabilities often support existing businesses (Helfat and Winter, 2013). Nonetheless, routines by themselves are not adequate for a firm to survive in its environment, and changeability is therefore a main component of dynamic capabilities that when considered from a learning perspective. Moreover, it emphasises the difference between organisational and dynamic capabilities. In this concept, only capabilities
that promote economically significant change are considered dynamic. This allows firms to maintain their competitiveness.

Building on Barreto’s (2010) definition as well as on studies by Voss (2008), Wollersheim et al. (2013), Helfat and Winter (2013), Capron and Anand (2007), and Eisenhardt and Martin (2000), I will use the following definition for the purpose of this research on the post-acquisition process:

“M&A capability is a dynamic capability allowing the firm to change its resource base appropriately in order to stay competitive in its environment”.

As mentioned in this section, the term “dynamic capabilities” refers to an abstract and hard-to-grasp phenomenon. Based on the aforementioned considerations and research, I consider M&A capability to be a concept that bundles a variety of tangible organisational processes into a collective approach in the post-acquisition phase. Every environment can be regarded as dynamic in its own context, especially in the global and digital era. Firms should adjust their resource bases appropriately to avoid finding themselves in a downward spiral and to stay competitive.

Lastly, as mentioned in the previous section there are inconsistencies in the literature regarding the measurement of dynamic capabilities’ performance. To address this lack of clarity, following the suggestions of scholars (Arthurs and Businetz, 2006; McKelvie and Davidsson, 2009; Wollersheim et al., 2013; Barreto, 2010), I will attempt to link dynamic capabilities with gain in the post-M&A process. I will focus on the M&A capability, and particularly, the integration capability, of firms. Learning from prior experiences generally results in reconfiguration of the resource base. Wollersheim et al. (2013) has suggested using a process management perspective to provide an avenue for measuring dynamic capabilities, and they recommend employing firm-level measures such as stock price-based and returning on assets. For
instance, through a successful post-M&A process, firms can achieve some degree of change in the resource base, which leads to development of M&A capability. Then, firms stay competitive in their own environment. This conceptualisation may be able to provide a better understanding of the dynamic capabilities context.

2.3.4 Managerial and Organisational Roles in Dynamic Capabilities

Having thus far defined dynamic capabilities at a conceptual level, it is now time to stress the special focus of this study and its link to the research. The conceptual definition of this study incorporates the search and selection aspects as well as the decision-making component of dynamic capabilities. These dimensions underpin the importance of the managerial and organisational processes that also enable the deployment of dynamic capabilities (Salvato, 2003).

The key role that managers play in their firm’s potential to adapt to new conditions is reflected in many studies (Eisenhardt and Martin, 2000; Salvato, 2003; Helfat et al., 2007; Ambrosini and Bowman, 2009). The effective layout and utilisation of resources owned or controlled by a firm requires appropriate management strategies. To quote Helfat et al. (2007, pp.19), “orchestration directed at achieving new combinations and co-alignment of assets is central to the dynamic capabilities framework” and this orchestration is possible and meaningful only with astute decision-making. This puts managers into a central role for dynamic capabilities.

The emphasis on propensity to sense opportunities and threats are in line with Teece's (2007; 2009), Helfat et al.'s (2007) studies. In rapidly changing and globally competitive environments, opportunities open up for firms. Some recognise these opportunities; some do not. Sensing and shaping opportunities is mostly related to scanning, searching, and absorbing activities, as well as interpreting this information.
Investing in R&D activities is usually a complementary element to these activities. According to Teece (2009), opportunities can occur due to two factors. Firstly, firms have different styles of accessing and implementing existing information. This accessing activity can be seen to arise from either M&A or alliance activity. Secondly, acquiring new information and new knowledge might create opportunities for firms in developing their existing capabilities. Teece (2007; 2009) also illustrates the characteristics of sensing and shaping opportunities through entrepreneurial activities, an idea inspired by Schumpeter (1934). Firms should regularly scan, search, and explore new markets and technologies in order to sense and shape opportunities. The role of opportunity sensing and shaping can originate from the capacities of managers or founders, thus being directly related to the micro-foundations of organisations (Menguc and Auh, 2006). The ability to recognise an opportunity and manage the process suitably requires relevant knowledge, creative activity, and practical wisdom from managers (Teece, 2007; Nonaka and Toyama, 2007).

A vast management literature has accepted that the managers have effects on dynamic capabilities (Zahra et al., 2006; Moliterno and Wiersema, 2007; Helfat et al., 2007; Teece, 2007; 2009; Karim, 2006). Thus, making timely and market-oriented strategic decisions plays a vital role for the firm. For instance, decisions in regard to M&A activities – which replacements are required to reconfigure the existing resource base of the acquirer firm and whether to change or retain the target’s resources – are the main questions to ask during the post-M&A period. These decisions about changing the resource base of the combined firms appropriately can be counted as the most important components of M&A capability. Decision-making can be observed in groups such as the top management team, or sometimes it can be seen in individual performance. In this manner, “dynamic capabilities therefore pertain to both an organisational unit (e.g. a firm, a division, other sub-unit, or team) and to an individual decision maker within the organisation” that implies the role of organisational and managerial structure respectively (Helfat et al., 2007, pp.6). Oliver and Holzinger (2008) have asserted that the timing of the decisions has an enormously important role in gaining and sustaining competitive advantage. For instance, in a highly competitive environment it is a distinctive function to quickly search through
possibilities in order to make progress and move ahead of competitors, which is surely a dynamic capability. Moreover, it is likely that managers will face many potential candidates in a dynamic market. To make the right choices managers must assess their competitive field, map out the advantages and disadvantages of various options, and consider the possible outcomes of each choice so as to achieve an effective result (Zahra et al., 2006). Thus, firms increase their chances to gain and sustain a competitive advantage when market-oriented decisions are executed in a timely manner. Overall, “managerial and organisational processes are inextricably linked to dynamic capabilities; to understand dynamic capabilities it is essential to understand those processes” (Helfat et al., 2007, pp. 31). Consequently, the top manager of a firm plays an important role in the dynamic capability context, and managerial abilities enable firms to stay competitive in their own environment.

2.4 Exploring the Role of M&A in the Dynamic Capabilities Context

Mergers and acquisitions literature creates a central field for researchers to study organisational change. Several disciplines have presented the role of change and M&A from different perspectives. Although there are many studies on the topics of M&A within the management and finance literature, it is hard to say that there is a consensus between context and empirical studies (Shimizu et al. 2004; Karim and Mitchell, 2000).

A large body of finance and strategic management literature that investigates the M&A has concentrated on various issues, such as creating synergy, diversification strategy, cultural clashes, acquisition performance, acquisition experience, relatedness, cross-border and domestic deals, and efficiency issues. As I discussed in Section 2.2, industrial organisation economic theory offers different directions in explaining the reason for M&A. Some scholars have proposed strengthening the business structure as a main reason, others an acquisition motivation to avoid entry
barriers, and some researchers in the field have stated that firms are performing M&A in order to boost their market power. From the other perspective, the behavioural scholars have examined the influence of the target firm’s acquisition on the acquiring firm or on the target firm (Hannan and Freeman, 1989). Specifically, according to the resource dependence perspective, acquisitions make it possible to available to change an organisation’s relationships and its environment (Pfeffer and Salancik, 1978). Despite the various conceptual differences between scholars, they have all attempted to stress the intention to increase the efficiency of on-going operations and to keep pace with external changes.

Acquisitions cause a high degree of uncertainty for the acquirer firms, in which they need to adapt to previously unidentified resources and unknown procedures from the target firm. So, the acquirer firms should seek to learn from the acquisitions in order to increase their efficiency, flexibility, and adaptability during times of change (Dodgson, 1993). This is the place where dynamic capabilities engage with the M&A literature. Researchers have attempted to examine dynamic capabilities from the context of M&A from different perspectives. Some scholars have emphasised acquisitions as a potential field of use for the dynamic capabilities view without any further examination (Helfat and Peteraf, 2003). On the other hand, many scholars have investigated dynamic capabilities extensively in the acquisition process (Capron and Anand, 2007; Meyer and Lieb-Doczy, 2003; Roy and Roy, 2004; Keil, 2004; Voss, 2008). Generally, most of the research in the latter group has linked dynamic capabilities with acquisition experience (Capron and Anand, 2007; Helfat et al., 2007; Roy and Roy, 2004; Voss, 2008).

In the first group of researchers, Eisenhardt and Martin (2000), and Helfat and Peteraf (2003), have used evolutionary economics and argued that M&A can be considered as a possible context of application for dynamic capabilities development. From the other perspective, researchers have conceptually analysed M&A in a dynamic capabilities context. For instance, a study by Roy and Roy (2004) analysed the post-merger M&A process of HP and Compaq from the resource base and the dynamic
capabilities perspectives. They assessed whether an HP and Compaq merger could create value, and suggested that “dynamic capabilities can be generated or evolve through direct experience or from the experience of others through organisational learning processes” (Roy and Roy, 2004, pp.8). Thus, strategic management scholars positioned the organisational learning perspective as a central theoretical element in research on dynamic capabilities in the context of M&A (Zollo and Winter, 2002). According to Zollo and Winter (2002), with regard to the evolution of dynamic capabilities, learning mechanisms are important because dynamic capabilities emerge from these processes. Firms gain dynamic capabilities through gradually modifying existing capabilities by accumulating tacit knowledge. Then, existing routines can change after the adaptation and recombination process (Zollo and Winter, 2002). Their understanding of change, however, includes specific learning processes from innovation routines, and exhibits particular weaknesses (Wollersheim et al., 2013). Considering acquisition capability, for instance, empirical research has shown that firms that engaged in M&A with greater frequency had better performance results (Haleblian and Finkelstein, 1999). Similarly, Hayward (2002) examined the role of acquisition experience and mistakes for superior acquisitions skills. Hayward (2002) argued that gaining tacit resources is extremely important for the purpose of M&A. This is because, according to the evolutionary perspective, through the routines the firm’s structure includes tacit resources such as knowledge and organisational learning. These routines contain a firm’s standards, procedures, and general meetings structure. With well-established routines, organisations reduce the issues of adaptation and learning speed, and improve the timing of internal development (March, 1991). This coordination and adaptation is the reason for the importance of acquiring tacit resources via M&A. In all these studies, the main argument was that organisational experiential learning through prior experience led to development of dynamic capabilities. They, however, mostly considered intangible resources, which are hard to capture and measure, for distinct resource acquisition.

Apart from the organisational learning perspective, researchers have turned their attention to exploring how firms reconfigure their resources to sustain their competitive advantage in a dynamic environment (Zollo and Singh, 2000; Capron et
al. 1998). They have argued that prior acquisition experience may not be the only factor for developing specific kinds of capabilities and achieving successful acquisition outcomes. Taking account of the notion that resources are created from several mixtures of routines, M&A can be considered as a path that leads to change in the combined firm. Firms may open doors to new opportunities by earning resources through an acquisition (Karim and Mitchell, 2000). Thus, firms that participate in M&A activities can retain or exploit and extend their existing resources (Cloodt et al., 2006). The combination of resources effectively leads to performance enhancement.

An effective integration of the combined firms emphasises the vital role of the top management for successful outcomes (Zollo and Singh, 2000). In this case, managerial skills play an important role. Integration capabilities can support acquirer firms by leaving existing established routines and reconfiguring newly acquired resources to stay competitive (Eisenhardt and Martin, 2000; Zollo and Winter, 2002; Capron and Anand, 2007). Then, the firms are able to adapt to change, combine heterogeneous resources, and manage the post-acquisition phase to better cope with complexity. Therefore, integration capabilities drive the successful post-acquisition management process by facilitating timely and market-oriented decisions about resource replacements, and this can lead to improved performance.

There are also studies that have examined the roles of organisational learning and resource reconfiguration together. Recently, in an in-depth case based study, Voss (2008) emphasised the role of acquisitions on M&A capability evolution and highlighted the top management’s role in coordinating dynamic capability evolution. In order to build dynamic acquisition capabilities and reconfigure the resource base efficiently, firms should coordinate, learn, sense, and adapt acquisitions successfully (Voss, 2008). It has been suggested that coordination is a key process in organisational strategy and requires task delegation (Eisenhardt and Brown, 1998), resource allocation (Haspeslagh and Jemison, 1991), and resource synchronisation within top management. Repetitive acquisition activities result in prior acquisition experience development due to the on-going learning processes, which enables better
reconfiguration process implementation (Teece and Pisano, 1997). Voss’s (2008) last two dimensions, which are sensing and adapting, emphasise the role of the pre-acquisition period for making decisions on acquisition activity and selecting a suitable target. In a similar vein, Capron and Anand (2007) attempted to explore M&A from the dynamic capabilities perspective. They offered the term “acquisition-based dynamic capabilities”, and provided a long-term empirical study in order to explore how firms see M&A in terms of obtaining new resources. In their analysis they divided acquisition based dynamic capabilities into three main components, namely acquisition selection, identification, and reconfiguration abilities. The selection process was defined as the firm’s ability to recognise convenient opportunities, whereas acquisition identification capability referred to the detection and negotiation process with selected targets (Helfat et al., 2007). Lastly, reconfiguration capability was defined as the firm's potential to adjust firm resources, which included transferring resources from the target to change existing resources or create new ones. In this hierarchical system, Capron and Anand (2007) focused on the first two capabilities, namely selection and identification capabilities, in order to examine acquisition performance in terms of domestic and cross-border acquisitions perspectives.

As we have seen in this section about dynamic capabilities, organisational learning through acquisition experience and reconfiguration of combined resources appropriately are not only important success factors for acquisitions (Teece and Pisano, 1997), but can also be considered as dynamic capabilities in themselves. With the help of appropriate post-M&A processes, firms can reconfigure their resource bases and develop their M&A capabilities.

Over time, attempts to study M&A as a means of change have been increasing in the finance and strategic management literatures. Reviewing the above literature reveals that experience and integration matter in corporate development activities. But how much they matter will depend upon the particular environment of the activity (Peteraf et al., 2013). In general, the dynamic capability context has been examined by
scholars conceptually in the developed world context. Therefore, examining the phenomenon empirically in another environmental context might be a supporting approach to help better capture the concept. In addition, many studies in the strategic management literature that attempted to analyse dynamic capabilities in an acquisition context have opted qualitative approaches (Roy and Roy, 2004; Keil, 2004; Meyer and Lieb-Doczy, 2003; Voss, 2008). Therefore, quantitative analysis of the dynamic capability concept within an M&A context would be important research to undertake. Equally, given the high level of failure rates in M&A, analysing dynamic capabilities that might explain the performance variance in M&A would also be a fruitful research topic.

2.5 What is Really Different about Emerging Market Context?

During the last decade emerging markets have become an increasingly hot topic in the world economy. Emerging markets, also known as developing countries, are the countries that are progressing toward becoming politically and economically advanced. Emerging markets, especially from Asia, Latin America and Eastern Europe, are producing some of the strongest growth and revenue for the world economy. Growth in the emerging markets has picked up, and these markets serve as the world economy’s engine, rewarding firms with strong businesses both in their home country and globally. According to the International Monetary Fund (IMF), emerging markets generate 40% of global GDP, up from 18% two decades ago. These powerful markets have grown much faster than the developed world markets in the past half-century. According to Kose and Prasad (2011), in comparison with the developed world growth of 300%, the economies of a group of the most prominent emerging markets have grown by 600% since 1960. It is expected that the emerging markets will grow three times faster than developed world economies and reach 65% of global economic growth by 2020. Thus, the rise of the emerging markets has transformed the world economy and this has been perhaps the defining characteristic of the global economy in this century.
The emerging market context creates opportunities for businesses and business scholars alike (Xu and Meyer, 2013). The growing appeal of emerging markets has attracted scholarly interest, and this is reflected in the rise of research on the topic by strategic management scholars. However, current research of this phenomenon still lacks focus and a joint theoretical base, and thus provides inconclusive outcomes.

I will start this section by presenting some classifications of emerging market countries suggested in the literature. The classification will be followed by highlighting some unique features of emerging market firms. Then, by focusing on various theoretical perspectives I will discuss the relevant strategies within emerging market studies. Finally, in the context of the internationalisation process, I will introduce the existing literature on emerging market acquirers.

2.5.1 Categorisation of Emerging Market Countries

There are different categorisations for emerging market countries. But before providing some of them, it is important to define what an emerging market is. The term “emerging markets” was brought into fashion by economists at the International Finance Corporation (IFC) in 1981. Since then, many scholars, institutions, and media have offered various definitions of emerging markets. For instance, the IMF defines emerging markets as “the capital markets of developing countries that have liberalised their financial systems to promote capital flows with non-residents and are broadly accessible to foreign investors” (IMF, 2013). Different scholars and institutions have focused on different aspects of emerging markets in their definitions, and there is no commonly accepted one. In their book, Khanna and Palepu (2010) suggested three factors that distinguish emerging markets from developed world economies. Their growth potential is the first. Growth rates in emerging markets have usually outpaced developed world economies. Secondly, low capital market capitalisations relative to
GDP are common in many emerging market economies. Lastly, in terms of poverty, these markets can be characterised as low- or middle-income economies. In short, emerging markets are still “emerging” because they have not “emerged” yet (Khanna and Palepu, 2010).

Emerging market countries are not homogenous, and they are not all in the same geographic region. Equally, emerging market countries have different levels of progress in their economic and institutional development. It is hard to list a standard categorisation for emerging market countries. These differences may create problems not only in attempts to categorise emerging market countries according to their characteristics, but also in attempts to compare developed and emerging market world contexts.

Of the 64 emerging markets determined by Hoskisson et al. (2000), 51 of them were rapidly developing countries, whereas the remaining 13 countries were from transition markets. The most recognised grouping that refers to big four emerging market countries is the “BRIC” acronym. Jim O’Neill (2001), former chairman of Goldman Sachs Asset Management, developed the concept of “BRIC”, and the term is primarily used in the financial and economic environment. Later, he coined the term “MIST”, which refers to Mexico, Indonesia, South Korea and Turkey. These “MIST” countries were recognised as the most likely candidates to join the “BRIC” countries list. More recently, Hoskisson et al. (2013) offered a typology for emerging market countries in order to place them into groups according to their institutional and economic characteristics. By doing so, they intended to promote the notion that, like developed world countries, emerging market countries are not homogenous. According to their typology, the first group includes countries with low institutional development, and low infrastructure and factor development, such as the Philippines and Bangladesh. The second group consists of countries with low institutional development, and high infrastructure and factor development, such as Turkey, Russia, and Thailand; whereas the third group comprises countries with high institutional development and low infrastructure and factor development, such as Argentina,
Mexico, and Peru. These second- and third-group countries are named “mid-range economies” and considered hybrid cases between developed and emerging market countries (Hoskisson et al., 2013). In the final group, the authors place countries with high institutional development, and high infrastructure and factor development, such as China, Chile, and Malaysia.

2.5.2 Characteristics of Emerging Market Firms

Compared to their developed world counterparts, emerging market firms have certain distinctive features. These characteristics of emerging market firms imply that some of the assumptions made by current theories are less appropriate to the emerging market context. Firstly, many big firms in emerging markets are highly diversified in terms of their activities in several industries (Khanna and Palepu, 2010). For instance, the Economist emphasised the notion of highly diversified emerging market firms by examining India’s Tata group, which is active in everything from cars to chemicals and from hotels to steel (Economist, 2011). The analysis also shows that these firms are the most common business form in the emerging market environment, and that this practice is a distinctive characteristic of emerging market firms. For example, in Turkey about half of the firms in the Istanbul Stock Exchange belong to wider entities, and these firms operate more than 3-4 different industries (ISE report, 2010). They are not just conglomerates, but also large and medium firms as well. In particular, many large firms in most emerging market countries are members of “business groups” (Khanna and Palepu, 2000). These business groups in emerging market countries are typically controlled by founding families. I will provide more information about business groups in the next chapter.

Secondly, it has long been recognised in the literature that families usually keep their ownership and control the emerging market firms (Colpan and Hikino, 2010). These firms are often managed with a pyramidal structure, wherein a founding family holds
a majority stake in the firm and controls a cluster of subsidiaries through a chain of equity ties (Colpan et al., 2010). For instance, in their study Mellahi et al., (2013) characterise Turkish firms’ management structure as centralised, with reliance on short-term planning and very strong leadership combined with limited delegation.

Thirdly, there is a transparency problem in emerging markets, and these markets are thus less efficient (Xu and Meyer, 2012). The lack of transparency arises due a feature of firms, and especially of business groups, in which a family usually controls multiple business entities and their more complex organisational structures (Khanna and Palepu, 2000). As a result of inadequate transparency in these business groups, they move funds across business units within the group, regularly without satisfactory disclosure. Such transfers to related business units and the connected lack of accountability can be a source of inefficiency (Hoskisson et al., 2000).

Fourthly, studies have emphasised that network-based behaviours are common, and political relations are an important factor for emerging market business groups. Palepu and Khanna (2010) have argued that in transactional arenas in emerging markets, buyers and sellers are not easily or efficiently able to come together, which further leads to institutional voids. “Good connections with powerful political actors and institutions constitute a critical element of business success in emerging markets” (Sun et al., 2010, pp. 1161). Thus, scholars and practitioners have suggested that network-based activities and relational ties in emerging markets are common behaviours, used to create value (Batjargal, 2003; Li et al., 2008; Peng, 2004; Peng and Luo, 2000). These relational perspectives emphasise the social aspects of inter-firm connections in ineffective emerging market countries. Relationship-specific investments enable the construction of relational capabilities, thus enhancing performance (Luo et al., 2009). Scholars have also argued that the dimensions of these political relations may vary depending on the political structure within a specific country (Sun et al., 2012).
Fifthly, there is high risk and uncertainty in emerging market countries. This fact comes from the characteristic macroeconomic and political volatility of emerging markets (Guillen and Garcia-Canal, 2009). They also experience economic crises more frequently than developed world economies (Arrelano, 2008). Thus, it is tough for firms to predict the factors they need for strategic decisions, for instance political conditions, the outcome of legal proceedings, exchange rates, and economic conditions (Guillen, 2000). Thus, Multinational Enterprises (MNEs) that aim to invest in emerging market countries should consider the political, regulatory, and cultural conditions of emerging markets.

Lastly, emerging market firms have advantages in lowering costs of labour and manufacturing facilities, and benefit from high economies of scale from serving a large domestic market (Khanna and Yafeh, 2005).

2.5.3 Strategies in the Emerging Market Context

Researchers have mostly been interested in the case of China in their studies. Half of the emerging market studies published in top journals have covered China; this stream was followed by studies that focused on other Asian countries (e.g. Peng et al., 2001; Chang et al., 2009; Richardson et al., 2012), Central and Eastern European countries (e.g. Meyer, 2001; Meyer and Peng, 2005; Demirbag et al., 2007; Bertrand and Betschinger, 2011; Ozcan and Turunc, 2003), Middle Eastern countries (e.g. Mellahi et al., 2011), and African countries (e.g., Klein and Wocke, 2007). Studies that focused on the emerging market context examined these countries from various theoretical perspectives.

Firstly, a number of studies examined emerging market countries from agency theory perspectives. Agency theory researchers generally focus on investigating subjects of
corporate governance, especially in terms of the influence of ownership types and board structures on organisational strategies and firm performance (Hoskisson et al., 2000). For instance, in China, the main shareholders of the listed firms are state-owned enterprises (SOEs) or the state itself (Le and O’Brien, 2010), whereas in other emerging market countries the main organisational structure is family-owned businesses. These ownership structures influence firms’ corporate development strategies and their subsequent performance (Kim et al., 2008).

Secondly, some work in the emerging market literature has taken account of the transaction cost economics perspective. It states that the transaction costs of markets are high and hierarchical control forms boost efficiency (Hoskisson et al., 2000). Therefore, transaction cost theory-based studies examined the rational control choice between the transactions costs associated with the market mode and the control costs of hierarchy. These studies ranged from market entry modes to the effectiveness of controls and other governance modes (Luo, 2007). For instance, Peng and Heath (1996) contended that the growth of emerging market firms’ through internal development or with the help of M&A is challenging due to lack of property rights and an unstable political environment, which leads to high transaction costs.

Thirdly, emerging market scholars have addressed the resource-based view in their studies. The resource-based theory provides firms with a basis to explore valuable resources in order to sustain their competitive advantage (Penrose, 1959). In line with the theory, scholars have usually examined MNEs operating in emerging market countries, and analysed how resource advantages affect a firm’s cross-border strategy (Xu and Meyer, 2012). Firms that are able to manage their resources and capabilities can benefit from a competitive advantage in emerging markets. However, it is argued that gaining these advantages is complex and difficult for MNEs operating in emerging market countries. Local competitors may have already developed their relational capabilities, which also mean that these MNEs need to establish a good relationship with home governments in the emerging markets (Khanna and Palepu, 1999). Relational capabilities give firms some institutional advantages, such as
accessing licenses, winning tenders, and gaining tax exemptions. These relational capabilities count as a substitute for the lack of institutional infrastructure (Hoskisson et al., 2000). More recently, some papers have identified specific types of relational capabilities that boost performance, such as managerial political networking (Li and Zhang, 2007) and ties with service intermediaries (Zhang and Li, 2010). On the other hand, some scholars have considered the resource-based view in the context of MNEs from emerging economies operating in foreign countries. In line with this, some scholars (Gubbi et al., 2010; Lu et al., 2010) have analysed how M&A enable emerging market firms to acquire complementary resources abroad in order to overcome their competitive advantage.

Fourthly, some scholars have emphasised the role of learning perspectives for emerging market firms during the internalisation process. The main question considers the resource transfer between units of firms and the learning processes after the internalization process of emerging market firms. Moreover, scholars have examined in which emerging market firms learn from their networks and prior experience (Yiu et al., 2007). Adaptive capacity (Lu et al., 2010) and prior experiences (Yiu et al, 2007) influence the effectiveness of resource transfers for emerging market firms. The central research themes in these studies are the antecedents of firms and prior experience, learning processes, and governance structures. However, the impact of and interaction between antecedents, processes, and structures are likely to be determined by the context of the country in which a firm is operating (Xu and Meyer, 2012). Thus, examining these learning issues in the context of an emerging market country provides an interesting research topic (Xu and Meyer, 2012).
2.5.4 M&A Activities from Emerging Market Firms

Companies from emerging markets are employing M&A as their core growth strategy (Kumar, 2009; Khanna and Palepu, 2010). In particular, strategic management scholars have employed acquisition activities while explaining the internalisation processes of emerging market firms. Many emerging market multinational enterprises (EMMEs) use mergers or acquisitions activity in their expansions overseas. There has been a rapid growth in the use of cross-border mergers and acquisitions by emerging market firms and the total number of cross-border acquisitions has gradually grown from about 4% in 1987 to 20% in 2008 (Chattopadhyay et al., 2012). Some studies have found that many of the cross-border acquisitions by emerging market firms did not meet the expected outcome and did not create value. On the other hand, others have found that cross-border mergers and acquisitions create significant value for emerging market acquirers when the target is from the developed world.

Strategic management scholars have investigated emerging market firms’ use of cross-border mergers and acquisitions, how these firms manage the post-integration period, and how they capture synergies. Unlike in the developed world, where M&A is used to lower costs or direct growth, emerging market companies use M&A, especially cross-border M&A, for more strategic purposes, such as acquiring new technologies, brands, and growing in the long term (Kumar, 2009; Ghemawat and Hout, 2008). For instance, the Indian company Hindalco took over the developed market firm Novelis in order to acquire complementary competencies and develop their innovation capabilities (Kumar, 2009). When it acquired Godiva, the Turkish company Ulker sought capability development for its existing businesses, and to complement their existing strengths of large-volume production rather than just buying the company and creating value. In a traditional approach for developed world cases, after each M&A, top management attempts to identify synergies between resources, and reduce the head count in order to reduce the costs and increase margins. However, in the case of emerging market firms, the main aim behind cross-border M&A is to gain complementary resources when acquiring developed world
firms (Kumar, 2009). These firms seek to learn to deploy the resources and capabilities of the target firm. They can generate post-acquisition performance increases through changing to the low-cost resources and business processes in their home country (Kumar, Steenkamp, 2013). Also, emerging market firms use cross-border acquisitions to access distribution channels and to secure the supply chains of the acquired firm (Chattopadhyay et al., 2012).

At the initial stages, the post-acquisition integration process is slow. In many cases, the emerging market acquirer firm retains the brand of the target firm (Kumar and Steenkamp, 2013). If the acquired brand is strong and it has own brand image, and if it reaches a variety of customer segments, then the emerging market acquirer firm retains the acquired brand. Most developed world multinational acquirers, like Cisco, Unilever and Microsoft, seek to rapidly integrate the target firm in order to quickly realise synergies (Chattopadhyay et al., 2012). By contrast, emerging market multinationals take a different approach than developed world multinationals by keeping the target firm structurally separate, and tend to integrate the target firm slowly (e.g. Ulker’s acquisition of Godiva and Tata Tea’s acquisition of Tetley). Two benefits may arise from this approach: better understanding of the capabilities of the target firm and a sense of comfort for the target firm’s employees (Chattopadhyay et al., 2012).

Successful post-acquisition management requires the efficient combination of complementary resources of the acquirer and the target firms. When emerging market multinationals acquire overseas firms, they keep the top management team as well as the employees of the target firm (Kumar and Steenkamp, 2013; Chattopadhyay et al., 2012; Kumar, 2009). For instance, Hindalco kept all the top executives after the acquisition of Novelis (Kumar, 2009), Tata Motors did not “Indianise” Daewoo’s top management after their acquisition (Chattopadhyay et al., 2012), and Ulker kept Godiva’s top management, its headquarters and its brand name after the acquisition. These emerging market acquirers possessed vital industry brands and business know-how necessary for successful integrations. However, replacing these resources in the
foreign market may cause disagreement with major customers, suppliers, and other stakeholders (Chattopadhyay et al., 2012). This is because the pre-existing management team has already set up their network and external relationships with their stakeholders in order to establish and develop the firm’s competitiveness in the market. One of the reasons for retaining top management can be explained from the agency perspective, i.e. because emerging market countries’ firms generally lack managerial skills. Moreover, from the cultural perspective they may not be familiar with a multicultural organisational structure, which might be a problem for an emerging market firm’s management team, especially when the culture of the target firm differs greatly from the acquirer firms. Given this, the dynamic capabilities view of the firm suggests that in order to stay competitive across the border, these firms would prefer to employ the target’s resources to effectively benefit from the environment where they operate. In this respect, firms from emerging market areas, such as China, Russia, Turkey, and Brazil, should seek to lower the language barrier and create a more multicultural corporation when they acquire firms from outside their home country (Kumar and Steenkamp, 2013). The decision to take cross-border M&A may look good on paper, but it risks failing because of these cultural clashes.

To sum up, these issues between developed and emerging market firms have led to a new academic interest “in better understanding how managing in developing countries challenges existing ideas given the particularities of these countries” (Cuerva-Cazurra, 2012, pp.154). The first group of authors argue that these emerging market firms behave differently and require new theories to explain their management strategies and their behaviours (Guillen and Garcia-Canal, 2009). According to a second group, there is no difference between developed world firms and developing world firms, and emerging market firms’ behaviours can easily be explained with existing management theories (Rugman, 2010). A third approach contends that studying emerging market companies can help extend existing views and theories. Given that undertaking an acquisition is a complex issue and faces different challenges in the emerging market context, I will pay attention to examining how M&A capability evolves in an emerging market. My aim is to extend the dynamic capabilities view and the M&A
literature by empirically examining the post-acquisition performance variations of emerging market firms.

2.6 Summary

Throughout this chapter, I have attempted to review the theoretical and empirical studies on the contexts of M&A, dynamic capabilities, and emerging market. These three contexts are the main elements of my research subject. It can be seen from the discussions that there is mixed evidence about whether acquisition experiences lead to superior acquisition performance. Examining the phenomenon in an unexplored research setting might result in fruitful research and a better understanding of the role of acquisition experience in organisational learning. Furthermore, the above discussion showed that many acquisition failures can be attributed to the lack of required acquisition capability with regards to post-M&A strategies. It is therefore very important to analyse post-acquisition integration decisions to understand the performance implications.

In the next chapter, I will introduce the environmental setting of this study. First, I will present the overall profile and recent evolution of the Turkish economy. Then, I will present the corporate environment in Turkey, addressing in particular the role of business groups. Lastly, in an attempt to enrich the understanding of emerging market acquirers’ M&A strategies, I will deal with the analysis of Turkish acquisitions.
CHAPTER 3

Economic Background and M&A in Turkey
3.1 Introduction

In this thesis, I study Turkey as a particular case among emerging market countries. In this chapter, I will present the overall economic and corporate picture of Turkey. There is a growing literature on emerging markets’ economic backgrounds which largely focuses on the BRIC (Brazil, Russia, India, and China) economies. As an unexplored yet captivating national case, Turkey presents a fresh look at the development of the emerging market context. Therefore, I will give the key features of the general economic outlook, corporate governance system and M&A activities in Turkey. Firstly, I will briefly give some selected facts about Turkey’s economy during the last decade as well as examine its stock market development (Section 3.2). In the following section (Section 3.3), I will give a brief review of the corporate governance landscape in Turkey. Then, I will discuss the main characteristics of acquisitions in Turkey over the study period, in which I will assemble available evidence on the post-acquisition strategies of these business groups in both domestic and cross-border acquisitions, and discuss the major factors driving the process with the examples from this study’s dataset (Section 3.4).

3.2 A Brief Review of the Turkish Economy

GDP Growth

The Turkish economy faced its most disastrous financial crisis in the beginning of 2000s. The political conflict had a destructive and devastating impact upon it. Then the Turkish economy started to recover, and it has shown a successful trend over the last decade, whilst European economies and the US struggled to achieve continuous GDP growth. During the last decade, Turkey’s emerging market economy grew rapidly, and it underwent a dynamic expansion of the private sector (Gonenc and Rawdanowicz, 2010). According to the World Bank Group, Figure 3.1 shows that the GDP in Turkey was worth $196 billion in 2001, following the 2001 financial crisis. Afterwards, Turkey’s GDP increased continuously until the 2009 global financial
crisis hit Turkey. Turkey’s GDP decreased by about 5%, in sharp contrast to the average 6% annual growth rate during the 2004-08 period (Figure 3.1). Following the 2009 global financial crisis, thanks to Turkey’s well-regulated financial markets and banking system, GDP rebounded strongly to a 9.2% annual growth rate in 2010 followed by an 8.8% increase in 2011, which was above the average of emerging market countries’ GDP annual growth rates (World Bank, 2013). According to the OECD report, that the Turkish economy grew with an average annual GDP growth rate of 5% throughout the last decade (Ispat, 2012), as shown by Figure 3.2.

Figure 3.1: Turkey Gross Domestic Product (GDP) 2002-13

![Turkey GDP Chart](source: tradingeconomics.com website / World Bank Group)

Substantial recent developments have caused Turkey to be considered an important emerging market country on the global economic scale. According to 2012 economic figures (OECD, 2013), Turkey’s GDP reached to $786 billion, making Turkey the 16th largest economy in the world. In addition, it was the 6th largest European economy in 2012.

This is what led Jim O’Neill, the aforementioned former chairman of Goldman Sachs Asset Management who coined the abbreviation “BRIC” to indicate the big emerging economies of Brazil, Russia, India and China, to include Turkey in his “MIST”
acronym alongside Mexico, Indonesia and South Korea as a second row of big growing economies,

\[\text{Figure 3.2: Average Annual Real GDP Growth (\%) 2002-12}\]

Source: OECD, Eurostat and national sources in ‘invest.gov.tr’

**Sector Breakdown**

In terms of sector breakdown, the Turkish economy is characterised as having a strong manufacturing sector, but this particular sector is not as strong as those which exist in countries such as China and Germany. During the last decade, however, Turkey has experienced a slight shift from an industrial to a service economy; this increasing contribution of the service industry can also be observed in BRIC economies (Ararat et al., 2011). According to World Bank data (2013), most of Turkey’s GDP comes from services (corresponding to the International Standard Industrial Classification (ISIC) divisions 50-99) with 61.7%; whereas industry (corresponding to ISIC divisions 50-99, including manufacturing) was 29.3% for 2012 (Figure 3.3). Agricultural production, in turn, decreased to 9% in the economic portfolio. Rather than developing technology, growth in Turkey has been driven largely by the manufacturing and heavy industrial sectors (Ernst & Young Turkey Attractiveness Survey, 2013).
Trade Liberalisation

Importantly, the Turkish economy took a significant step towards economic liberalisation in January 1980 when it announced a radical policy package. These fundamental policies helped Turkey to create a more export-oriented economy and made the country competitive within world markets (Ozmucur, 2007). During the post-1980 period, Turkey made long-lasting changes in the fundamental structure of its economy (Ozcan and Turunc, 2011). For instance, liberalisation policies helped the Turkish economy to decrease its inflation rate from over 100% in 1980 to just below 30% in 1983. Furthermore, the programme was successful in attaining a more outward-oriented and market-based economic system (Ozcan and Turunc, 2011).

Improvements to the country’s import licensing system during the early 1990s, and supplementary agreements with the World Trade Organisation (WTO) in 1994, have made salient contributions to the country’s trade liberalisation process (Kar et al., 2008). In an empirical study, Kar et al. (2008) tested the impact of trade liberalisation and financial development on Turkish economic growth and found that trade liberalisation and financial development positively contributes to economic growth in Turkey for the period 1963-2005.
Stock Market Background

Stock markets are the main elements of financial systems, enabling firms to raise capital and implement organisational actions and changes at a fraction of the cost (Solakoglu and Orhan, 2007). Therefore, the stock market plays a pivotal role in the growth of the economy and is an important foundation for firms to raise capital for future investments (Levine, 1991). Also, according to Levine and Zervos (1996), there is a positive relationship between stock market development and economic growth.

One of the most noteworthy reforms in Turkey was the emergence of the Borsa Istanbul (BIST) (formerly Istanbul Stock Exchange) in 1986. BIST has grown rapidly in parallel with the economic recovery from 2001 crisis (Bayar et al., 2014). Figures for the Turkish stock market show that the number of publicly traded firms in BIST increased to 417 in 2013 from 20 in 1986 (BIST, 2013). Additionally, the market capitalisation in BIST increased to $322 billion in 2013 from $24 billion in 1986 (BIST, 2013). Total market capitalisation of listed firms on the BIST represented 26% of GDP at the end of 2011 (OECD, 2013). In a study that examined the role of capital market in Turkey, Bayar et al. (2014) found that there was a positive relationship between stock market development and economic growth in Turkey. Therefore, policies for advancing the BIST will also contribute to the economic development of Turkish economy.

Despite its relative success, the Turkish stock market displays the characteristic of an infant market, as this is also a case in many emerging market economies. The role of stock markets in capital allocation is rather limited, publicly traded firms’ shares represent a relatively small portion of the industrial base, there is a weak geographical penetration, and primary and secondary markets lack institutional investors in Turkey (Gonenc and Aybar, 2006). Many firms in Turkish stock market exhibit highly concentrated ownership structure, as the majority of the larger firms operate in the form of business groups and these groups generally owns a bank, which enable them or their affiliated firms to reach necessary capital through these linkages. Therefore, “an active market for corporate control or monitoring shares does not exist given the limited openness and concentrated ownership of traded companies” (Ozcan and Cokgezen, 2003, pp. 2066). The adaptation of EU-related economic reforms has been
continuing in Turkey and EU membership will contribute to corporate environment and supports Turkey’s economic development process. Regarding these issues, the Turkish stock market provides opportunities and is interesting to analyse.

Other Indicators

The size of the population of Turkey was close to 75 million in 2012, and is projected to reach 84 million by 2025. Unlike other countries in the Europe region, Turkey has a young population; the proportion of the population under the age of 24 is 44%, which might be a important contributor to the economic growth (Ararat et al., 2011). However, in a special report on Turkey, the Economist emphasised that unemployment in Turkey is distressingly high, especially among the young and women (The Economist, 2010). According to the Turkish Statistical Institute (TUIK)’s data, the unemployment rate, a key indicator of sustainability in economic growth, has averaged around 10.5% during the last decade (TUIK, 2013).

Although today’s inflation rate of 9% is a problem for the Turkish economy, Turkey is experiencing the lowest inflation rate in 41 years. For many years, Turks had to struggle with two and even three-digit inflation rates, peaking at 138% in 1980, followed by 130% in 1995. On the other hand, according to the Economist, the current-account deficit is more worrying and a source of vulnerability (The Economist, 2013; Ararat et al., 2011). The 2011 figure for the deficit in Turkey was $77.2 billion, whereas the deficit narrowed to $49.5 billion in 2012, but surged back to $65 billion in 2013. (Central Bank of the Republic of Turkey, 2013). Turkey has been facing ups and downs with its account deficit due to dependence on short-term foreign capital inflows (The Economist, 2013).

In short, Turkey is a functioning market economy and “Turkey matters today in a way that few would have thought possible a decade ago” (The Economist, 2010). In addition, the EU accession process still remains a vital anchor for the Turkish
economy, which expectedly contributes to the economy by developing corporate standards and increasing export opportunities (Ararat and Suel, 2014). According to Ali Babacan, Deputy Prime Minister of Turkey, optimism for economic development is high due to the growth in the European Union, since the EU is Turkey’s primary partner for the exports (Hurriyet Daily News, 2012). In order for Turkey to successfully complete negotiations with the EU and to gain full membership, Turkey has to conclude 35 chapters. Since 2005, Turkey has started negotiations with the EU on 13 policy chapters, but none have been opened in the past four years due to disagreements on political issues, such as Cyprus, and blockages by France and Germany.

3.3 Corporate Governance in Turkey

The legal tradition in Turkey originates from French civil law, and the corporate governance standards rest primarily upon codified laws and their enforcement (OECD, 2013). The Capital Markets Board of Turkey (CMBT) is the main financial regulatory and supervisory agency of Turkey. From the Turkish Republic’s establishment until relatively recently, the state played a dominant role in Turkey’s economic development by acting as a significant producer or by subsidising private enterprises (OECD, 2006). Beginning in the 1980s, a trend toward liberalisation programmes started to expose Turkish firms to global competition, while some of them attracted foreign investment into the country. As mentioned in the previous section, following the establishment of a liberalisation framework in 1980, the stock exchange of Turkey opened in 1985 and activated in 1986.

Economic conditions were difficult for publicly held companies until the Turkish stock exchange opened, but the situation has changed dramatically in the last decade. Inflation usually exceeded 60% each year, and there were high levels of government borrowing, these issues also increased the high nominal corporate tax rates and de-
capitalised the companies. It was suggested by the OECD (2006, 2013) reports that an era of macro-economic instability occurred as the lack of a rule-based macro-economic policy framework likely undermined the government’s credibility in setting and enforcing corporate governance standards. Then, after the 2001 crisis in Turkey, the corporate governance framework started to function effectively and the CMBT began to play a leading role in setting corporate governance standards for publicly held firms by effectively exercising its supervisory power (Ararat et al., 2011). After responding to the economic crisis of 2001, the business environment has improved significantly, thanks to changes in the effectiveness of regulatory authorities, disclosure and transparency rules that have begun to apply to firms, and the enforcement of laws (Guelen, 2011). The CMBT, ISE, and the central bank of the Republic of Turkey have played important roles in this recovery (OECD, 2013). As a consequence of the improvements, in 2004, the European Commission recommended that the Turkey’s accession negotiations to European Union (EU) could commence. Most recently, a comprehensive modernisation of the Turkish Commercial Code (new TCC) and the Capital Market Law (new CML) have come into effect, aimed at developing the corporate governance system in Turkey. The new TCC mainly covers equality, accountability, and transparency issues.

There is extensive research on the relationship between corporate governance practices and macroeconomic performance. Considering the practices in Turkey, Ararat and Ugur (2006) examined the two different scenarios, namely the macroeconomic situation in Turkey before the 2001 crisis and the phases of improvement of the Turkish economy after the 2001 crisis. They asserted that the rule-based economic policy following the 2001 crisis had a substantial effect on economic performance, leading to the development of Turkey’s corporate governance landscape (Ararat and Ugur, 2006).
3.3.1 The Corporate Environment

The Turkish corporate sector is characterised by family-controlled, complex financial-industrial business groups (OECD, 2013). Many firms in the BIST could be considered business groups, listed as either subsidiaries of a business group or as business groups themselves. These emerging market firms are multi-industrial, with a single family usually controlling them. Although the BIST is dominated by the business groups and their subsidiaries, there are a few state-owned enterprises, and some small and medium-sized enterprises (SMEs), especially the “Anatolian Tigers” (others call the same phenomenon “green capital” or “Islamic capital” (Demir et al., 2004)), which have been more active in the Turkish economy during the post-2001 period, when the Muslim middle class took the centre point in Turkish politics. “These new middle classes are engaged in promoting Islam as a strategic resource in the class politics of Turkey and seek protection from the negative effects of market capitalism” (Ozcan and Turunc, 2011, pp. 82).

More importantly, business groups in Turkey are the main players of the corporate governance structure. Therefore by taking account of the Turkish listed firms, I will also examine these business groups’ behaviours at the firm level. The comprehensive picture of the business groups in Turkey used in this study is presented in Table 3.1, compiled from Colpan (2010) and companies’ websites.

Out of the 34 economic institutions on the list, 32 of them are family-based diversified groups. Of the remaining 2, “Turkiye IS” is the Turkey’s first public bank and 41.5% of its total shares are held by its own private pension fund, and 28.1% are held by Republican People’s Party, and remaining shares are open to the public. “Oyak” is the biggest privately-owned pension fund and belongs to the Turkish Armed Forces Assistance fund. As shown in Table 3.1, business groups in Turkey in general are highly diversified in terms of 2-digit SIC code categorisation. Similarly,
after an analysis of the fifty largest groups in Turkey, Colpan et al. (2010) ended up with the same conclusion and reported that Turkish business groups function in a variety of industries with the peak being in twelve industries.

A closer look at the business groups in Turkey reveals that these groups can be placed into two categories in terms of their formation and size. The first group of this categorisation includes the leading economic players in Turkey, founded in the mid-twentieth century. The groups in this category have their own settled organisational structures and were usually founded by a single entrepreneur, and maintain their family ties in the top management of the group. Sabanci, Koc, Yildiz, Cukurova, Anadolu, Dogus, and Dogan are some examples of this category. For instance, the Koc group is active in finance, automotive, consumer durables, transportation, communication and other different sectors. Koc creates a differential competitive advantage in its operating sector. They are the 3rd in fuel distribution in Turkey with 17% market share, they own 52% of Turkey’s total automotive production, are the biggest household appliance company, and so on (Kap, 2013). Another category of business groups in Turkey represents a new breed of businesses amidst the rising prominence of the Turkish economy called “Anatolian Tigers”. An entrepreneurial mind-set and the pursuit of wealth form the core principals of these small and medium-sized groups in Turkey (Ozcan and Turunc, 2011). Characteristically these groups are more conservative and redefine the allocations of markets in Turkey while they seek opportunities for their subsidiaries at home and in cross-border markets (Ozcan and Turunc, 2011). These rising Anatolian entrepreneurs are very active members of the Turkish economy and help to stimulate urban growth and industrialisation in Anatolia (Ozcan and Turunc, 2011)\textsuperscript{11}. Thus, these groups illustrate catch-up behaviour in terms of the extent of industrial diversification through acquisitions. Boydak, Sancak, Ihlas, Kibar, and Eti can also be named in this category, and they pursue opportunistic entrepreneurship to industrially diversify domestically or across-border

\textsuperscript{11} For more information about Islamic business groups, please refer to Ozcan and Turunc’s (2011) paper.
<table>
<thead>
<tr>
<th>GROUP NAME</th>
<th>YEAR OF FOUNDATION</th>
<th>CONTROLLING OWNERSHIP</th>
<th>MAJOR BUSINESS UNITS</th>
<th>LISTED SUBSIDIARIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anadolu</td>
<td>1949</td>
<td>Yazici and Ozilhan families</td>
<td>Beverage, finance, automotive, energy, health, retail,</td>
<td>5</td>
</tr>
<tr>
<td>Acibadem</td>
<td>1991</td>
<td>Aydinalar family</td>
<td>Healthcare, insurance</td>
<td>1</td>
</tr>
<tr>
<td>Akfen</td>
<td>1967</td>
<td>Akin family</td>
<td>Construction, transportation, real estate, energy</td>
<td>2</td>
</tr>
<tr>
<td>Akkok</td>
<td>1952</td>
<td>Dinckok family</td>
<td>Chemicals, energy, real estate, textiles, port operations, services</td>
<td>2</td>
</tr>
<tr>
<td>Alarko</td>
<td>1954</td>
<td>Alaton and Garih family</td>
<td>Energy, industrials, tourism, real estate, food</td>
<td>2</td>
</tr>
<tr>
<td>Anel</td>
<td>1986</td>
<td>Celikel family</td>
<td>Energy, construction, telecommunication</td>
<td>2</td>
</tr>
<tr>
<td>Banvit</td>
<td>1968</td>
<td>Gorener family</td>
<td>Chicken and turkey products, and animal feed</td>
<td>1</td>
</tr>
<tr>
<td>Borusan</td>
<td>1944</td>
<td>Kocabiyik family</td>
<td>Energy, logistics, steel pipe manufacturer</td>
<td>2</td>
</tr>
<tr>
<td>Celebi</td>
<td>1958</td>
<td>Celebioglu family</td>
<td>Handling services, cargo services</td>
<td>1</td>
</tr>
<tr>
<td>Ceylan</td>
<td>1965</td>
<td>Ceylan family</td>
<td>Construction, energy, trade, tourism</td>
<td>1</td>
</tr>
<tr>
<td>Ciner</td>
<td>1978</td>
<td>Ciner family</td>
<td>Energy and mining, media, industrial services</td>
<td>4</td>
</tr>
<tr>
<td>Cukurova</td>
<td>1923</td>
<td>Karamehmet family</td>
<td>Industry, construction, communication and information, media, financial services</td>
<td>1</td>
</tr>
<tr>
<td>Dogan</td>
<td>1950</td>
<td>Dogan family</td>
<td>Media, energy, retail, financial services, tourism, industrials</td>
<td>9</td>
</tr>
<tr>
<td>Dogus</td>
<td>1951</td>
<td>Sahenk family</td>
<td>Banking and financial services, automotive, construction, media, food, real estate</td>
<td>5</td>
</tr>
<tr>
<td>Eczacibasi</td>
<td>1942</td>
<td>Eczacibasi family</td>
<td>Healthcare, IT, financial services</td>
<td>4</td>
</tr>
<tr>
<td>Energiya</td>
<td>2000</td>
<td>Sabanci and Kamisli families</td>
<td>Aviation, food, healthcare, retail, real estate</td>
<td>1</td>
</tr>
<tr>
<td>Fiba</td>
<td>1987</td>
<td>Ozegcos family</td>
<td>Banking, financial services, aviation, real estate, energy</td>
<td>3</td>
</tr>
<tr>
<td>Global</td>
<td>2004</td>
<td>Kutman family</td>
<td>Port operations, infrastructure, real estate, energy, financial services</td>
<td>4</td>
</tr>
<tr>
<td>Hedef Alliance</td>
<td>1987</td>
<td>Sancak family (formerly)</td>
<td>Healthcare, beauty services</td>
<td>1</td>
</tr>
<tr>
<td>Ilbas</td>
<td>1970</td>
<td>Oren family</td>
<td>Media, construction, tourism, manufacturing, healthcare, services</td>
<td>5</td>
</tr>
<tr>
<td>Is Bankasi</td>
<td>1924</td>
<td>Is Bank employees fund, Republican People’s Party</td>
<td>Banking, financial services, retail estate</td>
<td>11</td>
</tr>
<tr>
<td>Iskollar</td>
<td>1964</td>
<td>Isk family</td>
<td>Energy, construction, real estate, automotive, manufacturing</td>
<td>1</td>
</tr>
<tr>
<td>Kazanci</td>
<td>1950</td>
<td>Kazanci family</td>
<td>Energy, agriculture, tourism, manufacturing, services</td>
<td>1</td>
</tr>
<tr>
<td>Koc</td>
<td>1926</td>
<td>Koc family</td>
<td>Automotive, consumer durables, energy, banking, financial services, retail</td>
<td>13</td>
</tr>
<tr>
<td>Koza Ipek</td>
<td>1948</td>
<td>Ipek family</td>
<td>Mining, publishing, media, energy, tourism, construction</td>
<td>2</td>
</tr>
<tr>
<td>Nuh</td>
<td>1971</td>
<td>Nuhoglu family</td>
<td>Construction, chemical, insulation, machinery, energy, telecommunication</td>
<td>1</td>
</tr>
<tr>
<td>Ovak</td>
<td>1961</td>
<td>Armed forces pension fund</td>
<td>Industrials, cement, energy, construction, automotive, financial services</td>
<td>7</td>
</tr>
<tr>
<td>Sabanci</td>
<td>1932</td>
<td>Sabanci family</td>
<td>Banking, energy, cement, retail, industrials, financial services</td>
<td>12</td>
</tr>
<tr>
<td>Sinpas</td>
<td>1974</td>
<td>Celik family</td>
<td>Real estate, construction, manufacturing</td>
<td>1</td>
</tr>
<tr>
<td>TAV</td>
<td>1997</td>
<td>Aklen and Tepe groups</td>
<td>Handling services, transportation, construction</td>
<td>1</td>
</tr>
<tr>
<td>Yıldız</td>
<td>1944</td>
<td>Ulker family</td>
<td>Food, financial services, packaging, real estate, retail, IT, personal care products</td>
<td>7</td>
</tr>
<tr>
<td>Zorlu</td>
<td>1953</td>
<td>Zorlu family</td>
<td>Textiles, electronics, real estate, energy</td>
<td>4</td>
</tr>
</tbody>
</table>

**Source:** Colpan (2010) and companies’ websites

*Only business groups that were included in my dataset are presented in this table. Additional information gathered from companies’ official websites.*
3.3.2 Ownership Structure and Control

The rise of diversified business groups in emerging markets has captured the interest of academics and policy-makers. The characteristics of emerging market business groups and their legally independent subsidiaries are being examined from different angles in management literature.

Business groups are the dominant organisation structure in emerging markets. In general, a business group is an agglomeration of legally independent firms that operate in multiple industries and are bound by economic (such as ownership, financial, and commercial) and social (such as family, friendship) ties (Khanna and Yafeh, 2007; Yiu et al., 2005). Similarly, in the case of the Turkish corporate sector, business groups are the major players of the large enterprise economy of Turkey. Even these groups are constituted of legally independent firms in terms of management approaches; a pyramidal formation is common in these business groups in emerging markets and there is a high degree of cross-ownership (Colpan and Hikino, 2010). Also, in Turkey’s case, this pyramidal formation allows controlling shareholders, usually family members, to function at the top of the hierarchical structure to make strategic decisions about subsidiaries of the group. The founding family members essentially control the entire subsidiaries of the groups through various institutional arrangements for several generations (OECD, 2006). Controlling shareholders, usually families, often utilise control-enhancing mechanisms through multiple voting rights that allow them to continue their majority of management rights within the group (OECD, 2013).

In most cases the functioning of the group’s board still predominantly follows the voice of the founding family member because the family controls the majority stake of the subsidiary firm, thanks to the above 50% controlling stakes of family members on the board (Colpan, 2011). As for the management structure, rather than a formal
board member of a subsidiary, it was an unofficial family committee that made the strategies and decisions for the subsidiaries of the group. Remarkably, Colpan’s (2010) interviews pointed out that in most cases, the functioning of the board of the business group and its subsidiaries predominantly followed the voice of the founding family. The board chairs behave like an “invisible CEO” for the entire group, and the CEO of a group functions as a formal professional representative to the family (Colpan et al., 2010, pp. 520).

Group subsidiaries are almost entirely managed by boards comprising members of the same families. Additionally, interlocking executives are used to achieve significant control over Koc’s subsidiaries. Colpan et al. (2010) also revealed the organisational structure of Koc, where the family members established a pure holding firm, also called cross-shareholdings (Boyd and Hoskisson, 2010), as a legally independent entity to own and control operating units as subsidiaries. For instance, controlling shares of Koc’s publicly listed subsidiaries, such as Beko and Arcelik, are held by the parent holding firm, and family members and other interlocked executives coordinate and manage the activities of those subsidiaries in order to maximise operational efficiency and avoid managerial conflicts within the group. Sabanci, Dogus, and Yildiz are other examples of this management structure. Thus, this collaborative coordination between groups’ subsidiaries allows them to interact with and learn from each other through the direct influence of family members on subsidiaries’ operations and strategies.

Koc’s case also demonstrates that the managerial similarity between individual subsidiaries of the group leads to collaborative coordination in the operations of individual subsidiaries. Experience in managing a variety of industries is likely to lead to the development of generalisability and adoptive skills by these groups (Chattopadhyay et al., 2012). Once individual subsidiaries of the group have practiced a corporate activity, other individual subsidiaries of the group could then apply the same procedures or learn from the mistakes for their own benefit, thus further enhancing the management capability of the group (Khanna and Palepu, 2010). This
mechanism of learning from each other and increasing effectiveness in various strategic and operational choices that group subsidiaries can implement in their subsequent activities is a unique and key element of business groups in the dynamic environment of emerging markets.

3.3.3 Entrepreneurial Approaches in Turkey

The world is full of opportunities to employ the resources of others (Mathews, 2006). Madhok and Keyhani (2012) have argued that the focus of firms in emerging markets shifts away from exploitation and toward a bolder process of exploration, where the resources of others can be tapped in the search for a more robust and rent-bearing basis for competitive advantage. It is this forward-looking perspective that is embodied in the concept of opportunity in the entrepreneurship literature (Shane and Venkataraman, 2000), and is common sense for business groups in emerging markets, ones seeking opportunities to enlarge their activities in various industries. Business groups are also investigated from the resource-based perspective, namely that throughout related and unrelated diversification strategies business groups add value to subsidiary firms by pooling and distributing endowed resources (Guillen, 2000; Chang and Hong, 2000). While finding support for diversification strategies from the resource-based perspective, the strategic management literature has not clearly explored the role of acquisitions for these business groups, or has only studied Chinese firms in regards to state owned enterprises.

The economic developments mentioned in the previous section can also be explained by the great entrepreneurial spirit of Turkish firms (Gonenc and Rawdanowicz, 2010), in that these business groups are pursuing entrepreneurial forms of behaviour in emerging markets, and aiming at industrial diversification through repeated acquisition activities. In general, these family-owned business groups are each active in many industries, functioning under some type of integrated entrepreneurial
guidance, and fall short of constituting a fully integrated institutional structure (Guillen, 2000). These diversified businesses are structurally different to the conglomerates in developed economies (Guillen, 2000) as they grow not in search of financial or economic development but as a result of their ability to seek new opportunities and expand their operations through corporate activities across a variety of industries quickly and at low cost. This entrepreneurial pattern is a striking characteristic of business groups in emerging markets as well as in Turkey.

The entrepreneurial process is described as pursuing opportunities in a rapidly changing environment in order to create and manage resources appropriately (Baker and Nelson, 2005). In this context, industrial diversification is one key domain of strategic entrepreneurship, a field that combines entrepreneurship, more specifically in opportunity-seeking behaviour, with strategic management that seeks new business areas or develops existing ones through acquisitions followed by reconfiguring newly acquired resources effectively. Building on this, diversified business groups in emerging markets are a distinct case that explicitly brings strategic expansion activities into the heart of strategic entrepreneurship, aiming to exploit and develop others’ resources.

Prevailing strategic management theories suggest that firms should explore their key skills to stay competitive within the environment where they operate (Szulanski, 1996). For instance, industrial diversification can be beneficial to stockholders if a firm has key resources that can be successfully and profitably organised outside the main industry in which it functions (Khanna and Yafeh, 2007). On the other hand, according to agency theorists, diversification can destroy shareholder value due to managerial self-interest (e.g. Rajan et al., 2000). This notwithstanding, entrepreneurial skill is the main driver of this diversification in emerging markets. Predominantly, economists suggest that in the absence of market perfection, it may be possible to lower the risk through expanding activities into new industries (Khanna and Palepu, 2010). Thus, diversified emerging market business groups exist where the corporate governance mechanism does not work well, or is not allowed to work, by
institutionalising an alternative allocation mechanism (Khanna and Yafeh, 2007; Young et al., 2008). It can be said that this argument for the existence of these business groups might be true for Turkey. Despite the recent improvements in corporate governance in Turkey, it is still considered to be underdeveloped according to the most recent OECD report (OECD, 2013).

Another factor that could be stimulating the entrepreneurial spirit in Turkey is the economic and political uncertainty. Emerging market countries tend to experience more political and economic uncertainties than developed countries (Cuadra and Sapriza, 2008). Governments in emerging markets can be less stable politically, and events such as internal tensions, especially during election periods and external conflicts between neighbours, can create a difficult environment for firms in emerging markets (Wright et al., 2005). Industrially diversified emerging market firms may respond to this political and economic instability by distributing risk across their markets (Hoskisson et al., 2000). More recently, according to the Thomson Reuters data, even as the lira slid 17% against the US dollar in 2013, interest in Turkish firms stayed strong and M&A activities increased (Retuters, 2014). W. Jackson, an emerging market economist from Capital Economics, noted that corporate Turkey had handled lira depreciation in 2008 that was even sharper than that of 2013 (Reuters, 2014). Thus, firms in emerging markets are also learning from their unstable environment how to handle hard times and develop strategies according to its dynamic situation.

Furthermore, given the importance for them of being active in a variety of industries, close relations with the government and society are an important factor for the growth of business groups in emerging markets. As is also happening in Turkey’s case, the government encourages the development of many big firms through various economic incentives and sometimes directly pushes groups to operate in new sectors (Khanna and Yafeh, 2007; Colpan et al., 2010). In some cases, beyond a range of economic incentive reforms, development of an existing business or industrial diversification through acquisitions can be achieved through a government’s direct
recommendations, or enticements. Privatisations and contracts are the main instruments for these relational behaviours (Khanna and Yafeh, 2007). Consistent with these arguments, personal networking with politicians and bureaucrats is vital, and insider information in regards to policy agendas plays a critical role in making the right decisions and maximising business opportunities in emerging markets (Colpan et al., 2010). Motivations for these relations between business groups and the government can vary, including nationalism, government-led improvement, and political concerns; it is also always hard to identify the reasons behind these relations, and so this subject is beyond the scope of this study. In short, one of the most important factors for these business groups in Turkey in order to stay competitive and profitable is to have good relations with the government.

3.4 M&A in Turkey

Up until the last decade, M&A activities in Turkey were scarce and Turkish firms did not have any noteworthy experiences with acquisitions. The undeniable effect of globalisation, as well as the monetary, fiscal and financial reforms which were implemented after 2001 as a result of the two major financial crises which Turkey had to survive (i.e. those which occurred in November 2000 and February 2001) made the Turkish economy more robust. These factors have helped build international confidence in the Turkish economy. Thus, in the period after the financial crisis of 2001, M&A became a more popular strategic instrument in Turkey.

According to the Deloitte report (2011), thanks to Turkey’s strong growth performance and healthy financial system during the last decade, the Turkish domestic M&A market remained very strong. More importantly, considering the last decade, strong economic performance in Turkey has led domestic firms to grow and expand their activities internationally through cross-border acquisitions.
Additionally, one of the main factors behind the increase in the number of M&A was the process of privatisation which the country underwent. As a result of the economic liberalisation reforms, state-owned firms were privatised and the purchasing power of Turkish firms increased. In turn, Turkish M&A activities were strengthened (Oelger and Schiereck, 2011). In particular, privatisation programmes were more active in the energy and banking sectors. Usually, big business groups won the auctions. These groups employ domestic acquisitions as a way of developing their existing businesses or expanding into new markets.

Certainly, most of the acquisition activities in the last decade have been carried out by these industrially diversified business groups, and they play a significant role in Turkey’s economic growth. In fact, the majority of the firms in my dataset either operate as subsidiaries to business groups or as business groups themselves. The Turkish M&A market has been an active player in the global economy since the financial crisis in the beginning of the 21st century. However, a major challenge for business groups in emerging markets is successfully managing the post-acquisition integration to reach their acquisition goals, as high failure rates of acquisitions are common.

This decade, we can observe that the acquisitions of business groups have increased in their domestic markets, and successful emerging market groups are no longer familiarised with low-cost manufacturing features, but they have started to compete with multinational western or US firms on level terms (Khanna and Palepu, 2010). Therefore, these family-run groups are expanding their activities internationally and effective management has become more important for the groups to be global companies. Interestingly, the received literature suggests that these emerging market firms are using different post-acquisition strategies in their cross-border and domestic acquisitions. But how do they really perform in the post-M&A process of cross-border and domestic deals?
The M&A execution of firms in Turkey can be unique precisely because it is not industry-specific, and they are capable of executing appropriate strategies for the post-acquisition process among a variety of different industry practices. This is in line with Guillen’s (2000) argument that repeatedly entering and operating in a variety of industries gives these business groups a special learning capability as a whole. The combination of prior domestic and cross-border acquisition experiences within different industries can also strengthen the effect of this learning capability for the business groups in emerging markets, and this capability may facilitate carrying out more successful and effective post-acquisition integration in the focal acquisition. The main reason for this interaction might be the cross-shareholding ownership structure and informal ties, mentioned above, that affect the members of group subsidiaries in their strategic and operational decisions. Also, it might be the heterogeneity of acquisitions that leads to development of acquisition capability for business groups in emerging markets. Therefore, governmental ties, lack of corporate governance, and opportunity-driven entrepreneurial behaviours of these emerging market firms can be the important factors in the development of acquisition capability via expanding activities across industries (Chacar and Vissa, 2005).

3.4.1 Cross-border Acquisition Strategies

In a report in FT, Oakley (2011) stated that there comes a point when organic expansions begin to slow and emerging market groups have moved to the next level where they have to become more acquisitive, and sooner or later have to expand overseas. Lately, as we are witnessing, those on the business frontiers from emerging markets opt to acquire developed world brands and take steps to compete globally (Peng, 2012). The Yildiz group from Turkey is a telling story for cross-border post-acquisition implementation of emerging market business groups. Recently, especially in 2007-2011, the Yildiz group was very active in terms of M&A transactions. They pursued an inorganic growth strategy through acquisitions to gain market leadership, expand their segments, and to develop their capabilities with cross-border acquisitions to grow both internally and globally, and achieve a sustainable competitive position.
The Yildiz holding’s acquisition of Godiva is a good case for analysing the cross-border strategies of business groups. Instead of assimilating Godiva and replacing its resources after the acquisition, Ulker pursued a softer approach so as to be able to manage it effectively. Their intention was not to replace the top management team of Godiva with their own executives, which would be consistent with the “market for corporate control” view widely accepted in the US, where firms supposedly create value by replacing inefficient managers (Chattopadhyay et al., 2012), or replacing human resources, or the Godiva name. Instead, they retained almost all of the top management team; in addition, Ulker gave them freedom and autonomy in their operations and treated them like a partner. Jim Goldman, CEO of Godiva, stated to HBR (Kale et al., 2009, p.111) that “one of the best things Ulker did after the takeover was to make it clear that they believed in Godiva’s management. They wouldn’t have bought Godiva if they hadn’t liked what they saw in my team and our strategies. That created a foundation of trust and respect, which is critical for post-merger success”.

Apart from growth and entry into new markets, the main rationale behind this post-acquisition approach was to seek unique capabilities by getting access to Godiva’s managerial and technological know-how (Chattopadhyay et al., 2012). Keeping the Godiva brand name and headquarters could be considered from the same direction. As Godiva already had a strong cachet with existing customers, replacing the name would make the process harder for Yildiz. According to an HBR study by Kale et al. (2009, pp. 111), CEO of Godiva Jim Goldman also added that “Ulker thinks globally and is pushing us to think more globally. Mr Murat Ulker, the chairman of the Yildiz group, wants a return on their investment, but he’s not looking for that to happen in an unreasonable time period. They have a burning desire to grow Godiva in a quality way. That’s it. And then, Ulker knows, the returns will come”.

Moreover, Koc, the largest diversified business group in Turkey, achieved an average annual growth rate of 20% in revenues and 27% in operating profit between 2002 and
2012 (Kap, 2013). Koc is an active player in M&A in Turkey and has leading positions in energy, automotive, consumer durables, and finance sectors. Arcelik is the main firm of the Koc group in the consumer durables sector and represents a Turkish group’s successful internationalisation case through acquisitions. The Koc group is the market leader in Turkey with Arcelik, and is pursuing a cross-border expansion strategy through acquisitions. Beko, the best-selling home appliance brand in the UK, is controlled by Arcelik and continues to be in use for many Arcelik products. In its corporate history, Arcelik acquired Austria’s Elektra Breganz and Romania’s Arctic respectively. Following two years of acquisitions, Arctic domestic sales went up by 20% and the firm’s market share also increased to 45% as compared to 40% before the acquisition. More recently, South Africa’s Defy Appliances was acquired by Arcelik in 2011 and performance enhancement realised for Arcelik following this acquisition. Accumulation of acquisition experiences in a similar manner allowed the Turkish firms to improve their experience-based knowledge. Repetitive cross-border acquisitions by Arcelik enabled them to implement the same strategies in their cross-border post-M&A process. Following the acquisitions of Elektra Bregenz, Arctic, and Blomberg, Arcelik CEO Nedim Esgin commented to the OECD development centre that “a known brand, new market share, competitive production cost, and the potential of additional capacity are not only great opportunities for our business goals, but also values that contribute to our target to become a global company” (Goldstein and Bonaglia, 2005, pp.18).

3.4.2 Domestic Acquisition Strategies

From the other side, one of the main driving factors of emerging market business groups is their dominant role in their home countries. As mentioned in the previous sections, emerging market business groups mainly follow acquisitive strategies to stay competitive in their industries. Therefore, competition at home is vital for business groups to survive and they need to meet domestic demand and grow through acquisitions (Manikutty, 2000). Shareholders of the acquirer firm also benefit from acquisition activities because the acquisition of a subsidiary of a group usually
enhances the value of other subsidiaries of the same group due to the pyramidal management structure of these business groups (Khanna and Yafeh, 2007).

Contrary to cross-border post-acquisition strategies, emerging market business groups are more likely to replace target firms’ key resources in the post-acquisition period due to institutional voids and relational ties occurring in emerging markets (Yiu et al., 2005). Although some studies on corporate governance in Turkey have suggested that the pyramidal management structure affects the economic performance of firms, including profitability and return on assets (Ararat and Ugur, 2003), the weak institutions and concentrated ownership in Turkey could be opportunities for business groups, and they have taken advantage of these voids.

Beyond pure family ties, factors such as kinship relations and the dominance of insider executives within the group also play a role in shaping the top management teams of the subsidiaries (Colpan, 2010). These relational ties define not only the management of the subsidiaries’ strategies, but also activeness in the operational decision-making process, consistently with Hoshino’s (2009) study of business groups in Mexico, Aldrighi and Postali’s (2010) study of the largest business groups in Brazil, and Sarkar’s (2010) study of Indian business groups’ conclusion that these groups had a family member in an executive role in each of their subsidiaries, Turkish business groups also employ family members for their subsidiaries’ top management (Colpan, 2010). In the same way, these ties continue when a new firm is acquired, and a family member or an internal director is assigned as a new top manager of the target firm in domestic acquisitions. The main reason for this power-based approach to leadership in family business groups and its subsidiaries can be explained by Colpan et al.’s (2010) assertion that a family owner possesses “political unwillingness” to split their positions as a leader and they are likely to resist sharing their power to rule and manage with non-family managers or outsiders. Performance enhancement following a focal acquisition may depend on the continuity of such ties, and the unwillingness to include non-kin or outsider involvement at higher echelons, in the top position of target firm (Usdiken, 2010). Furthermore, apart from relational ties,
concerns about the group’s secrecy might be another reason for this path-dependent approach and they may want to follow the keep-it-in-the-family approach.

In addition to their approach to top management, emerging market business groups are also keen to pursue this path-dependent strategy for other resources of the target firm following a domestic acquisition. This may occur due to existing operational advantages of the emerging market acquirer with their own brand name in the domestic market (Khanna and Yafeh, 2007). For instance, according to a Sabanci management presentation by the head of the cement sector, Kadri Ozgunes, about making deals, the “Sabanci” brand name inflates the deal value itself (Ozgunes, 2013). Having strong key resources in the market, such as the Sabanci name, signifies quality, trust, credibility and transparency for customers. Importantly, maintaining and developing group identity is a key skill for these business groups and an important factor for performance enhancement and growth. The Sabanci group shows considerable evidence of this skill, and the group is spreading its name across a variety of sectors it operates in with its rhyming subsidiary names (e.g. EnerjiSA, KordSA, BriSA, CimSA, etc.). Therefore they are likely to pursue this strategy in their subsequent acquisitions in order to make successful integrations and develop the acquisition capability of the firm. In addition, this common brand name strategy is more evidence for the collaborative coordination mechanism for subsidiaries of emerging market business groups.

3.5 Summary

The Turkish economy has been going through fundamental changes and shown remarkable progress in the period following the 2001 crisis. The improved economic conditions and development activities of the institutional setting for the financial system have led to an increase in scholarly attention towards Turkey. Many emerging market papers consider the BRIC countries as a case in their studies and ignore the
catching-up countries, as each emerging market country has its own culture. Turkey has been experiencing a major shift in its economy in the 21st century. As such, Turkey represents a still unexplored yet fascinating case of the emerging market context. The Turkish corporate environment is different from that of East Asia, which is typically taken as the region of dynamic business groups, and from that of Latin America, which is usually characterised by politically-connected group firms crowding out growing independent firms (Colpan, 2010).

Characteristically, groups in Turkey are far more diversified than those in many emerging economies (e.g. Chile, South Korea and Taiwan) and more involved in financial services (Colpan et al., 2010). The ubiquity and industrial diversity of firms in Turkey puts these institutions in a central role for Turkish corporate structure. As in other emerging market countries, Turkish organisations are mainly family-owned group institutions (e.g. Dogus, Sabanci, Koc, Eczacibasi, Ulker, Anadolu and Yasar). These economic players act as the prime engine for industrial growth in the dynamic Turkish environment and make Turkey an interesting country to examine.

Following the economic progress in the past decade, Turkey has experienced a significant rise in the number of M&A activities. But there is little academic work available on what may have brought about the large increase in number of M&A deals, or on the impact of M&A on acquirer performance. Therefore, one of the objectives of this research is to achieve greater understanding of M&A deals in the emerging market context of Turkey by uncovering information about their M&A experiences, and their post-acquisition management processes in particular. Ultimately, this chapter provides a historical examination of the economy, especially large-enterprise economy, in Turkey and its core actors, and M&A activities in the Turkish context.
In this chapter, I have presented the general economic and corporate background in Turkey. First, I discussed the economic conditions of Turkey with regard to the study period examined in this study. This was followed by the section entitled “M&A in Turkey”, in which I discussed the features of the post-M&A strategies of Turkish acquirers. Drawing on the review of received studies in Chapter 2, in the next chapter I will address the research gaps and present the hypotheses of this study. I will first conceptualise acquisition experiences to reflect the organisational learning processes that result in an increase of the acquirer’s post-acquisition performance. Then, I will provide theoretical arguments for the performance implications of the post-acquisition integration decisions of emerging market acquirers.
CHAPTER 4

Theory Development
4.1 Introduction

In Chapter 2, I showed that acquisition studies have been examined from different perspectives by different schools of thought. In particular, as I argued in section 2.2.4.1, studies on post-acquisition performance (Kroll et al., 1997; Franks et al., 1991; King et al., 2004; Hayward, 2002) have commonly examined whether or not the acquirer firm learns from its prior acquisition experience, and whether this acquisition experience influences focal acquisition performance. Strategic management researchers have examined the post-acquisition consequences in light of several different perspectives, such as behavioural learning theory (Haleblian and Finkelstein, 1999), the organisational learning perspective (Hayward, 2002), and the knowledge-based view of the firm (Zollo and Singh, 2004). Despite these significant advances from different perspectives, important questions about firms’ acquisition capability-building mechanisms remain unanswered. I will draw upon multiple theoretical concepts, using the organisational learning process, behavioural learning, the knowledge-based view, and resource-based view arguments to enrich the existing literature on the dynamic capabilities of the firm. Furthermore, the critical assessment of the post-acquisition literature also showed that environmental influences remain unexplored and that studies on organisational learning originally attempted to understand developed world cases. Acquisition by emerging market firms is a prevalent phenomenon that has received little attention in the acquisition and organisational learning literatures. Taking account of the specified characteristics of emerging market firms (section 2.5.2), and their growing importance for the global economy – especially that of business groups and their subsidiaries – I will examine the effect of prior acquisition experiences and post-acquisition management decisions on the performance of acquisitions by emerging market acquirers.

In this chapter, I will introduce the hypotheses of this research. First, I will begin my arguments by introducing the direct relationship between acquisition experience and acquisition performance (Section 4.2). Then, in Section 4.3, I will apply this notion of acquisition experience to the similarity of prior and subsequent acquisitions
perspectives. Next, by aggregating firm-level experiences I will extend the acquisition experience argument and examine the effects on these emerging market firms on the business group level (Section 4.4). Apart from the learning-by-doing arguments, I will also examine post-acquisition management issues, specifically development of integration capability within the acquirer firm. To do so, I will discuss the role of the degree of resource replacement on acquisition performance, and present my hypotheses (Section 4.5). Afterward, I will extend this resource replacement argument and introduce the analyses of three specific resource replacements, namely top manager, name, and headquarters. In each resource replacement section (Sections 4.5, 4.6, 4.7, and 4.8), I will also make cross-border and domestic acquisition distinctions in order to capture the different effects of resource replacement in different acquisition characteristics.

4.2 Organisational Learning in Emerging Markets and the Role of Prior Acquisition Experience

Research on organisational learning has highlighted acquisition capability as a key element for completing acquisitions successfully (Voss, 2008). In this research, I intend to apply a theoretical understanding of the mechanism that might underlie this collective learning process in emerging market firms. I will examine whether the learning-by-doing process can exist in emerging market firms. To do so, I follow Laamanen and Keil’s (2008) argument and I assume acquisition experience to be a proxy for a firm’s acquisition capability. Thus, the arguments in Hypothesis 1 will examine the acquisition capability of emerging market firms.

Organisational routines that derive from organisational experience are one of the main concepts in organisational learning literature (Levitt and March, 1988). Routines are sets of instructions that show an organisation’s experience at performing a specific task (Nelson and Winter, 1982). Once organisational routines are developed based on
prior experiences, they are subject to practice. Routines are accepted as a source of competitive advantage in strategic management literature and usually play a vital role in the formulation of a firm’s strategic actions by supplementing the strategic decision-making process (March, 1999). When a firm accumulates experience in a specific organisational task, it may achieve capability development in that routine. Studies on psychology literature show that when similar events proliferate, we can generalise prior event experiences, and this leads to positive outcomes (Kamin, 1969). For instance, a manufacturing company can generalise its prior experiences from one manufacturing activity to another. This company can accumulate manufacturing experience on its prior production processes and then generalise this experienced activity to subsequent production processes. This process of experiencing and then generalising prior activities leads to routinised procedure, and this develops experience-based knowledge (Lieberman, 1987). As such, this knowledge accumulation will be applied to subsequent activities, which will result in constantly improving positive outcomes. This is the common argument in the organisational learning literature for traditional learning-curve results. Moreover, within the literature, learning curves may be referred to as experience curves, progress curves, or learning by doing (Argote, 2012).

Firms can acquire knowledge from both internal and external sources. Strategic management scholars have explicitly acknowledged dynamic corporate acquisition processes as an important way of gaining external knowledge (e.g., Dierickx and Cool, 1989; Galunic and Eisenhardt, 2001; Henderson and Cockburn, 1994; Iansiti and Clark, 1994; Kogut and Zander, 1992; Szulanski, 1996; Zander and Kogut, 1995). Through acquisition experiences, firms can also accumulate the experience of these past activities, and then by generalising from prior acquisition processes they can develop their experience-based knowledge. These learning-by-doing activities may lead to performance enhancement for the firms. However, although the learning-by-doing pattern has been found in many firms, they differ noticeably in whether they learn and practice routines successfully (Argote, 2012). In particular, the dynamic capability construct, which refers to “the firm’s ability to integrate, build and reconfigure internal and external competencies to address rapidly changing
environments” (Teece et al., 1997: 516) has been used to explain why firms vary and how they achieve and maintain competitive advantage in the market (Hoskisson et al., 2000). At the beginning of the organisational literature era, Penrose (1959) asserted that heterogeneous capabilities give each firm its uniqueness and lead to competitive advantage. Therefore the effectiveness of the acquisition process is influenced by the degree to which the acquiring firm develops a specific capability to be successful in managing the post-acquisition process.

From their previous acquisition activities, firms might be able to learn how to manage the post-acquisition process of subsequent acquisition activities by applying more of the same decisions, and in that way creating standard procedures and refining organisational routines that might directly impact the performance of subsequent acquisitions (Zollo and Singh, 2004). This can be further related to a “learning-by-doing” hypothesis. Organisational learning through acquisitions is thus a dynamic process in which firms accumulate experience and gain knowledge, and then draw inferences from their prior experiences, and use these inferences for their future acquisition activities.

Haleblian and Finkelstein (1999) argue that organisational memory, which can be gained from prior experiences, helps firms’ decision-making processes and shapes their strategic actions through a range of standard operating procedures, systems, and routines. These routines are embedded in the firms, top management behaves consistently with the resulting routinised systems (Feldman, 1989), and it is difficult to change these routines over time (Hannan and Freeman, 1977). Therefore, as argued in the literature, we can also say that “the organisational knowledge resulting from acquisition experience is embedded in such rules and routines” (Haleblian and Finkelstein, 1999, pp. 36). These arguments are also in line with the dynamic capabilities view that companies gain experience and develop their acquisition capability in a repetitive and minimally satisfactory manner (Helfat and Winter, 2011). This acquisition capability then in turn affects focal acquisition performance. Acquisition capability can be defined to include the knowledge, operational
procedures, structures, systems, and processes that a firm can take on when managing post-acquisitions (Laamanen and Keil, 2008). More generally, acquisition capability is a dynamic capability allowing the firm to change its resource base and capabilities in order to achieve competitive advantage in dynamic environments. In my theoretical interpretation, consistent with the works of many strategic management scholars (e.g. Day, 1984; Porter, 1985; Voss, 2008), I also consider post-acquisition performance enhancement of the firms as a proxy for achieving a competitive advantage. For that reason, the post-acquisition management success is related to how the acquirer firm leverages its own and the target firms’ resources to better manage the acquisition and learn from this process.

Puranam et al. (2006) gave Cisco Systems as an example of practical implementation for structural post-acquisition management. They demonstrated that Cisco systems owns several key complementary assets which are necessary to provide products to the networking industry, such as its brand name, sales force, customer relationships, and a well-run outsourced manufacturing network. Furthermore, Cisco has a standardised acquisition process that enables relatively smooth integration of the target into the acquirer firm. Coordination has been defined as effective integration of activity within the firm. Empirical studies have found a relationship between coordination processes and organisational performance (Kale et al., 2002; Puranam and Srikanth, 2007). Thus, learning is a process whereby repetition and experimentation enable tasks to be performed better and quicker.

Firms may be able to learn how to manage post-acquisition processes by doing more of the same, and thereby tacitly forming and refining organisational routines that can directly impact the performance of the focal acquisition. This is to say that doing more of the same and having experiences from previous transactions gives companies an

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12 For a detailed overview, please refer to Section 2.3.
edge, allowing them to thrive in their focal acquisition and to be successful when it comes to better integrating target firms.

As mentioned in Section 2.2.4.1, there are many acquisition studies that have tested whether learning processes exist within the acquirer firm (Zollo and Singh, 2004; Hayward, 2002; Barkema and Schijven, 2008; Haleblian and Finkelstein, 1999; Hayward, 2002; Lubatkin, 1983; Kusewitt, 1985). Researchers normally link accumulation of experience in prior acquisition deals with an increase in post-acquisition firm performance, which has been measured by various measures either financially or conceptually (Haleblian and Finkelstein, 1999; Hayward, 2002; Capron, 1999; Laamanen and Keil, 2008; Zollo and Meier, 2008). It has been suggested that frequent acquirers are better able to develop systems, processes, and routines for managing post-acquisition processes than infrequent acquirers (Lubatkin, 1983; Fowler and Schmidt, 1989; Haleblian and Finkelstein, 1999; Laamanen and Keil, 2008).

However, the question of whether emerging market firms learn from their acquisition experience had not come up until recently. This is because the number of mergers and acquisitions activities in emerging markets has increased over the recent decades, leading to more analysable conditions. According to a report by analysts Rothenbuexher and Hoyningen-Huene (2008) from the consulting company A.T.Kearney, a paradigm shift is occurring between the developing and developed world in terms of mergers and acquisition activities. Since 2002, emerging market economies have expanded their cross-border acquisitions at an average rate of 17% per year and increasingly participate in global transactions. This further shows that how rapidly emerging market economies are catching up to developed world economies in terms of the number of M&A activities. These emerging market economies have been coming out of a financial crisis and, due to the effects of globalisation as well as liberalisation, the amount of acquisition activity has increased since the end of the 1990s. According to another report by A.T. Kearney (2011), M&A activities facilitate emerging market acquirers’ expansion and capability
development strategies and are typically backed by governments with economic development plans. Thus, as latecomers, we are not sure whether these emerging market firms can learn from their prior acquisition experiences and develop their capabilities.

Taking account of all these issues, in the first hypothesis, I examine the standard organisational learning hypothesis on acquisition performance in the emerging market context, while taking a different approach to previous organisational learning studies. Building on the findings of prior research, I expect that the increases in prior acquisition experiences will also increase the acquisition performance of focal acquisition, and this will build and develop acquisition capabilities. Thus, in my first “learning-by-doing” hypothesis, I argue that:

**Hypothesis 1a:** For emerging market acquirers, the greater the acquirer’s prior acquisition experience, the better the performance of the focal acquisition.

In addition to the acquisition experience argument, I am also interested in the differences between experienced and inexperienced acquirers. As discussed above, learning begins with experience (Argote and Miron-Spektor, 2011). Apart from focal organisational unit experience, firms can also develop their capabilities through experiences of resource transfer. This can be referred to as vicarious learning (Argote and Ingram, 2000). It is assumed that knowledge acquired by experience is embedded in the firm’s routines and capabilities, and affects subsequent performance. Research shows that one of the dimensions of experience which has attracted much attention from strategic management scholars is its rarity. Hayward (2002) argued that its unavailability, inaccessibility, and inapplicability would prevent infrequent acquirers from using generated inferences from prior experience. This is because organisational memory could reside in routines as well as the managers who know how to perform these routines (Winter and Szulanski, 2001). Organisational forgetting may occur
when too much time has passed since the acquisition event or after these managers have left the firm (Hayward, 2002). Some scholars suggest that firms might forget routines and capabilities gained from an acquisition experience more than five years in the past (Hayward, 2002; Laamanen and Keil, 2008).

Following the previous discussion of recent increases in acquisition activities in emerging market economies, we can also characterise these emerging market firms as entrepreneurially-driven. Entrepreneurial spirit through pursuit of opportunities is one key domain in emerging market economies (Madhok and Keyhani, 2012). Where there is a highly unstable economic and political environment, firms should learn what is required to boost their economic performance. These unstable conditions are common in emerging economies (Khanna and Palepu, 1997). Therefore these firms should seek opportunities and transform them into competitive advantages. We can conceptualise this argument in this study, as these firms follow an opportunity-driven approach; they carry out acquisitions and seek economic development. However, we are not sure whether this entrepreneurial dynamism helps them to gain knowledge from their prior acquisition and develop their capabilities for focal acquisition. In this case, these uncertainties in emerging economies serve as positives rather than negatives, since they trigger the entrepreneurial spirit.

Using the logic discussed earlier, I will once again examine firms’ organisational learning through acquisition experience, and assess this knowledge in terms of post-acquisition performance. However, this time, I will not use the cumulative number of acquisition experiences in order to examine the routines generated through organisational learning. Instead, I will assess the issue of organisational forgetting by comparing experienced and inexperienced acquirers. Moreover, I will examine whether increased numbers of experiences are the only factor for organisational learning, or whether any acquisition experience affects it. Thus, I propose that experienced acquirers are better able to manage the post-acquisition integration process than inexperienced acquirers. Then:
**Hypothesis 1b:** For emerging market acquirers, having any prior acquisition experience will be positively related with the performance of the focal acquisition.

4.3 Organisational Learning in Emerging Markets and the Role of Similarity of Prior Acquisition

After examining standard learning curve effects in the emerging market context, this section argues that the characteristics of a prior acquisition experience influence the subsequent acquisition performance of emerging market firms. If the characteristics of the prior acquisition are similar to those of the focal acquisition, the acquirer firm may either generalise relevant prior acquisition decisions or learn from prior acquisition mistakes, and not treat the focal acquisition the same as it would have previously. Therefore, by developing acquisition capabilities, acquirer firms make appropriate inferences and as a result increase their focal acquisition performance.

It was also discussed in Section 2.2.1 that mergers and acquisitions are heterogeneous because they are carried out for various patterns of acquisition motives. Firms might consider entering a new market through acquisition. Firms may also consider acquisitions in order to make an existing market position stronger. For instance, Tata Group’s acquisition of Brunner Mond in 2005 made the combined firm the largest producer of soda ash (Tombat, 2006). Moreover, firms might pursue acquisition in order to leverage capabilities in new markets. For example, Tata Group’s acquisition of Tetley Tea in 2001 helped them in building considerable marketing power and global reach (Noronha, 2001). Furthermore, acquisitions can be a mechanism for adding new capabilities and technologies to an existing business unit. Land Rover and Jaguar’s acquisition by the Tata Group in 2008 can be considered a case of capability and technology enhancement by the acquirer firm, as the Tata Group retains the
distinctive identities of both companies and continues to follow the target firms’ business plans as before.

Market strengthening-based acquisitions are common activities in global industries, and they are typically path-dependent because they exploit current resource bases and market positions (Hayward, 2002). Acquiring a series of similar businesses helps management to specialise in learning about this acquisition process. Furthermore, acquiring a series of similar businesses might eliminate competitors, and help firms to achieve economies of scale and scope by developing capabilities (Anand and Singh, 1997; Ahuja and Katila, 2001). This is because, when a firm acquires two industrially similar targets in succession, they manage the post-acquisition process successfully and integrate the combined firms effectively because of knowledge gained from the experience. It is a similar logic to the earlier argument mentioned in Section 2.2.4.3 that combined firms from related industries frequently exhibit the same set of resources, cultures, and operating procedures (Lane and Lubatkin, 1998). These similarities between acquirer and target firms facilitate the post-acquisition integration process, and top management can integrate resources more easily and effectively, which leads to performance enhancement (Haleblian and Finkelstein, 1999). Going beyond this positive relatedness argument, it can be said that when both a prior and the focal acquisition’s target firms are from the same industries, the top management of the acquirer firm can apply the same practices and routines associated with the prior acquisition, or they can learn from their earlier mistakes and manage the process appropriately (Finkelstein and Haleblian, 2002). Through a series of similar businesses acquisitions, the acquirer firm develops specialised routines (Szulanski, 1999) so as to gain acquisition capability.

On the other hand, acquiring a series of industrially dissimilar targets can cause negative outcomes. The acquirer firm may not make use of prior acquisition experience during the focal acquisition. Given the targets’ industrial differences in consecutive acquisitions, there is little potential for positive resource transfer, and the
acquirer firm’s top management may not make appropriate generalisations (Finkelstein and Haleblian, 2002).

Through the similarity of prior acquisitions, firms that acquire a series of similar businesses can gain skills for generalising their learning. Therefore, inferences from previous acquisitions differ in the extent to which they are relevant for a focal acquisition (Haleblian and Finkelstein, 1999). From this, I can argue that firms that acquire targets in the same industrial environment perform better than firms that acquire targets from dissimilar industries. Based on the above arguments, I present the following hypothesis for empirical testing:

**Hypothesis 1c:** For emerging market acquirers, having a similar prior acquisition in terms of industrial relatedness will be positively related with the performance of the focal acquisition.

Building on the similarity argument, I would also argue that similarity in the geographic scope of a series of acquisitions, in domestic/cross-border terms, develops the acquisition capabilities of emerging market firms. A series of cross-border acquisitions enables emerging market firms to gain complementary capabilities, giving them firms a more complete set of resources, which enables them to tackle the subsequent acquisition process more maturely and better understand the nature of cross-border acquisitions (Kumar and Steenkamp, 2013; Chattopadhyay et al., 2012). In a similar sense, a series of domestic acquisitions helps firms to generate a routinised mechanism for their post-acquisition integration process. They view this routinised integration mechanism as a gain from prior experience, and experience from similar contexts generates insights about the conditions under which the integration process is necessary for the focal acquisition.
Moreover, it is also important to know more about the role of institutional environment similarity in acquisition studies. This notion is particularly important for emerging market firms, where domestic markets can be characterised as relatively weak and capricious institutional environments (Madhok and Keyhani, 2012), whereas cross-border acquisitions can be associated with institutional distance, which might constitute a barrier for successful integration (Kostova, 1999). Firms with prior cross-border acquisition experience should be better able to cope with legitimacy issues and more likely to be successful in their integration process (Kostova and Zaheer, 1999).

Thus, when a firm makes a series of cross-border or domestic acquisitions, decision makers’ practices and routines associated with prior acquisitions may be applicable to the subsequent acquisition. In this vein, I focus on the influence of the similarity of a past acquisition context on subsequent acquisition contexts. Therefore, I propose the following hypothesis:

**Hypothesis 1d:** For emerging market acquirers, having a similar prior acquisition in terms of geographical relatedness will be positively related with the performance of the focal acquisition.

### 4.4 Organisational Learning in Emerging Market Business Groups and the Role of Prior Acquisition Experience

In the context of emerging markets, business groups characteristically “consist of legally independent firms, operating in multiple (often unrelated) industries, which are bound together by persistent formal (e.g. equity) and informal (e.g. family) ties” (Khanna and Yafeh, 2007, pp. 331). These emerging market firms are active in many
industries, and we are seeing huge increases in the number of mergers and acquisitions performed by them.

In management literature, emerging market economies are usually analysed through institutional theory (Hoskisson et al., 2000; Wright et al., 2005). Institutions affect the routines of the firm and help these firms in selecting their strategic moves (Peng et al., 2005). But due to the unstable and weak governance environment in emerging market economies, it is always difficult to express effective institutional support (Peng et al., 2003). This has resulted in the “principal-principal (PP)” problem of corporate governance in emerging market economies, which focuses on conflicts between the firm’s controlling shareholders and minority shareholders (Young et al., 2008). Given the concentrated ownership of these emerging market business groups by families, the main question here is whether these business groups learn from prior acquisition experiences carried out by their sub-firms.

Each individual firm may have their own financial statements, their own top management team, and responsibility to its own stakeholders. However, in general, these emerging market firms are somehow related to a specific business group. These groups in emerging markets are different from their developed world counterparts (Peng et al., 2007). For instance, emerging market business groups derive from large family firms, with each member company run by various family members or branches (Peng et al., 2008). This is to say that in business groups, informal ties, such as cross holdings and coordinated actions, are strong (Chung, 2006).

Industrial diversity in these emerging market firms may give them the capability to assess whether and which implementation processes are suitable to their acquisitions. Moreover, industrial diversity might yield rich inferences about the acquisition and allow them to make better generalisations. Taking the learning-by-doing perspective
discussed previously in this chapter, I illustrate Hypothesis 1a using acquisition activities in business groups, and reach the following conclusion:

**Hypothesis 1e:** For emerging market business groups, the greater the acquirer’s prior acquisition experience, the better the performance of the focal acquisition.

### 4.5 Managing Post-acquisition Integration and the Degree of Resource Replacement

Researchers have suggested that successful acquisitions include two major components: firstly, selecting the right target through strategic and financial analysis (Hitt et al., 2001) and secondly, integrating combined firms by managing the post-acquisition integration process appropriately (Finkelstein and Haleblian, 2002; Haspeslagh and Jemison, 1991). During the post-acquisition integration period, prior acquisition experiences may enable acquirer firms to perform more effective integration processes for the focal acquisition by learning from prior experiences and making appropriate inferences, and not making the same mistakes. As a result, the probability of successful acquisition integration can increase for experienced acquirers.

The literature on organisational learning through mergers and acquisitions explicitly examines the acquirers’ experience and acquisition performance phenomena from different angles. Obviously, acquisition experience alone is not a sufficient condition for greater performance; the better performers are those that reconfigure and manage acquired resources in the right way (Capron and Anand, 2007; Hayward, 2002). Thus, another important dimension of the post-acquisition integration process involves the degree to which pre-existing resources within the target firm are replaced with the
equivalent resources of the acquirer, or are simply dismissed (Zollo and Winter, 2002).

Following this line of argument, it can be asserted that acquisition reconfiguration capability (Capron and Anand, 2007) is an important capacity for coordinating and transferring resources from the target firm to the acquirer. This capability also involves the capacity to replace unneeded resources, such as explicit knowledge of manuals, systems, and other mechanisms, in the target firm as a result of the post-acquisition integration process. Finding the proper balance between achieving the required level of organisational integration and minimising the synergistic disruptions between combined resources is one of the main challenges for the acquirers’ top management, and this affects the whole acquisition process (Zollo and Singh, 2004).

Reconfiguration capability is not the only component that is needed to be successful in the acquisition. As previously discussed, there are some other acquisition-based dynamic capabilities, such as selection and identification capabilities (Capron and Anand, 2007). Nevertheless, the other acquisition-based dynamic capabilities are outside the scope of this research and I therefore only consider the post-acquisition integration process, and will treat reconfiguration capability as a crucial element for the acquisition capability-building mechanism and an essential foundation for the performance of the acquisition.

Acquirers are confronted with conflicts between continuity and change when integrating and reconfiguring target firms (Meyer and Lieb Doczy, 2003). In this research, I operationalise resource replacement as the changes in the target firm’s resources following an acquisition. I have determined three main resources for my arguments, which are top manager, firm name, and headquarters. In Hypothesis 2, the degree of resource replacement is the extent to which the predetermined target’s
resources are replaced. The connection of these resources to this study will be discussed later in this chapter.

In the context of the corporate governance of emerging market firms, there is no effective and predictable rule of law, and this causes a weak governance environment within the emerging market context (Dharwadkar et al., 2000). Of course, emerging markets have laws dealing with corporate governance, usually adopted from the Anglo-American system, but these laws and regulations, such as information disclosure, tender offer materials, and transparency requirements, are flexible and can be changed (Peng et al., 2007). Hence, there is a weak standard corporate governance mechanism in emerging markets (Peng, 2004). This results in network-based agreements on privatisation, increases relational ties, extends the path-dependent resource modifications, leads to family-connected changes in top management, and results in a less accountable and less transparent organisational structure (Yiu et al., 2005; Peng et al., 2003; Peng et al., 2008).

In essence, these emerging market firms still are under the control of the founding family. These family members, or someone close to them from their network or relations, often control the other businesses of these firms. Granted, publicly listed firms in emerging market firms have their boards of directors and certainly have outside directors as well. However, “controlling shareholders (often a family or the state) usually have had too much concentrated ownership and control rights, which allow some of them to potentially expropriate minority shareholders” (Peng et al., 2008, pp. 10). Therefore, due to concentrated ownership and other informal mechanisms I would expect that these emerging market firms pursue path-dependent change and follow the family-oriented relational tradition after an acquisition, replacing the target’s resources with equivalent resources that already exist in their pre-existing businesses. Thus the baseline hypothesis should be proposed as:
Hypothesis 2a: For emerging market acquirers, the degree of resource replacement will be positively related with the performance of the focal acquisition.

4.5.1 The Role of Deal Characteristics in the Degree of Resource Replacement

A major objective of this hypothesis is to analyse whether acquisition capability can explain variations between acquirers in handling post-acquisition management. Specifically, this is done by examining how they manage the resource replacement process and its effects on the acquisition performance of the acquiring emerging market firms. By integrating a resource-based view with the institutional perspective, I argue that the development of reconfiguration capability possessed by emerging market firms varies depending on the geographic context of the acquisition that the firms are able to obtain.

In order to manage an acquisition, acquirer firms should develop their acquisition capabilities to be able to respond to specific kinds of acquisition processes. This is so because organisational knowledge has a system-dependent and causally ambiguous nature. An acquirer firm should be “considered a novice, regardless of its accumulated experience in substantially different types of acquisitions” (Zollo and Singh, 2004, pp. 1240). These firms have to gain new capabilities specific to the new situations they face. Thus, understanding the performance implications of post-acquisition resource replacement decisions in different contexts (Havesladh and Jemison, 1991) and relating them to organisational learning is very important.

When firms from the developed world make cross-border acquisitions, they usually change the target firm’s resources, such as its top management team, company name, and headquarters and other business units (Clark and Soulsby, 2007; Cartwright and Schoenberg, 2006). However, when emerging market firms make cross-border
acquisitions, rather than aiming to lower costs and create synergies at first, they buy foreign firms to learn to deploy assets and resources, and to develop their capabilities (Kumar, 2009). Emerging market firms retain the target firm’s resources when they buy foreign firms. This is because many of the emerging market firms lack the skills to integrate and leverage international acquisitions (Chattopadhyay et al., 2012). Managerial knowledge within the target firm plays an important role in successfully integrating capabilities and resources. Emerging market firms consider these cross-border acquisitions to be strategic moves to develop capabilities that will help them compete more successfully both domestically and internationally (Yiu et al., 2005).

Moreover, according to the international business literature, international acquirers may face the liability of foreignness (LOF), which exists because acquirer firms do not know the local environment, and its cultural and institutional differences (Zaheer, 1995). Bearing in mind the LOF concept, emerging market acquirers are unlikely to reach and effectively use the resources available in the host country as easily as local competitors who are much more familiar with the local context (Madhok and Keyhani, 2012).

Thus, the acquirer firm can more successfully manage the process if the pre-existing resources of the target firm remain in place. In accordance with this observation on emerging market international acquirers, I propose the following hypothesis:

**Hypothesis 2b:** For emerging market acquirers undertaking cross-border acquisition, the degree of resource replacement will be negatively related with the performance of the focal acquisition.

On the other hand, when emerging market companies pursue domestic acquisition within their own geography, they prefer to structurally integrate the acquired company with themselves and change the resources of target firms in order to quickly realise synergies (Kumar, 2009). This hypothesis is in line with the baseline arguments of the
degree of resource replacement for emerging market acquirers. Moreover, the industrially-diversified characteristics of these emerging market firms and their familiarity with the geographic context enable them to make better inferences regarding domestic acquisition, and they can afford to drop the target firm’s resources. If there is not a considerable difference in functional background, emerging market firms are less dependent upon these target firms’ resources (Walsh, 1989). Thus, the characteristics of an acquisition are a determinant factor for emerging market firms during the post-acquisition management process.

**Hypothesis 2c:** For emerging market acquirers undertaking domestic acquisition, the degree of resource replacement will be positively related with the performance of the focal acquisition.

### 4.6 Managing Post-acquisition Integration and the Role of Top Manager Replacement

In the third hypothesis of this study, I will consider the resource replacement argument by placing attention on the top manager of the target firm. In order to develop our understanding of how organisations learn from mergers and acquisitions, it is important to define the vital role of individuals in the context of organisational learning through acquisitions. It may be possible to consider top manager replacement as a proxy for the target firm’s replacement of resources. However, given the significant impact of the coordination and integration role of top management in corporate development, the question arises of how top manager replacement affects the combined firm’s subsequent acquisition performance. Thus, the role of an individual executive in learning in corporate development is emphasised in this section.
One issue that should not be ignored is the existing studies’ use of the term “top management replacement” to refer to a change in the target firm’s top management team following an acquisition. However, in this study I only consider the departure of the highest ranking employee of the target firm, who had been in charge of the firm’s overall management. This can be a CEO, or a general manager, or a director of the target firm. Because the highest-ranking manager is associated closely with the history and culture of the traditional firm, they are assumed to be a proxy for the top management team’s continuity or change (Cannella and Hambrick, 1993). Moreover, an important distinction can be made as to whether the pre-existing top manager leaves the firm or remains active in the firm in other roles than the top manager role. I only consider the replacement of a target firm’s top manager after the acquisition takes place. Obviously, the former top manager may still take on some role within the combined firm, but this top manager has already been replaced with someone else and he/she is in no way the highest ranking employee in the firm.

Organisational learning literature shows that learning occurs at many levels, such as individuals, teams, and firms (Crossan et al., 1999; Phillip-Meyer, 2012). The role of top management in the post-acquisition process is vital and requires specific attention (Teece et al., 2009; Helfat et al., 2007). One aspect that is crucial to the discovery process is the relationship between resource replacement, in particular the top management change of the target firm, and acquisition performance. For example, the CEO of the firm can be either retained and motivated to cooperate, or completely replaced with a new team sent from the acquiring firm to the acquired firm (Zollo and Singh, 2002).

As discussed in Section 2.2.4.2.4, in a more traditional acquisition approach for developed world firms, managerial turnover has been harmful to acquisition performance, and the impact increased when more senior managers were replaced (Cannella and Hambrick, 1993; Kale and Singh, 2004; Capron et al., 1999. More recently, Zollo and Singh (2004) reached a similar conclusion by identifying a moderating variable of pre-acquisition performance of the acquired firm in order to
examine the relationship between top manager replacement and acquisition performance.

However, institutionally-based conflicts in corporate governance, such as network-based strategy, informal relational ties, and a very small number of outside directors on the board, make it difficult for researchers who concentrate on the emerging market context to use theories that originally applied to developed world contexts. This characteristic of the network-based approach and relational ties appears to be common in emerging markets, and target firms’ top managers are most likely to be changed after an acquisition. Emerging market acquirer firms assign a manager from their family members or a manager from their pre-existing businesses. Changing the target’s top manager might be connected with performance enhancement in the acquirer firm. It might be more beneficial for the combined firm to change its pre-existing top manager, as the benefits of forming a new managerial team might outweigh the possible disruptions to organisational routines within the target firm. The values and cultures of the acquirer and target firm might be different, and additionally the acquirer firm may already carry acquisition experience. Therefore the acquirer firm can more easily put forth the strategic decisions that they aim to implement within the target, and will not face destructive managerial conflicts.

Thus, in the baseline hypothesis I propose the following for empirical analysis:

**Hypothesis 3a:** For emerging market acquirers, replacing the top manager of the acquired firm will be positively related with the performance of the focal acquisition.
4.6.1 The Role of Deal Characteristics in Top Manager Replacement

Considering the baseline arguments on the degree of resource replacement, we can examine the replacement of the top manager in terms of the geographical context of the corporate acquisitions. By addressing under which conditions the top manager of the target firm is replaced within the combined firm, and how this affects acquisition performance, I will examine the role of dynamic capabilities in the emerging market context.

Top management replacement can be observed in a binary distinction, namely cross-border and domestic. In terms of cross-border acquisitions, compared to many developed world firms, who are now internationalising in order to seek lower costs and create value, emerging market business groups are already low-cost and are more likely seeking to learn and develop their capabilities to become more competitive globally (Madhok and Keyhani, 2012; Peng, 2012). For instance, during the acquisition of Novelis, Hindalco, an Indian company, avoided replacing the acquired company’s top management people, and ensured smoother integration (Kumar, 2009).

In cross-border acquisitions, the emergence of a skilled top management team who are more qualified and experienced is expected (Manikutty, 2000) for emerging market firms in order to compete in the open global environment. Keeping the target firm’s top management may be a means for the acquirer to develop its capabilities, skills, and technologies in a foreign environment. This view is also consistent with the emerging market literature (Hitt et al., 1997; Yiu et al., 2005) where the complementarity between industrial diversification and international diversification offers a firm reach, and economy of scale and scope to degrees unavailable from either form of diversification alone.

These emerging market firms view cross-border acquisitions from the perspective of international expansion and capability development. Given the strategic role of cross-
border acquisitions, one might expect that these emerging market acquirers aim to impose home country practices and learn management practices from their locations (Chang et al., 2009). It is also argued that emerging market firms usually don’t have enough skills to integrate and leverage international acquisitions of larger companies from the developed world (Chattopadhyay et al., 2012). According to Khanna and Palepu (2010), due to the underdevelopment of institutions such as the patent or legal system, it is more difficult for these firms to keep and develop internationally acquired resources. Therefore, a strategy of replacing the top manager of the target firm not only influences individuals but affects the control mechanisms and management practices as well (Chen et al., 2005). This leads emerging market firms to focus on new business models, new strategies and organisational capabilities (Cuervo-Cazurra, 2012).

Therefore, I predict a negative relationship between the replacement of an internationally acquired firm’s top manager and the emerging market acquirer’s acquisition performance. Thus:

**Hypothesis 3b:** For emerging market acquirers undertaking cross-border acquisition, replacing the top manager of the acquired firm will be negatively related with the performance of the focal acquisition.

On the other hand, there have been fewer empirical studies still that have looked at top management replacement and acquisition experience relations from the domestic acquisition perspective. In the case of business groups in emerging markets, the majority of board members of the group often come from the same family (Yiu et al., 2005). Often, relational ties and having previously worked at any of the member firms are required selection criteria to become a CEO or general manager of a member company (Khanna and Rivkin, 2006). This argument draws attention to the characteristics of entrepreneurial dynamism of emerging market firms, which relate to
a quick decision-making process, the ability to be flexible and resilient within a changing environment, and a path-dependent management structure (Madhok and Keyhani, 2012; Khanna and Palepu, 1997). Acquirer firms may also use top management replacement to succeed in a quick transfer of control from the target firm to its own top management, thereby reducing resistance to the change (Finkelstein, 1992). Thus, having an outside director or manager is not a common pattern during domestic acquisition, and could be obstructive to the post-acquisition integration process.

If these are the scenarios, then I can propose the following hypothesis based on the geographical context:

**Hypothesis 3c:** For emerging market acquirers undertaking domestic acquisition, replacing the top manager of the acquired firm will be positively related with the performance of the focal acquisition.

### 4.7 Managing Post-Acquisition Integration and the Role of Name Replacement

I will consider two proxies for resource replacement variable in order to examine whether replacement or retention of these resources, namely firm name and headquarters, leads us to similar conclusions as the previous arguments. I will keep the baseline arguments, which are hypotheses 4a and 5a, in the same directions as the resource replacement argument. I will build on my arguments by explaining the role of name replacement and headquarters replacement in cross-border and domestic acquisitions separately.
Similarly to the resource replacement argument in cross-border acquisitions, I expect a negative relationship between replacement of the target firm’s name and acquisition performance. As reviewed in the previous section, emerging market firms usually face a recognition problem in foreign environments. The target firm may already have a cachet and recognition with existing customers and within its own environment. Therefore, retention of the target firm’s name is a better strategy for emerging market firms in order to stay competitive abroad.

Conceptualised this way, emerging market firms acquire cross-border firms, even more clearly than during developed world firm acquisition, in order to gain complementary assets such as products or brands (Kumar and Steenkamp, 2013). When these emerging market firms take over cross-border targets, there might be a question of whether to retain the cross-border target firm’s brand or simply replace it with the emerging market acquirer firm’s brand. Generally, the acquirer firm would prefer to keep the target’s name for reasons of the target’s unique brand positioning and its acknowledgement in its home country. In the short run, it is important to pursue this retention strategy to avoid the loss of too many customers and of the target’s positioning. One can anticipate that the driving issue of being multinational, especially through developed world firm acquisition, is not keenly at the leading edge for emerging market firms (Kumar and Steenkamp, 2013). Instead, these cross-border investments often aim to competitively catch up global players by acquiring knowledge and developing their capabilities (Kumar, 2009).

From the other side of the coin, I can predict that emerging market acquirers are more likely to replace the target firm’s name when they practice domestic acquisitions. It is essential to note that recognition of the brand name is an important marketing capability (Keller et al., 1998). Changes in this marketing capability as a reputational asset may affect the acquisition performance of the acquirer firm. The brand name may impact directly on customer choice and preferences through diminishing cognitive dissonance and improving brand equity (Hooley et al., 2005; Keller and Lehmann, 2006). We can clearly say that these emerging market firms already possess
this reputational asset in their home country. There is already a worthy brand value for these emerging market firms in their home countries. By practising acquisition activities they generally seek market extension or industrial diversification with their own brands. Therefore replacement of the target firm’s name is vital for acquirer firms’ marketing capabilities, and it can be assumed as an important element for the reconfiguration capability of emerging market firms when they practice domestic acquisition. Thus, I can suggest that:

**Hypothesis 4a:** For emerging market acquirers, replacing the name of the acquired firm will be positively related with the performance of the focal acquisition.

**Hypothesis 4b:** For emerging market acquirers undertaking cross-border acquisition, replacing the name of the acquired firm will be negatively related with the performance of the focal acquisition.

**Hypothesis 4c:** For emerging market acquirers undertaking domestic acquisition, replacing the name of the acquired firm will be positively related with the performance of the focal acquisition.

### 4.8 Managing Post-acquisition Integration and the Role of Headquarters Replacement

Another proxy for the resource replacement variable is the replacement of headquarters (HQ) following the acquisition. Keeping the baseline argument in a similar direction to previous arguments, I suggest that emerging market firms’ decision on replacing the headquarters of the target firm will vary depending on the context they are going to operate in. Following a study by Birkinshaw et al (2006), the
definition of “HQ” should include two main elements. Firstly, the HQ functions as an official location at which an executive management team meets and fulfils the responsibilities of other business units, and secondly, the HQ serves as a legal domicile of the firm, and its legal registration names this location (Birkinshaw et al., 2006).

In order to appropriately and successfully manage the target’s capabilities and take advantage of the combination of synergistic resources, the acquirer should be very careful in their decision when they acquire a cross-border firm. Certainly, the acquirer should benefit from these acquisitions by strengthening links between main headquarters in the home country and the pre-existing headquarters of the target firm (Ambos et al., 2006). However, this does not mean that the locus of acquisition shifts from the foreign country to the home country in emerging markets. The cross-border target firm may have already earned a reputation, built customer and supplier bases, obtained production skills and possessed a managerial capability in its own home environment. Allowing aggressive integration by replacing resources and changing target firms’ corporate headquarters may be perceived incorrectly, and thus backfire on the post-acquisition management process. The acquirer should obtain a better understanding of the unique processes and home-based capabilities of the target firm. By using resource dependence theory (Pfeffer and Salancik, 1978) and institutional theory (Meyer and Rowan, 1978), Kostova (1999) has argued that the target firm’s managers feel that their positioning is based at lower hierarchical levels in the combined firm relative to the acquirer firm’s managers. Under this condition of dependency, the target firm’s managers seek more internal legitimacy and try to gain favourable decisions on their strategies (Kostova, 1999). Therefore, perceptions of being flexible and dependent in one’s judgements may provide an alternative source of motivation to target firm’s managers. Through this strategy, the acquirer firm develops a positive attitude toward the acquisition by keeping the target’s firm headquarters separate and applying softer integration.
From the domestic acquisition perspective, these emerging market firms characteristically follow a path-dependent approach and intend to use their own resources after the acquisition has been completed. The acquirer will install its pre-existing key resources in the target firm, and these practices will inevitably lead to assimilation of the target firm. Because of the emerging market firm’s strong desire to improve its own brands under the umbrella of its own resources, I predict a replacement of the target’s corporate headquarters following a domestic acquisition.

These arguments lead to the following propositions:

**Hypothesis 5a:** For emerging market acquirers, replacing the HQ of the acquired firm will be positively related with the performance of the focal acquisition.

**Hypothesis 5b:** For emerging market acquirers undertaking cross-border acquisition, replacing the HQ of the acquired firm will be negatively related with the performance of the focal acquisition.

**Hypothesis 5c:** For emerging market acquirers undertaking domestic acquisition, replacing the HQ of the acquired firm will be positively related with the performance of the focal acquisition.
4.9 Summary

In sum, the aim of this study is to determine the influence of acquisition experience and post-acquisition integration strategies of emerging market acquirers on acquisition performance. In this chapter, I have advanced the testable hypotheses of this study. I argue that firms learn from their prior acquisition experiences by learning from their organisational memory, and adapt this for the focal acquisition. In addition, similarity between acquisitions is an important determinant of performance enhancement for the acquirer firms. Furthermore, strategies for resource replacement in the post-acquisition integration period vary depending on the geographical context of the focal acquisition. I propose that emerging market acquirers that replace the target’s resources in domestic acquisitions perform better, whereas it is the exact opposite for cross-border acquisitions, and acquirers which keep the target’s resources enhance their acquisition performance. In the following chapter, I will outline the sample and methods used to test the hypotheses of this study.
CHAPTER 5

Data and Methods
5.1 Introduction

The aim of this study is to examine the influence of acquisition experience and post-acquisition strategies on the acquisition performance of emerging market firms. To do so, I first investigate how emerging market firms learn from their acquisition experience and develop their acquisition capabilities. Secondly, and more specifically, I examine the acquisition-based integration capabilities of these emerging market firms and investigate how they develop their capabilities during the post-acquisition period. In this study, I test the post-acquisition management attributes and decisions of acquiring firms in Turkey by using the event study of acquiring firms’ market returns (Cumulative Abnormal Returns – CAR). The relationship between stock market returns and post-M&A management decisions is investigated by assuming that investors act promptly to acquire firms’ stocks. Hand-collected post-M&A integration data, obtained from firms’ annual reports and the Borsa Istanbul’s notifications, shows how the acquirer firms’ management changed the target firms’ resources (Capron and Shen, 2007). I also conducted seven unstructured interviews to check the validity of my theories and empirical findings. The interviewees were owners, CEOs, and professionals from M&A advisory and investment banking. These unstructured interviews provide me with confirmation that I am on the right track and help me in understanding and developing the theories of this study. Therefore, I will not report the results of the interviews in a formal way given their nature and purpose.

Importantly, this chapter will be explicitly focused on the quantitative analyses I conducted to test the hypotheses derived in Chapter 4. Accordingly, this chapter is organised as follows. Firstly, I will describe the sample selection process and explain how I reached the resulting sample. Then, I will describe the sources which I used in order to obtain the data for this research and will explain the data collection process. Next, I will present the models for my research, which are used to test the hypotheses of this study. Finally, I will discuss the measurements of each variable which are applied to the analysis of the hypotheses.
5.2 Deal Selection

I tested the hypotheses developed in Chapter 4 by investigating the acquisitions which took place in Turkey from 1998 to 2011. The population for this research included all Turkish M&A deals announced and recorded on the Mergermarket database between 01 January 1998 and 31 December 2011. In general, the Mergermarket database covers global M&A deals announced from 01 January 2001; however, the database also includes M&A deals announced from 01 January 1998 where the bidder, target or seller is European or a subsidiary of a European firm and Turkey falls into the latter category. Thus, due to unavailability of information, I only examined focal acquisitions which were made from 1998 onwards. This also means that I included and investigated the whole population available to the public on the Mergermarket database. In what follows, I will explain how I reached the final set of data used in this research.

The preliminary total number of merger and acquisition deals collected from the Mergermarket database for the period from 1998 to 2011 was 912 deals. These 912 deals included both public and private firm deals within the given date period. Specifically, rather than considering extremely old time frames, such as the 1970s, 1980s, or even the early 1990s, I examined a more recent time period for my research. The effects of the globalising world economies are changing very rapidly, not to mention the way the digital world has changed the institutional structure of companies as well. Thus, decision makers need more up-to-date and historically closer events to make inferences and learn from them. Therefore, this particular dataset allowed me to examine the most up-to-date mergers and acquisition activities in Turkey.
Since my research goal was to understand the drivers of M&A performance from the acquirer’s perspective, I only selected deals from Turkish acquirers and excluded the deals if an acquirer was a non-Turkish firm. At the first stage, 351 deals that were acquired by non-Turkish acquirers were removed from the whole population. As such, the number of deals dropped to 561 acquisitions. With respect to the deals only by Turkish acquirers, since my analyses also aim to examine the business restructuring and its effect on acquirer’s performance, I included the privatisation deals in my deal selection process. In theory, upon privatisation deals, effective restructuring activities by the acquirers would presumably follow (Peng et al., 2003). As far as this research seeks to identify what strategic resource replacement decisions differentiated firms that achieved greater performance improvements from firms that recorded performance deterioration following the deal, it is important to include these strategic transactions of ownership transfer. Moreover, in the case of acquisition of state owned enterprises, acquirers have the opportunity to learn to negotiate with the government and practice integration process of state owned targets. Thus, the capabilities gained through this practice can be counted as a valuable experience and may improve the
chances for a successful deal in the future (Uhlenbruck and De Castro, 1998). Figure 5.1 depicts a visualisation of the deal selection process.

Another variable which helped to narrow down the search was that the acquirer must be a publicly traded Turkish firm in the Borsa Istanbul on the day of the acquisition announcement. This was done in order to enable me to gather information more easily from publicly traded firms and measure their acquisition performance according to the stock exchange. After excluding deals which were conducted by private firms, I compiled a workable sample of 363 deals (as shown in the second stage of Figure 5.1).

At the next stage, among the whole of all workable acquisitions, 35 deals had been terminated prematurely without being completed and thus were dropped from the dataset. In this study, I focus solely on completed acquisitions, since I would only be able to examine the post-acquisition integration decisions and their performance implications through completed deals. Similar to Haleblian and Finkelstein’s (1999) study, I also define completed acquisitions as those in which the acquirer firm goes beyond making an offer and pays cash or securities to obtain the shares or assets of the target firm. This is due to the fact that I focus only on the post-acquisition management of the acquirer firms and the performance implications of completed acquisitions. Hence, all abandoned deals were not considered in my dataset. Consequently, at the end of the third stage, 328 deals satisfied the criteria.

Studying the majority stake-owned acquisitions, as I do here, seems appropriate because firms can only make substantial changes if they may be considered the majority in the decision-making process. In line with Haleblian and Finkelstein’s (1999) sample data procedure, I only focused on majority-owned acquisitions. According to them, the majority of stake-owned acquisitions are those in which “target ownership by the acquiring firm exceeds 50% voting stake in the board” (ibid,
pp. 40). After those deals with minority stake acquisitions were removed from the dataset (30), 298 deals were left.

In the final stage of the deal selection process, I further separated from the remaining deals those which were only partial asset acquisitions. The information about the deal comes from the Mergermarket database, under the ‘Deal Description’ column. I examined all of the deals and manually identified those which had been partial asset acquisitions. I excluded deals which were completed by acquiring only partial assets from the target firm, such as individual branches, power plants, etc. Such deals do not result in a change in the ownership of the target firm. Rather, they usually represent a strategic move of enlarging the firm’s volume or expanding its activities rather than its significant firm behaviour (usually in an attempt to create value and develop the firm’s management capabilities). At the end of this process, I identified 19 such deals and removed them from the dataset. Out of the 912 deals, the resulting dataset consisted of 279 acquisitions made by 106 acquirer Turkish firms.

5.3 Data

Most large sample research concerning acquisition experience examined publicly traded US firms or developed world firms (Cannella and Hambrick, 1993; Berkama and Schijven, 2008). This research typically relies on publicly available financial and organisational data and lacks fine-grained information or databases concerning the post-acquisition outcomes of emerging markets. This is due to the fact that determining the extent of resource replacement and knowledge transfer cannot be easily done within the emerging market context. Acquisition research which includes archival information concerning non-US firms and relatively small firms also lacks data on how these acquiring firms manage the acquisition process. To overcome these limits, wherever applicable, I examined the acquirer and target firms’ annual reports and publicly available announcements to obtain the relevant data accurately. The
A major difficulty in the time series of acquisitions is the necessity of relatively long series. In the organisational learning literature, empirical studies for the developed world have merged series made by various associations. I investigate acquisitions in emerging markets and focus on the case of Turkey at the firm level by considering the longest consistent series available to the public.

The data for this research was collected from multiple databases. Most notably, in order to conduct this study, I used a unique hand-collected dataset of acquisitions in Turkey culled from publicly available data, all of which were obtained directly from the annual reports of the firms, Turkey’s Public Disclosure Platform (PDP) (which is operated by the Borsa Istanbul), and the Mergermarket database. The data source of the acquisition experience, announcements and completed dates, and the several control variables of this study came from the “Mergermarket” database, which is a globally comprehensive database for viewing any potential or announced M&A activities. The “deals” section of the Mergermarket database records the full acquisition histories, including announcements, completed dates, the names of the firms involved in the acquisition, deal value, the financial advisors used in the deal, the specified sector, the deal’s description, domestic geography, level of control stake acquired by the bidder firm, and the other material terms and conditions of the deal. The Mergermarket database also includes information about the relevant firms’ financial details. For the purpose of this study, I used Mergermarket’s M&A data for Turkey.

Alternative databases have also been utilised to examine the reliability of the obtained data. For this purpose, I looked at the Thomson Securities Data Corporation Platinum
(SDC – Thomson One) database. Mergermarket, which is owned by the Financial Times Group, and the SDC – Thomson One database are considered reliable and have been used previously in studies appearing in leading journals in other fields, such as economics and finance (e.g. Cohen et al., 2010; Laamanen and Keil, 2008). First, I extracted data from the Mergermarket database and listed the obtained deals. Then, if there were missing data in the Mergermarket database, I double-checked this information with the data obtained from SDC – Thomson One. To do this, I matched the same deals across the databases, and then compared the similarity of the announcements and the completed dates of the deals, firm names and other deal-specific information across the Mergermarket and SDC databases.

The challenge with combining multiple data sources is identifying the same firms across the datasets. While some standardised identifiers exist, such as stock tickers, they only exist for a limited number of firms, and are often incomplete or misspelled. To maximise the number of correct identifications and ensure correct data for the same firms across the data sources, I identified deals manually one-by-one and cross-matched them across all databases.

Acquisition experience data was collected from the Mergermarket database. After reaching the final dataset, I observed that many deals were conducted by the same firm within the database by using the database’s filtering options. I sorted deals based on the similarity of firm names.

Resource replacement data was obtained one-by-one from firms’ annual reports, firms’ official websites, publicly available documents and the Bloomberg database, as well as the Public Disclosure Platform (PDP) database, which is operated by the Borsa Istanbul. All publicly traded firms in Turkey have to disclose their financial details, explanatory notes related to their activities, material events and all other disclosures via the PDP. It enables one to obtain past notifications and general
information about all listed Turkish firms. The PDP database and firms’ annual reports were screened especially carefully to identify the required information of the M&A deals to be used in this research. I also examined target firms’ publicly available reports wherever accessible. If the target firm appeared as a publicly traded firm, I examined the target firm’s annual reports both prior to and after the acquisition to capture the change.

For instance, when considering top manager replacement, firstly, I searched the PDP database to capture any CEO replacement in the target firm. Then, I looked at the acquirer firm’s annual reports or officially disclosed notifications from their websites. If the target was also a listed firm at the time of acquisition, I examined the target firm’s annual reports as well. When I could not reach the intended data through publicly available sources, resource replacement was assessed by contacting the acquirer firm and requesting information about the post-acquisition decisions of the focal deal. At first, I contacted the relevant firm over the phone, though, in some instances, a written request was sent. If I did not reach the resource replacement decision after all these processes, the related observation appeared as a missing value in the dataset.

Finally, in order to ascertain the acquisition performance of the firms, both market return data and accounting data were extracted from the Datastream International database. This data included information on the share prices of the sample firms and accounting items. For market return data, I used the default price code on the Datastream. This mnemonic represents the official closing price adjusted for stock splits and dividends for the case of Turkey. This is the default data type for all equities. I also used Datastream’s market indices for Turkey, which can be attained with the indices of the Borsa Istanbul. Thus, for the accounting data which was obtained from the Datastream International database, the “WC01751 Net Income Available to Common” code was utilised; likewise, for the denominator of the ROA calculation, the code “WC02999 Total Assets” was used for the sake of this research.
5.4 Measures

In this section, I will introduce the measures used in this study. I will discuss the way how I operationalised the constructs developed in the models. Firstly, I will start my discussion by introducing performance indicators in measuring post-acquisition success. Then, I will describe how I calculated acquisition experience measures. Next, I will introduce resource replacement indicators. Following these three discussions, I will present the controls for the models. A summary of description of the measures can be found in Appendix B.

5.4.1 Acquisition Performance

The choice of performance measures can be a difficult issue facing researchers in organisational studies. One reason for this is the lack of consistency in the M&A literature. There are many studies which use a variety of performance measures when investigating the outcomes of acquisition activity. Researchers of M&A studies tend to believe that no measure of acquisition performance can be considered to be the most reliable choice (Zollo, 2009; King et al., 2004; Zollo and Meier, 2008; Hayward, 2002). Acquisition performance is used to assess the level of wealth which acquirers gain from their focal acquisition. The approach here is to explain whether changes in the pre- and post-acquisition performance of acquisitions of the observed firms can be explained by the hypotheses developed in Chapter 4.

Following many acquisition studies (Haleblian and Finkelstein, 1999; Hayward, 2002; Laamanen and Keil, 2008; Zollo and Meier, 2008), firstly, I used the acquirer firm’s short-term cumulative abnormal returns (CAR) following the acquisition. Then, an
alternative performance measure of accounting-based ROA was adopted. The short-term importance of an acquisition can be assessed by the price change in the acquirer’s stock during a period surrounding the event, which can be calculated as the difference between the observed and the predicted return for the same stock. Therefore, “the short-term impact of an event is measured by the part of the return that is unanticipated by an economic model of anticipated” (Haleblian et al., 2006, pp. 361). M&A scholars have largely relied on short-term stock market measure for evaluating M&A performance because changes in stock price can be attributed to the acquisition with relative confidence by reducing ‘noise’ from other potentially confounding factors (Haleblian et al., 2009). On the other hand, an alternative measure of long-term accounting-based ROA may better serve in predicting the synergies obtained from an acquisition during the implementation of M&A following the completion of the deal. Because, in that case, the use of an accounting approach in measuring acquisition performance is based on the comparison between pre- and post-acquisition financials of the acquirer firm in the long run. Thus, employing multiple focal acquisition performance measures of short-term CAR and long-term ROA are more appropriate for my dataset and for the purpose of the research.

As discussed in the literature review (Section 2.2.5), in their meta-analysis study, King et al. (2004) cumulated research findings for both the stock market and accounting based on measures of post-acquisition performance. From the market data perspective, acquisition performance is mostly measured through the short-term Cumulative Abnormal Returns (CAR) measure around the acquisition announcement based on event study methodology (see McWilliams and Siegel, 1997); this measure is the most widely accepted measure of acquisition performance (see King et al.’s (2004) meta-analysis of 93 acquisition studies). Moreover, according to Zollo and Meier’s (2008) review of the 88 M&A articles between 1970-2006, the largest group of acquisition performance studies used the short-term stock market approach, this being 36 studies (41 % of the examined sample) in their survey.
Long-term accounting measures were also commonly used in acquisition studies, especially in strategic management and organisation studies journals, containing 28% of all M&A studies and coming as the second most-used measure with 25 studies (Zollo and Meier, 2008). In this study, consistent with the acquisition studies that examined acquisition performance, (e.g. Halebian and Finkelstein, 1999; Delong and Deyoung, 2007; Selcuk and Yilmaz, 2011; Harrison and Godfrey, 1997) I also used the long-term accounting measure known as Return on Assets (ROA) as an alternative analysis for this research.

Thus, one of the strengths of this research is the combination of both market and accounting data to explore the study’s hypotheses further, and to boost the robustness of the findings. In the following two sections, I will discuss these performance measures (including both stock market- and accounting-based approaches) in more detail.

5.4.1.1 The Stock Market-Based Measurement (CAR)

The acquisition performance of this study was measured by calculating the firm’s Cumulative Abnormal Returns (CAR) by using event study methodology (McWilliams and Siegel, 1997; King et al., 2004).

Performance measurement is always driven by a careful consideration of different trade-offs, and especially by the aim of the study (Zollo, 2009). First of all, the performance measurement should deal with the objectivity issue. Any possible bias which may arise from subjective assessments needs to be treated with caution if it is going to be used as a performance indicator for focal acquisitions (Saunders et al., 2009). The performance indicator should be as objectively measurable as possible and avoid the issue of manipulability. Therefore, a researcher should be very careful in
using the subjective assessment of acquisition performance by an acquirer firm’s managers, as it can be subject to manipulation (Bryman, 2008). This condition rules out the use of subjective assessment of acquisition performance. Thus, external assessment is required for objectivity.

Moreover, given the aim of this study, and since financial and accounting reports are available only periodically, there is often a lengthy time gap between an acquisition and the next available financial results. I, however, am seeking an effect only from the focal acquisition. During this gap of time, many confounding factors apart from the acquisition activity may influence the reported excessive accounting results (Haleblian et al., 2006). In particular, some firms in my sample made more than one acquisition during a given year. Furthermore, accounting data from financial reports may not make an express distinction between the performance effects of single acquisitions made in the same financial reporting period and other organisational activities. Thus, it may be tricky to separate the effects of any focal acquisition effect precisely from the accounting measures.

The CAR has been by far the most frequently used analytic approach for measuring acquisition performance in acquisition studies and in the strategic management literature (King et al., 2004; Zollo and Meier, 2008; Haleblian et al., 2009). Haleblian and Finkelstein (1999), Hayward (2002), Laamanen and Keil (2008) and McDonald et al. (2008) also used this method to assess whether acquirers learn from their experience. According to Hayward (2002, pp. 26), “there is some evidence that this ex ante measure also predicts the ultimate performance of an acquisition”. Utilisation of a market-based measure provides a market assessment of the changes in the future performance of the firm (Powell, 1997). I followed the same path as the received acquisition literature mentioned above, and used stock market measurement to predict acquisition performance.
Additionally, the CAR, which an acquirer firm is able to achieve in the focal acquisition, is a good proxy for the acquisition management performance of the firm (Haleblian and Finkelstein, 1999). Given the fact that firms must pursue many other organisational activities following an acquisition, coupled with a lack of objectively strong assumptions about which effects belong to which activity, we may miss the impact of managerial decisions in the post-acquisition period if we use longer period measures. Researchers assume that the CAR measure can evaluate the firm’s ability to select the appropriate target and to implement the acquisition successfully through immediate market reactions (Anand et al., 2005; Hayward, 2002).

Regarding the Hypotheses 2, 3, 4, and 5, resource replacement decisions are put into action after the completion of the negotiation process and successful agreement between both parties. I chose the short-term stock market return measure CAR along with the long-term accounting measure ROA in order to assess the hypotheses. Events that happened during the post-M&A integration period were anticipated when using the short-term stock market return measure CAR. I re-assume that these resource replacement decisions were part of the negotiation at the time of the deal. Therefore, I carefully selected resource replacement proxies of top manager, headquarter, and brand name. I assume that integration decisions about these key resources are likely to be known at the time of the official announcement.

Negotiation is a fundamental element of a pre-M&A deal process. Generally, firms deal with major resource replacement issues at the definitive agreement stage. Then, the deal officially announces to the public with the rationale, details, and terms and conditions of the deal. The main database of this research, Mergermarket, already includes some of this information. In other cases, I searched the firm’s websites, their annual reports, and the public disclosure platform database. For instance, in the case of Teknosa’s acquisition of Primex, the announcement explicitly revealed that during the post-M&A period, the former majority owner of Primex will become the general manager of Teknosa Romania. More recently, it is revealed by Yildiz Holding on the day of United Biscuits takeover announcement that they apply independent
management model that it’s been successfully implementing at Godiva. These cases further prove that financial markets have information about resource replacement strategies at the time of the deal.

Subsequently, the CAR in each acquisition can also be considered as the market’s objective estimate of the firm’s acquisition capability applied to a particular acquisition at a given point in time (e.g. Arikan and McGahan, 2010; Zollo and Singh, 2004). Therefore, stock market measurements are an appropriate performance measure for this study. Moreover, scholars argued that this ex ante measure of acquisition performance could serve this study’s goals by estimating ex post performance successfully (Haleblian and Finkelstein, 1999).

5.4.1.1 Event Study Methodology

In this study, I used event study methodology in order to calculate CAR. The benefit of this methodology comes from the fact that the influence of a focal acquisition is assumed to reflect the market reaction immediately upon the arrival of new information (Campbell et al., 1997; McWilliams and Siegel, 1997). In this section, I will describe the process of conducting an event study to measure CAR for this research.

Event study methodology provides a measure of value creation for investors. Theoretically, stock prices can be counted as the present value of expected future cash flows within the efficiency argument (Tuch and O’Sullivan, 2007). If the markets were not efficient, the new information would get adjusted gradually. Given rationality in the marketplace, results from event studies assume that the market responds rapidly to the new information, and reaction to the stock price can be seen within a short time period following deal announcement (Campbell et al., 1997).
Therefore, using this method, researchers determine whether there is an abnormal stock price outcome related to the focal acquisitions.

In this research, an event study methodology is employed to measure abnormal returns of the acquirer in public deals. The focus is the effect of an event on the price of the sampled firms. For the purpose of this study, I measured acquisition performance in terms of excess stock returns. The first part in conducting an event study is to describe the event of interest. In this case, I linked the event of interest with the announcement of the acquisition, which is \( t = 0 \). The next part is the identification of the event window, which covers the period in which the stock price of the firms was involved in the acquisition event. After determining this event window, it is examined to capture the effects of the event on stock prices. In this research, immediate acquisition returns are the abnormal returns of the acquirer firms as measured over a 3-day interval (the day of the acquisition announcement and the days immediately prior to and after the focal acquisition’s announcement). Additional event windows around the announcement date were selected to capture some of the common CAR windows employed in the M&A literature for later comparison of the results, and for robustness. Small window intervals are more powerful in predicting accurate market reactions to an event while large window intervals may capture the effect of unrelated events to the acquisition. Thus, the window around an event should be set carefully (Haleblian and Finkelstein, 1999).

The event period is usually centred on the announcement date. To remove any bias due to changes in a firm’s characteristics around the acquisition announcement date, I use short term windows, as this is consistent with previous studies (Capron and Shen, 2007; Haleblian and Finkelstein, 1999). In the supplementary analyses, I also measured immediate acquisition abnormal returns of the acquirer firms over 5-day (two days prior to the acquisition announcement and two days after the announcement), 7-day, 9-day, and 11-day intervals. These windows are \( (t = -2, 0…+2), (t = -3…0…+3), (t = -4…0…+4) \) and \( (t = -5…0…+5) \) day intervals for the short-term CAR analysis.
The announcement date, which is day 0 ($t = 0$) is the one given by the Mergermarket Database. These intervals are the most commonly used windows in both management and finance literatures (see King et al.’s (2004) meta-analysis of 93 M&A studies), as the short time period ensures our estimates are not vulnerable to noise in the data, such as other important events. For instance, whereas Brown and Warner (1985), suggest the eleven-day window ($t = -5\ldots0\ldots+5$), most researchers (Campbell and Wasley, 1993; Kaplan and Weisbach, 1992; Haleblian and Finkelstein, 1999) use the commonly applied 5-day window intervals ($t = -2\ldots0\ldots+2$). Moreover, in order to be more accurate about the market reaction to the acquisition announcements and to portray the immediate lead effects, a 3-day window ($t = -1, 0\ldots +1$) around the announcement date is also frequently used (Conn et al., 2005; Arnold and Parker, 2007).

Consistent with prior literature (Hayward, 2002; Meyer-Doyle, 2012; Capron and Shen, 2007), another reason for using different time intervals was to avoid bias that may derive from information leakage. Thus, longer intervals seek to take out the effect of acquisition news that could already be circulated in the market before the announcement and potentially affect stock prices.

Subsequently, in order to evaluate the impact of focal acquisition in my dataset, I needed a measure for the predicted returns. This is the return expected in absence of any event, for each day $t$ in the event window for each firm $i$. There are three methods that are often used in acquisition performance studies. These are the mean adjusted return, the market model, and the market adjusted return methods (Brown and Warner 1985). Consistent with the literature, the approach for this study is based on computing a market-adjusted model for each firm in my dataset and then calculating for abnormal returns. This is a preferred method for calculating abnormal returns designed by Brown and Warner (1980), and is practiced in both strategic management and finance literatures (e.g., Jensen and Murphy, 1990; Walsh and
Kosnik, 1993). This method implicitly adopts the assumption that the acquisition event is exogenous with regards to changes in market value of the stock (Campbell et al., 1997). That is to say, the change in stock price of the firm is correlated with the acquisition event.

Following Laamanen and Keil (2008), and Haleblain and Finkelstein (1999), I did not use the capital asset pricing model (CAPM) for calculating the CAR for the acquirer firms, due to potential problems of identifying the beta in previous studies (Fama and French, 1996). It was suggested by Brown and Warner (1980, 1985) that even though the market-adjusted model is very simple, it leads to deriving expected and abnormal returns in a more powerful way than the other more complex models. The market-adjusted model assumes that the stocks’ expected returns, in any period, are the same as the expected market returns in that period (Jensen and Murphy, 1990). Thus, the expected return for a security in period \( t \) would be equal to the market return in period \( t \).

Moreover, it can be said that the market-adjusted model is an approximation of the capital asset pricing model and assumes that the ordinary least squares regression is set to 0 and 1 respectively for each stock (Campbell et al., 1997). As a result, the market model equation mutates into the market-adjusted returns model equation. Since the parameters are predefined, a separate estimation window is not necessary.

The daily excess returns of a firm \( i \) for day \( t \) (\( AR_{i,t} \)) is thus estimated as:

\[
AR_{i,t} = R_{i,t} - R_{m,t}
\]  

(5.1)

where:

\( AR_{i,t} = \) Abnormal return for firm \( i \) on day \( t \). That is, the rate of return on the stock is adjusted by subtracting the normal return (\( R_{m,t} \)) from the actual return (\( R_{i,t} \));
\( R_{it} = \) observed individual firm \( i \)'s return for day \( t \) (Actual Return);

and \( R_{mt} = \) return on the Borsa Istanbul market index for the same day \( t \) (Normal Return).

The actual return and the market return are computed with the continuously compounded return, which requires the use of natural logarithms of two successive daily prices. In this case, the returns are calculated by means of the following equations:

\[
R_{it} = \ln(p_{it}) - \ln(p_{it-1}) \quad (i)
\]

\[
R_{mt} = \ln(p_{mt}) - \ln(p_{mt-1}) \quad (ii)
\]

where \( p_t \) = the closing stock price for firm \( i \) on the day of the event \( t \), and \( p_{t-1} \) = the closing stock price for firm \( i \) one day before the acquisition announcement \((t - 1)\).

Then, the abnormal return calculations are aggregated into the cross-section in order to draw overall inferences. I define \( CAR_i(t_1, t_2) \) as the cumulative abnormal return for firm \( i \) from day \( t_1 \) to day \( t_2 \), where \( T_1 < t_1 < t_2 \leq T_2 \) (Campbell et al., 1997).

The Cumulative Abnormal Return (CAR) measure may be given as follows:

\[
CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{i,t} \quad (5.2).
\]

For example, the 3-day event period \((t = -1, 0, +1)\) for firm \( i \) can be expressed as;

\[
CAR_i(-1, +1) = \sum_{t=-1}^{+1} AR_{i,t} \quad (iii).
\]
To interpret the results clearly, a measure for statistical significance is required. This can be done by calculating the t-statistic of cumulative abnormal returns $CAR_i( t_1, t_2)$ across all acquirers ($i = 1 \ldots N$). Then, within a certain level of confidence, I can infer whether these abnormal returns and cumulative abnormal returns differ from zero. For this, I use the cross-sectional t-test method, which was used by Brown and Warner (1980) in order to make my interpretations. In this method, the estimation period estimates of variance are ignored and the event window cross-sectional standard deviation is used for its t-test.

A statistical test of the cumulative abnormal returns are commonly based on the cumulative average abnormal return $CAAR( t_1, t_2)$ measurement. For a sample of $N$ stocks, the cross-sectional means that the cumulative abnormal return is stated as a cumulative average abnormal return $CAAR( t_1, t_2)$. The equation may be defined as:

$$CAAR( t_1, t_2) = \frac{1}{N} \sum_{i=1}^{N} CAR_i( t_1, t_2)$$

(5.3).

Under the null hypothesis, the cumulative average abnormal return is equal to zero. The standard deviation of the cumulative average abnormal return is calculated on the basis of the standard deviation of the cumulative abnormal return $CAR_i( t_1, t_2)$ of each sample security (Brown and Warner, 1980). The variance estimator of this statistic is based on the cross-section of cumulative average abnormal returns $CAAR( t_1, t_2)$, where:

$$\sigma^2_{CAAR( t_1, t_2)} = \frac{1}{N} \sum_{i=1}^{N} [CAR_i( t_1, t_2) - CAAR( t_1, t_2)]^2$$

(5.4).

Then, the cross-sectional t-test, which was used by Brown and Warner (1980) can be computed as:
Brown and Warner (1980) show that the cross-sectional t-test is robust to an event-induced variance increase.

\[ T = \frac{CAAR(t_1, t_2)}{σ_{CAAR}} \]  \hspace{1cm} (5.5).

5.4.1.2 The Accounting-Based Measure (ROA)

I also measured the long-run change of acquisition performance through Return on Assets (ROA) to examine the impact of the focal acquisition on firm performance, as well as to test the robustness of my results. Accounting data is an important formal source that informs internal and external stakeholders about the health of the firm through accounting reports. Therefore, as an alternative to the main stock market-based approach, accounting measures allow us to estimate the difference in firm performance of the acquirer firm in pre- and post-M&A years, and are one of the main performance measures for M&A studies (Ramaswamy, 1997).

Although the CAR is the most appropriate and practical measure of acquisition performance for this study, in organisational studies there is simply no perfect measure that captures the exact effect (Zollo, 2009). Given the fact that all measurements have their own drawbacks and limitations, the main performance measure of CAR may also have some downsides. It is the collective response of investors regarding the potential performance implications of an acquisition rather than the realised benefits of the acquisition (Cannella and Hambrick, 1993). For this reason, I used short time windows. I also conducted a supplemental analysis in which I utilised an accounting measurement based on the acquirer firm’s pre- and post-acquisition performance via Return on Assets (ROA) for the robustness of the CAR.
There are some other compelling reasons for measuring the long-term acquisition effect based on an accounting measurement. Accounting measures are able to capture the actual financial performance of the firm over a period of time (Delong and Deyoung, 2007). Moreover, the accounting ratio allows me to analyse the overall financial performance of a firm following a focal acquisition. Additionally, as one of the aims of this study is to examine the firm’s resource replacement decisions during the post-acquisition period, the long-term accounting-based measurement ROA can serve this purpose.

Furthermore, Harrison and Godfrey (1997) and Halebian and Finkelstein (1999) found that the stock market-based event abnormal return method was positively associated with a change in ROA measurements, demonstrating that markets can predict the future profitability of an acquisition at the time of an announcement. Hence, acquirer abnormal returns, an ex-ante measure of acquisition performance, have been shown to predict ex post performance successfully. In this regard, prior research has shown that the CAR measure is highly convergent with other accounting measures of performance (e.g. Kale et al., 2002).

Following the prior literature on acquisition studies (Zollo and Reuer, 2010; Akben-Selcuk, 2008; Delong and Deyoung, 2007; Halebian and Finkelstein, 1999), I also defined acquisition performance of ROA as the change between pre-acquisition to post-acquisition.

I also used the following method to assess changes in acquisition performance:

\[
\text{Accounting Performance ROA}_{it} = \frac{\text{Net Income}_{it}}{\text{Total Assets}_{it}}
\]

(5.6).

where

Accounting Performance ROA \(_{it}\) is the return on asset for acquirer firm \(i\) in year \(t\);
\[ Net \text{\ Text}_{i,t} \] is the net income for acquirer firm \( i \) in year \( t \);

\[ Total \text{\ Text}_{i,t} \] is the total assets for acquirer firm \( i \) in year \( t \).

ROA is the predominant measure of operating performance in M&A studies (King et al., 2004; Dickerson et al., 1997). ROA is calculated using the net income as a percentage of the average total assets. In order to assess the changes in the ROA of the acquirer firms, and as consistent with prior literature (Zollo and Singh, 2004; Selcuk and Yilmaz, 2011), I also employed the change model. In line with Zollo and Singh (2004) and Zollo and Reuer (2010), the post-acquisition performance of a firm was compared to its pre-acquisition performance. In this regard, I used a 3-year window and calculated change in the ROA of the acquirer firm as the difference between the ROA of the firm one year after the focal acquisition versus the same performance measure with one year before the acquisition and divided into the ROA one year before the acquisition year. Thus,

\[ \Delta ROA_{i,t} = ROA_{i,t+1} - ROA_{i,t-1} \]  \hspace{1cm} (5.7)

where

Accounting Performance \( \Delta ROA_{i,t} \) is the change in return on assets for acquirer firm \( i \) in year \( t \),

\( ROA_{i,t+1} \) is the return on assets for acquirer firm \( i \) in year \( t + 1 \),

\( ROA_{i,t-1} \) is the return on assets for acquiring firm \( i \) in years \( t - 1 \).

Following prior acquisition studies’ method of using an accounting measurement to capture acquisition performance (Haleblian and Finkelstein, 1999; Zollo and Singh, 2004; Selcuk and Yilmaz, 2011; Barkeman and Schijven, 2008), the focal acquisition year is omitted from the comparison approach because it usually includes the
integration decisions of the acquirer firm when the acquirer and target firms merge. Acquisitions can happen at any time during the firms’ accounting period. Given the importance of objective constructions for the acquisition of performance measures, in line with the studies mentioned above, I set a standard frame to calculate the sampled firms’ ROA. Longer accounting periods after the acquisition represent a compromise in that long-term accounting approach and may introduce confounding decisions and events into the performance measure (Zollo and Reuer, 2010). That is to say, acquisition performance may recognise a number of typical events or other important organisational activities that may affect the performance and mislead comparisons.

Consequently, the evidence of predictive validity mentioned above increases the confidence in using abnormal returns as a reasonable tool for ascertaining the firm’s main acquisition performance, as well as in the accounting-based approach ROA as an alternative measure for this study. My interest in this research is the performance implications of organisational learning through acquisition experience and integration decisions in the acquiring firms; thus, it is appropriate to use a market-based performance measure to analyse the robustness of the accounting-based measurement. Even though each acquisition performance indicator has its own strengths and drawbacks, the performance measurements used in this study served the purpose of this study; furthermore, they were attractive options in terms of objectivity and were capable of examining multiple dimensions of performance.

5.4.2 Acquisition Experience

In the first part of this research, I examined the effect between acquisition experience and acquisition performance. In the first sub-hypothesis of the acquisition experience phenomenon (H1a), I predicted a positive relationship between the number of acquisition experiences and acquisition performance. In the second sub-hypothesis (H1b), I suggested a positive association between any prior acquisition experiences
and acquisition performance. Later, I suggested that similarity of prior relatedness positively influences acquisition performance (H1c). Similarly, I hypothesised that the similarity of the prior and the focal deal characteristics in terms of cross-border and domestic acquisitions has a positive effect on acquisition performance (H1d). Lastly, I proposed that at the group level any prior acquisition experience has a positive relationship with acquisition performance (H1e). A summary of the all measures used in this study can be found in Appendix B.

Most strategic management scholars would define organisational learning as a change in the firm’s knowledge that arises from experiencing a certain task (Fiol and Lyles, 1985; Argote, 2012). This knowledge can appear as changes in organisational cognition or managerial behaviour, which contains tacit, explicit, and hard-to-articulate mechanisms. On the other hand, it is difficult to conceptualise knowledge at the firm level of analysis. Some scholars have assessed firm-level knowledge by measuring of the thoughts and opinions of firm employees (Huff and Jenkins, 2002); while others have examined routines and practices in which the knowledge is embedded, observing changes within these routines and practices as reflections of changes in knowledge (Levitt and March, 1988). Current qualitative or subjective-managerial approaches to measuring organisational learning by means of examining changes in cognitions are not able to capture tacit or hard-to-define knowledge; thus, they are not generalisable to organisational learning (Argote and Miron-Spektor, 2011; Argote, 2012). In contrast, approaches evaluating knowledge acquisition by measuring changes in performance have the benefit of capturing knowledge gained through experience (Argote and Miron-Spektor, 2011). Thus, given the difficulties of measuring firms’ gained knowledge and organisational learning through qualitative research, and by following many strategic management scholars (Haleblian and Finkelstein, 1999; Hayward, 2002; Zollo and Singh, 2004), I will also use a quantitative research method for examining the hypotheses of this research. This procedure may have advantages in terms of providing more objectivity to the study.
I examined acquisition experience by means of five different measures. The sub-
groups of acquisition experience that were computed for the purpose of testing the
hypotheses developed in Chapter 3 are as follows: i) the number of acquisition
experiences; ii) any prior acquisition experience dummies; iii) the similarity of prior
industrial relatedness; iv) the similarity of prior geographical relatedness; and v) the
group level of acquisition experience dummies.

Some scholars (Laamanen and Keil, 2008; Hayward, 2002) have suggested using time
windows of no more than 5 years due to diminishing organisational memory. These
scholars have argued that firms may forget the knowledge that they gained from
acquisitions and that the corporate learning curve declines after five years. Following
their example, I also used 5-year time windows to examine firms’ prior acquisition
experiences. In order to supplement my analyses and make my tests more robust, I re-
ran the models by using alternative time windows (2 years, 3 years, 4, years, 5 years,
and 7 years) to accumulate acquisition experiences by taking account of all
acquisitions made 2, 3, 5, and 7 years prior to the focal acquisition.

The first predictor of acquisition performance is the traditional acquisition experience
measure used by many strategic management researchers (Fowler and Schmidt, 1989;
Hasepslagh and Jemison, 1991; Hitt et al., 2001; Halebian and Finkelstein, 1999;
Ingram and Baum, 1997; Zollo and Singh, 2004; Hayward, 2002). I computed
acquisition experience as the number of acquisitions completed by the acquirer’s firm
in my sample prior to my window of observation and coded them as ‘acqexp’ in the
analysis.

Secondly, I created the firm-level acquisition experience dummy, which I coded as
‘firmexpdummy’. The dummy receives a score of 1 if the firm had any prior
acquisition experience within the past 5 years, a 0 otherwise.
Thirdly, consistent with prior research (Hayward, 2002; Haleblian and Finkelstein, 1999; Laamanen and Keil 2008), I determined the similarity of prior relatedness as the similarity of businesses across targets. In other words, this measure examines the similarity between all of the businesses prior to the focal acquisition. According to some studies, this measure is referred to as a “target-to-target similarity” (Haleblian and Finkelstein, 1999; Laamanen and Keil, 2008). I employed a similar method to these previous studies, but rather taking a series of prior acquisitions, I only considered two consecutive acquisitions—the focal acquisition and the preceding acquisition—for the purpose of constructing the “priorrelated” measure. In other words, firms are better able to adapt more recent knowledge. According to this measure, if the prior acquisition is within the same SIC code as the focal acquisition, the dummy is given a 1; otherwise, a 0.

Fourthly, I extended the similarity argument and created a new proxy to predict the impact of acquisition experience on acquisition performance. In this acquisition experience sub-group, I measured the similarity of the prior acquisition in terms of its geographical relatedness. Thus, the “priorcrossborder” measure compares the focal acquisition with the prior acquisition in terms of being made in the same geographic area. For instance, if both the focal and the preceding acquisitions were either made domestically or were both cross-border acquisitions, the measurement assumes that they possess similar deal characteristics. Consequently, if the focal and the preceding acquisitions are characterised as being domestic or cross-border acquisitions then the “priorcrossborder” dummy takes a 1; otherwise, a 0.

Lastly, the previous literature usually assessed the acquisition experience phenomenon at the firm level and in some cases at the transaction and individual levels. I created a new acquisition performance measure in order to assess learning at the group level. Given the nature of Turkish corporate structure, where many publicly-traded firms operate as subsidiaries to business groups or as business groups themselves, I extended the acquisition experience argument and examined the phenomenon at the group level as well. In this study, the group level dummy measure
is coded as "groupexpdummy". According to the "groupexpdummy", if the business
group or its subsidiary had any prior deals in the past 5 years before the focal
acquisition, the dummy receives a 1; otherwise, a 0.

Zollo and Meier (2008, pp. 56) argued that, at the deal level, "the performance of the
entire acquisition encompasses all the phases of the acquisition process and focuses
on the actual value creation eventually generated by the acquisition". At the same
time, the value created through the acquisition will have a positive effect on overall
firm performance (Haseslagh and Jemison, 1991). In line with the prior acquisition
literature mentioned in Section 2.2.4.1, acquisition experience was defined at the firm
level. In such cases, the unit of analysis for this research is the acquisition that the
sampled firms completed at the firm level. This measure directly taps into the
accumulation of prior experiences, thereby providing a more accurate picture of
which firms develop acquisition capabilities through organisational learning and how.

5.4.3 Resource Replacement

I measured acquirers' post-acquisition management decisions by examining their
resource replacement after the focal acquisition. In the sub-groups of resource
replacement hypotheses, I predicted a positive relationship between acquisition
performance and degree of resource replacement (Hypothesis 2a), top manager
replacement (Hypothesis 3a), name replacement (Hypothesis 4a), and headquarter
replacement (Hypothesis 4b) respectively. Then, I divided each of my resource
replacement arguments into two: namely, cross-border and domestic acquisitions. I
expected a negative relationship between the sub-groups of the resource replacement
arguments in cross-border acquisitions and acquisition performance, but a positive
relationship between the same arguments in domestic acquisitions and acquisition
performance. In order to investigate the resource replacement measures associated
during the post-acquisition period, I drew on existing research to construct variables
(Anand et al., 2005; Zollo and Singh, 2004). I identified three main resources which examine post-acquisition resource transfer and which could be important indicators of the reconfiguration capability of building mechanisms. These resources were top manager change, firm name change, and headquarters change. These three resource replacement decisions are coded as “CEOchange”, “namechange”, and “hqchange”, respectively. These measures are proxies for the assessment of post-acquisition strategies and the development of integration capability mechanisms as discussed in Chapter 4. For the purpose of this research, I examined the effect of these resource changes on acquisition performance by using the short-term market model. I use four different sub-groups of resource replacement variables: namely, degree of “resource replacement”, “CEOchange”, “hqchange”, and “namechange”.

In the first group of resource replacement, I associate degree of resource replacement with the number of resource changes in the target firm. This measurement is coded as “degree”. Therefore, out of the 3 identified resources, if an acquirer’s firm replaces all of the target firm’s resources, the “degree” scores 3; if they changed any two of these resources, the “degree” receives a score of 2; if only one resource is replaced, the “degree” measure gets 1; and if none of them are replaced, the “degree” obtained is 0. Measuring the extent of these resource replacements following the focal acquisition allows me to capture not only the degree of resource replacement but also the patterns of their being able to reconfigure the building mechanism and develop their integration capability.

Secondly, in order to capture the replacement of CEOs in the target firm, I included a dummy indicating whether a CEO replacement occurred within a year’s time (i.e. 12 months) following the announcement date of the acquisition. These CEO changes were mainly identified via firms’ annual reports and publicly available data. Publicly traded firms reveal their reports both periodically and annually. These reports include those firms’ organisational activities. For example, if a deal occurred in 2007, in order to identify the CEO replacement trends of the target firm, I examined both the 2007 and 2008 annual reports of the acquiring firm. In this case, the post-acquisition period
started with the announcement date of the deal. If there was a change in the top managers of the target firm following the focal acquisition, the “CEOchange” dummy took the value 1; otherwise, 0.

Top managers are the people in charge of the target firm. This person could be a chairman, a president, a CEO, or a general manager of the firm. Thus, I qualified top managers as individuals who hold the highest ranking position in the firm. According to previous studies (Barkema and Schijven, 2008; Cannella and Hambrick, 1993), top manager change in the target firm triggers major organisational change and is a significant determinant of post-acquisition performance. I refer to this as “CEOchange” in this research. In some cases, the change of the target firm’s top manager, or other resource replacement measures, cannot be determined due to a lack of information. When it could not be accurately be determined whether there was a change or not, I contacted the related firm. Where I could not reach the firm, the resource replacement dummy appears as a missing value in the dataset.

Thirdly, the process of measuring name change in target firms is roughly similar to the process of determining the aforementioned resource replacement measures. In order to find this data, I researched the firms’ annual reports, their official websites, and their public disclosure platform (PDP) data. This hand-collected data appears as “namechange” in the analysis. I then attempted to find out whether a name change occurred in the target firm during the one-year post-acquisition period after the announcement date. Thus, the “namechange” dummy received a score of 1 if the target firm’s name was replaced with another name after the completion of the acquisition and 0 otherwise.

Finally, according to the literature, there is no certain way of measuring headquarters (HQ) location (Birkinshaw et al., 2006). Prior research considered three relevant indicators: the legal domicile, the location of the top management team, and the
location of the various HQ functions. In this study, my approach for choosing HQ location is consistent with Birkinshaw et al. (2006). In this regard, HQ location is determined based on the firm’s address as stated in the firm’s annual report. Annual reports contain the HQ addresses of the firms and their addresses. Therefore, as the same as other resource replacement measures, “hqchange” refers to the unique hand-collected data which was obtained from the firm’s annual reports, PDP database, their official websites, and other publicly available data.

I operationalised the headquarters replacement of the target firm as a dummy variable. Likewise, I also measured the headquarters change variable, ‘hqchange’, by creating a dummy which is given the value of 1 if a target firm’s headquarters is replaced within 1 year’s (12 months’) time after the announcement date of the deal, and 0 otherwise.

5.4.4 Controls

Cross-border: In this research, I used a traditional domestic versus cross-border measure on focal acquisition in order to investigate whether acquiring a domestic versus a cross-border firm changes acquisition performance. I assessed domestic versus cross-border acquisition with a dummy measure named “crossborder”. It received the value 1 if a Turkish firm acquired a foreign firm and a 0 if it acquired another firm from Turkey. I define cross-border deals as acquisitions of foreign firms only by firms listed on the Borsa Istanbul.

Geography, in relation to a firm, is defined by the dominant geography of the target and the acquirer firms. The dominant geography is the location of the headquarters of the firm in question. Geographic scope tends to affect firm performance (Barkema and Schijven, 2008; Hitt et al., 1997). There is a large body of literature (commonly known as internalisation theory) which argues that cross-border acquisitions are mainly determined by the willingness of the acquirer to divert its excess resources and to make use of the target’s location-specific resources – something which is necessary
in order to make the redeployment of other resources practicable (Capron, 1999; Hennart, 1982; Morck and Yeung, 1992).

As mentioned earlier in the literature review section, I also investigated whether the fact of acquiring a domestic versus a cross-border firm increases the market performance of the firm, as well as how these firms manage their acquired resources. I argued that emerging market firms are more likely to apply a smoother integration process and to keep the target’s resources in cross-border deals. By employing domestic versus cross-border measurements, I tested the third, fourth, and fifth hypotheses; they predicted that the effects of acquisition performance and resource replacement measurements depend on the contextual characteristics of the deal. I also controlled the ‘cross-border’ measure in all models.

**Relatedness:** Following the precedent set by other acquisition studies (Haleblian and Finkelstein, 1999; Anand et al., 2005; Zollo and Singh, 2004), I employed the target-to-acquirer business similarity measure for the sake of this research. This traditional control measure aims to analyse industrial relatedness between the acquirer and the target in the focal acquisition. This measure has been viewed as being a key antecedent to acquisition performance, even though empirical evidence on the industrial relatedness-performance relationship has been mixed (Stahl and Voigt 2008, King et al. 2008). Given the importance of the choice in diversification measures, I was concerned with the nature of the relationship of the acquiring firm with the target firm.

Following many prior studies’ approaches (Rumelt, 1974; Porter, 1987; Harrison et al., 1991), I compared the target and acquirer two-digit SIC codes. If the deal falls into the same two-digit SIC code, the “related” dummy takes the value 1, and 0 otherwise. If the deal aims to diversify acquirer firms’ businesses, it takes a different SIC code and the “relatedness” score is 0. The data required making the distinction between
related and unrelated acquisitions. The deals’ two-digit SIC codes were collected from the Mergermarket database.

**Cash:** Payment (cash, stock, or mixed) may influence post-acquisition performance (Muehlfeld et al., 2012; Capron and Shen, 2007). Cash generates more wealth for target shareholders. Moreover, cash facilitates appraisal, reducing the scope for disagreement throughout the public takeover period. I included a “cash” dummy where 1 signified that the predominant mode of payment was cash. 0, on the other hand, denoted stock payments or a combination of cash and stock. Data about the method of payment was obtained from the Mergermarket database.

**Advisory:** Similar to Hayward (2002), ‘advisory’ is a dummy for when external advisors have been engaged during the M&A process. If advisors were used during the acquisition process, the dummy takes 1; otherwise, it takes 0. In this case, an acquirer may lack acquisition skills and thus use an advisor to assist with the deal financially, legally, or with the decision-making process.

**Hostile:** The attitude of an M&A may vary from friendly to hostile. In hostile M&A, targets take actions to make it less likely for acquirers to succeed (Haleblian and Fineklstein, 1999). Hostile acquisitions may negatively affect acquirer returns by attracting multiple bidders who lead to premium increases in the deal. Attitude data were collected from the Mergermarket database. I coded hostile acquisitions as 1 and friendly or neutral acquisitions as 0.

**Maturity:** Older firms often have more resources, management skills and legitimacy, all of which are helpful in executing successful acquisitions (Yiu et al., 2005). I created a firm maturity proxy which measured the difference between the establishment years of the acquirer and target firms. This was included in the model in
order to identify the older firm in terms of the years and control for these potential effects. The “maturity” dummy takes 1 if the acquirer firm’s establishment date was older than the target firms and 0 if not.

**Stake:** ‘Stake’ is a dummy which indicates that the acquiring firm controls stakes in the acquired firm. Wholly-owned deals get 1; otherwise, they receive a 0. Whole acquisition deals were defined as those in which the acquiring firm gained majority ownership of the target firm. Bigger controlling stakes lead to more power over the decision-making process and increase the firm’s performance.

### 5.5 Determinants of Acquisition Performance

In this section, I will present the models which are used in this study to test the hypotheses presented in Chapter 4. I will start by explaining the methods used in this study. Then, I will introduce the tests and models utilised.

The first general hypothesis tested in this study is whether firms with acquisition experience tend to enjoy better acquisition performance when compared with firms without acquisition experience (Hypothesis 1). For the second main hypothesis, I examined whether post-acquisition integration decisions lead to better performance in the acquirer firm, as presented in hypotheses 2, 3, 4, and 5. Since the comparison between the firms that replaced the target’s resources and those without any changes were tested in terms of their acquisition performance, I investigated whether any improvements in the post-acquisition market performance of firms could be explained by the acquisition experience or resource replacement measures using a multiple regression analysis.
I employed two approaches for the purpose of testing these hypotheses. One way to test the hypotheses is to compare whether the mean levels of the acquisition performance variables of the same firm are higher than the expected levels using an independent samples t-test. Thus, the first thing which was done was to conduct a t-test. Secondly, the estimation method used was ordinary least squares (OLS) regression. Regression is a tool frequently used by researchers to test the validity of hypothesised functional relationships relating to M&A performance. The OLS regression was considered suitable for the present study as it is a technique that can measure the effects of several independent, as well as dependent, variables of post-M&A performance.

5.5.1 Univariate Analysis

A statistical hypothesis is a proposition about one or more parameters of population distribution, one which requires formulation and which can test the relationship between variables (Blumberg et al., 2005). In particular, hypotheses guide the direction of the research by indicating whether the relationship between variables is statistically significant. This allows one to identify which factors are relevant, as well as what the most appropriate research design and framework for the research is. The main hypotheses are tested to find the relationship between dependent and independent variables.

I argue that the post-acquisition performance of firms is not a homogenous phenomenon. Rather, it is a complex, dynamic phenomenon that has diverse rates of stock market returns depending on the firm’s choice of post-M&A management, how it manages its resources, the industry it is active in, and other deal-related factors, as well as the choice of target. The main aim of this study is to test the deductive model in order to examine the relationship between post-M&A management decisions and post-M&A organisational stock market performance. It is also worth considering
whether acquisitions are structurally heterogeneous; therefore, this relationship can also be investigated under different research conditions.

For the first method for testing the hypotheses of this study, I conducted a t-test with the sub-samples in order to test Hypotheses 1b, 1c, 1d, 1e, 3, 4, and 5. All t-tests were conducted on the basis of a 95% confidence interval. There are two main independent variables in this research, namely acquisition experience and resource replacement. The main tool used for the independent sample t-test method is the mean score of the variables, which is defined as the sum of data divided by the number of sub-pieces (Hamilton, 2008). In this part, the independent sample t-test was the technique used for assessing univariate statistics. It is used to determine whether there is a significant difference between the mean values of the same measurement, including two different conditions. This condition can only be provided when the acquisition experience or resource replacement measure is used as a dummy, since the independent samples t-test is used in situations in which there are two experimental groups and in which different participants have been used for each condition (Baum, 2006; Cameron and Trivedi, 2009). If I am testing the ‘CEOchange’ hypothesis, for example, I would look for a comparison between the CAR of firms which replaced the target’s CEO and the CAR values of those without a CEO replacement. Through this process, I would be able to determine the difference between groups. In some cases, the measurement includes more than two groups. For instance, the number of acquisition experiences (acqexp) and the degree of resource replacement (degree) hypotheses (H2) were not tested through the independent samples t-test method due to their including more than two groups. By focusing on completed acquisitions from publicly traded Turkish firms, I was able to test my hypotheses (i.e. whether those acquisitions were likely to make a noticeable influence on stock market valuation).
5.5.2 Multivariate Analysis

Multiple regression analysis is one of the most recognised and widely used methods of quantitative study (Wooldridge, 2012). A typical regression model attempts to explain variation as a quantitative dependent variable (symbolised as Y) by mapping the relationship of Y to a specified set of independent variables as an additive, linear function. Observing the least squares estimation techniques could help in understanding a prediction equation and allows one to estimate conditional means on the dependent variable-expected values of Y. Special combinations of values are assessable as quantitative variables for which it can be supposed that there are equal intervals relative to an arbitrary zero point; the number of feasible predicted values for Y is unlimited (Wooldridge, 2012). Additionally, the set of relationships can be captured geometrically when both dependent and independent variables are quantitative variables. Moreover, in a multiple regression, the dependent variables are referred to as the criterion variables, where the independent variables are referred to as predictor variables. As a result, the dependent and independent variables in this study are continuous and binary data respectively, and are appropriate for application of the multiple regression method.

The estimation technique of this research is an Ordinary Least Square (OLS) model applied to acquisition performance as the continuous, dependent variable. The announcements were made by a publicly traded firms which had made multiple acquisitions over the study period. Thus, my data makes up an unbalanced panel, as the number of acquisition activities differs by firm. However, my data is not technically a panel dataset, which means I do not follow firms over time, and observe these firms only when they engage in M&A activity.

In the following sections, I will introduce the models for acquisition experience and resource replacement hypotheses respectively. I will first introduce the independent
sample t-tests for each group. I will then present the multiple regression models. In each hypothesis, I will also include the models that were used for supplementary analysis.

5.5.3 The Relationship between Acquisition Experience and Acquisition Performance

The ideal way of testing the theories developed in this study would be to estimate the direct effect of acquisition experience and resource replacement measures. This section shows the models for examining the impact of acquisition experience on acquisition performance in the emerging market. First, I test the sub-hypotheses of Hypothesis 1 by using the independent samples t-test technique. As explained in Section 5.4.2, I have five different definitions for measuring acquisition experience. They are as follows:

- number of acquisition experiences (acqexp);
- any prior acquisition experiences (firmexpdummy);
- similarity of prior relatedness (priorrelated);
- similarity of prior cross-border (priorcrossborder);
- And any prior acquisition experience at the group level (groupexpdummy).

Given the fact that ‘acqexp’ is neither a dummy nor a categorical measure, I could not examine the number of acquisition experiences (i.e. Hypothesis 1a) through a univariate analysis. For the other acquisition experience definitions, however, I used the univariate analysis technique to estimate the association between acquisition experience and acquisition performance.
In that case, the base model for the t-test for acquisition experience is described as follows:

\[ H_{0j} : CAR_i(-1, +1)_{(acquisitionexperience_{ij}=1)} = CAR_i(-1, +1)_{(acquisitionexperience_{ij}=0)} \]  
\[ H_{1j} : CAR_i(-1, +1)_{(acquisitionexperience_{ij}=1)} \neq CAR_i(-1, +1)_{(acquisitionexperience_{ij}=0)} \]  

Where:

- \( H_{0j} \) is the null hypothesis of the t-test for acquisition experience measure \( j \);
- \( H_{1j} \) is the alternative hypothesis for the t-test for acquisition experience measure \( j \);
- \( j = 1, \ldots, 5 \) is the acquisition experience index that refers to different definitions of acquisition experience;
- \( i \) = firm index;
- \( CAR_i(-1, +1) \) is the acquisition performance measure and is defined as the cumulative abnormal return for firm \( i \) between the day before and the day after the acquisition;
- \( acquisitionexperience_{ij} = 1 \) refers to the firms \( i \) that had any prior acquisition experience with the measure \( j \);
- and \( acquisitionexperience_{ij} = 0 \) indicates the firms \( i \) that had no prior acquisition experience with the measure \( j \).

To statistically test for the multivariate analysis of acquisition experience hypotheses, I estimated OLS regression models. Modelling the acquisition experience arguments developed in Chapter 3 through multivariate analysis is not only important for supplementing the univariate analysis, but also for obtaining more accurate estimates of the effect of acquisition experience on acquisition performance. I modelled the
acquirer’s acquisition experience in equation 5.8b. I used five different explanations for the acquisition experience measure. Hypotheses 1a, 1b, 1c, 1d, and 1e were estimated through models 1, 2, 3, 4, and 5, respectively. Therefore, the next step was to determine whether cumulative abnormal returns can be explained by the acquisition experience of the firms. I controlled the cross-border, related, cash, advisory, hostile, maturity, and stake variables in order to examine the acquisition experience’s direct effect.

The baseline model being tested in Hypothesis 1 is specified as follows:

\[
\begin{align*}
\text{CAR}_i (-1, +1) &= \beta_0 + \beta_1 \text{acquisitionexperience}_{ij} + \beta_2 \text{crossdomestic} + \\
&\quad \beta_3 \text{relatedness} + \beta_4 \text{cash} + \beta_5 \text{advisory} + \beta_6 \text{hostile} + \beta_7 \text{maturity} + \beta_8 \text{stake} + \epsilon_{it} \tag{5.8b}
\end{align*}
\]

In equation 5.8b:

The acquisition performance \( \text{CAR}_i (-1, +1) \) stands for the cumulative abnormal return for firm \( i \) from the day before to the day after of the acquisition announcement;

\( \text{acquisitionexperience}_{ij} \) is the acquisition experience definition \( j \) for firm \( i \);

\( \text{crossdomestic} = \) geographic focus;

\( \text{relatedness} = \) industrial relatedness between the acquirer and the target;

\( \text{cash} = \) method of payment;

\( \text{advisory} = \) external advisory used in the acquisition;

\( \text{hostile} = \) attitude of the acquisition;

\( \text{maturity} = \) comparison between the acquirer and the target’s ages

\( \text{stake} = \) controlled stake;
and $\varepsilon_{it} = \text{error term.}$

Additionally, the acquisition performance measure ROA, which I adopted as a supplementary means of analysis, is applicable in this study and estimated through univariate and multivariate techniques. This is similar to using the stock market-based measure CAR above, and includes both univariate analysis (equation 5.8c) and multivariate analysis (equation 5.8d).

\[
H_0: \Delta \text{ROA}_{it} |_{\text{acquisition experience}_{ij}=1} = \Delta \text{ROA}_{it} |_{\text{acquisition experience}_{ij}=0}
\]

\[
H_1: \Delta \text{ROA}_{it} |_{\text{acquisition experience}_{ij}=1} \neq \Delta \text{ROA}_{it} |_{\text{acquisition experience}_{ij}=0}
\]

Following equation 5.7, an alternative acquisition performance, $\Delta \text{ROA}_{it}$, indicates the change in return on assets for the acquirer firm $i$ in year $t$. It is given as follows:

\[
\Delta \text{ROA}_{it} = \beta_0 + \beta_1 \text{acquisition experience}_{ij} + \beta_2 \text{crossdomestic} + \beta_3 \text{relatedness} + \beta_4 \text{cash} + \beta_5 \text{advisory} + \beta_6 \text{hostile} + \beta_7 \text{maturity} + \beta_8 \text{stake} + \varepsilon_{it}
\]

### 5.5.4 The Relationship between Resource Replacement and Acquisition Performance

In order to examine resource replacement’s effect on acquisition performance, firstly, I formulated a t-test. Equation 5.9a allows me to test Hypotheses 3a (top manager change), 4a (name change), and 5a (headquarters change). I could not test the degree of resource replacement (Hypothesis 2a) through an independent samples t-test due to the inclusion of more than two groups. Therefore, only considering the t-test analysis,
the resource replacement measure represents three definitions of resource replacement, which are CEOchange, namechange, and hqchange.

In that case, the t-test for the resource replacement hypotheses is described as follows:

$$\mathcal{H}_{0\ell} : CAR_i(-1,+1)_{(\text{resourcereplacement}_{i\ell}=1)} = CAR_i(-1,+1)_{(\text{resourcereplacement}_{i\ell}=0)}$$

$$\mathcal{H}_{1\ell} : CAR_i(-1,+1)_{(\text{resourcereplacement}_{i\ell}=1)} \neq CAR_i(-1,+1)_{(\text{resourcereplacement}_{i\ell}=0)}$$

(5.9a)

where:

- $\mathcal{H}_{0\ell}$ is the null hypothesis of the t-test for resource replacement measure $\ell$;
- $\mathcal{H}_{1\ell}$ is the alternative hypothesis for the t-test for resource replacement measure $\ell$;
- $\ell = 1,\ldots,4$ refers to the different definitions of the resource replacement measure;
- $CAR_i(-1,+1)$ is the acquisition performance measure and is defined as the cumulative abnormal return for firm $i$ between the day before and the day after the acquisition;
- $\text{resourcereplacement}_{i\ell} = 1$ refers to the firms $i$ that replaced the target firm’s resource $\ell$;
- and $\text{resourcereplacement}_{i\ell} = 0$ indicates the firms $i$ that did not replace the target firm’s resource $\ell$.

Secondly, I tested Hypotheses 2a, 3a, 4a, and 5a using a multivariate analysis. The baseline model which I tested for resource replacement is specified as:

$$CAR_i (-1,+1) = \beta_0 + \beta_1 \text{resourcereplacement}_{i\ell} + \beta_2 \text{crossdomestic} + \beta_3 \text{relatedness} + \beta_4 \text{cash} + \beta_5 \text{advisory} + \beta_6 \text{hostile} + \beta_7 \text{maturity} + \beta_8 \text{stake} + \varepsilon_{it}$$

(5.9b)
As discussed in Chapter 3 (Hypotheses 2, 3, 4, and 5), the acquirer firm’s decisions on post-acquisition integration depend on the geographical context of the target firm. I assumed that the emerging market acquirer firms which replaced the target’s resources in the domestic acquisition would perform better, whereas in cross-border acquisitions, the emerging market firms which kept the target’s resources would perform better. In order to test Hypotheses 2b, 3b, 4b, and 5b, I only examined cross-border acquisition in my sample. On the other hand, Hypotheses 2c, 3c, 4c, and 5c were tested by examining the domestic acquisitions of the sample. Thus, I partitioned the sample on the basis of whether it was cross-border or domestic. After this process, I followed the same method as explained above.

Following the main analyses of the hypotheses with the stock market acquisition performance CAR, I further tested the hypotheses through the accounting-based performance ROA in order to examine the robustness of the results. Equation 5.9c shows the independent samples t-test model in testing the resource replacement hypotheses by ROA, while equation 5.9d illustrates the baseline regression model of the resource replacement hypotheses which used ROA as an acquisition performance measure.

\[
H_0: \Delta \text{ROA}_i t(\text{resource replacement}_{it}=1) = \Delta \text{ROA}_i t(\text{resource replacement}_{it}=0)
\]

\[
H_1: \Delta \text{ROA}_i t(\text{resource replacement}_{it}=1) \neq \Delta \text{ROA}_i t(\text{resource replacement}_{it}=0)
\] (5.9c).

\[
\Delta \text{ROA}_i t = \beta_0 + \beta_1 \text{resource replacement}_{it} + \beta_2 \text{crossdomestic} + \beta_3 \text{relatedness} + \beta_4 \text{cash} + \beta_5 \text{advisory} + \beta_6 \text{hostile} + \beta_7 \text{maturity} + \beta_8 \text{stake} + \varepsilon_{it}
\] (5.9d).
In addition, these analyses were identical to the main analyses which were carried out with CAR test techniques.

5.6 Summary

In this chapter, I have described the quantitative research design adopted for this study. In the first section, I outlined the data selection procedure, which was followed by an explanation of the databases used and of the unique hand-collected data of this study. Then, I described the operationalisation of the theoretical constructs. Finally, I concluded this chapter by describing the quantitative approaches used in this study to test the hypotheses. It should be borne in mind that the informal unstructured interviews were not presented formally in this chapter, since their purpose was to gain a deeper understanding of the hypotheses being tested. In the next chapter, I will present the initial univariate results of this study.
CHAPTER 6

M&A Patterns in Turkey
6.1 Introduction

This chapter presents the initial analysis of this study’s dataset. I will begin the chapter by presenting the characteristics of acquisitions in Turkey, in which I will present the trends and descriptive analysis of the Turkish M&A activities in my dataset (Section 6.2). This will be followed by Section 6.3, entitled “properties of acquisitions in Turkey”, in which I will analyse the descriptive statistics of the measures used in study. I will first present the properties of the acquisition performance measures in Section 6.3.1. Then, I will analyse these acquisition experience measures (Section 6.3.2). Subsequently, an analysis of the resource replacement measures will be exhibited in Section 6.3.3. I will then describe the control measures of this study in Section 6.3.4. Finally, in the last section, I will present a correlation analysis of the measures (Section 6.4).

6.2 Characteristics of M&A in Turkey

In this section, I will present the trends of the Turkish M&A throughout the study period. In my dataset, the Turkish market includes 279 acquisitions made only by firms listed on the Borsa Istanbul. In the dataset, there were 79 cross-border and 200 domestic deals. In order to describe the peculiarities of my dataset, some figures about the deal type will be presented below, such as the deal volume, top five deals in terms of deal value, whether the deal was domestic or cross-border and whether the deal is industrially related or unrelated.

First, I examined 279 acquisitions of the 106 publicly traded Turkish firms between 1998 and 2011. Figure 6.1 shows the acquisition frequencies of the firms sampled for this study during the study period. This figure only presents the big picture of the M&A deals in Turkey. On the other hand, it does not carry the same meaning as the
acquisition experience proxies that will be mentioned in Section 6.3.2. Figure 6.1 considers the whole study period between 1998 and 2011 – not only 5 years prior to the focal acquisition.

![Figure 6.1: Acquisition frequencies of Turkish firms (1998-2012)](image)

Source: Mergermarket Database

Of the 106 publicly traded Turkish firms who had prior acquisitions, 36 firms, the largest group, made only 1 acquisition each during the study period. 29 firms completed two acquisitions each (Figure 6.1). In the third largest group in the dataset, 21 firms made three acquisitions each. Interestingly, only one firm (Haci Omer Sabanci) made more than 8 acquisitions. The Sabanci holding, the largest Turkish firm in terms of industrial activeness, acted very differently to the other inexperienced acquirer firms in my dataset, gaining the highest number of acquisition experiences with 15 acquisitions being conducted during the 1998-2011 period.
Second, Figure 6.2 shows the share of the total number of domestic and cross-border acquisitions, grouped by region. As can be seen from the figure, domestic acquisitions dominated the Turkish M&A market during the period, with 73% of the total completed M&A being domestic. The cross-border acquisitions of Turkish firms accounted for 27% of the M&A market. Turkish acquirers mostly targeted European firms, which might have been the case due to their capability development strategies. Beyond that, Turkish firms considered Asian firms as being the next most attractive investment opportunity, with cross-border acquisitions towards Asia constituting 8% of total acquisitions. Lastly, the remaining 6% of acquisitions were carried out in the US, Australia and Israel.

Third, in Figure 6.3, I considered the number of annual cross-border and domestic acquisitions during the study period. According to Figure 6.3, we can make an inference about which lessons were learnt by Turkish firms from the 2001 Turkish financial crisis, in that the number of acquisitions increased following the crisis, peaking during the 2007-08 period.
Increases in the practice of privatisation after 2005 led to increases in the number of acquisitions in Turkey. With privatisation activities, Turkish government targeted the minimisation of state roles in industrial and commercial sectors, and aimed to strengthen regulatory and supervisory mechanisms. As being one of the essential tools of the free market economy, these privatisation activities encouraged Turkish firms to expand their businesses. Therefore, the weight of the domestic interest in acquisitions was obvious in 2005 and 2006. Out of 16 privatisation activities in total in my sample, 15 of them were achieved after 2005. Besides, not only did the domestic acquisitions increase, but we also saw a rise in the number of cross-border acquisitions during this period. This might have been triggered by political stabilisation in Turkey and a global upsurge in emerging market economies. Almost half of the total cross-border acquisitions were completed during the 2005-2008 period. More recently, the number of cross-border acquisitions peaked in 2011. Notably, the number of acquisition activities declined significantly following both Turkey’s financial crisis in 2001 and the global financial crisis of 2008-09.
Fourth, Figure 6.4 exhibits the KPMG’s report (KPMG, 2011) on the number and deal value of yearly acquisitions in Turkey. This evidence is consistent with my dataset, further proving the latter’s reliability. The liberalisation of the Turkish economy and the growing global trend of emerging markets have resulted in a more active M&A environment in Turkey.

**Figure 6.4: Overall M&A Trends in Turkey**

![Chart showing overall M&A trends in Turkey](image)

*Source: KPMG report in Turkey’s M&A outlook (2011), pp.22*

Fifth, Figure 6.5 presents the M&A trend in Turkey in relation to the annual total deal value ($m). The total deal value of the acquisitions from 1999 to 2011 was around US $35.61 billion, with a mean of US $161.4 million and a median of US $30 million. The M&A activity in Turkey was obviously dominated by a small number of large transactions which is expressed by the skewness of the deal value distribution. This amount of deal value was relatively small compared with the M&A trend in the developed world or in BRIC countries. The entire deal value was computed with 222 out of 279 deals. For the remaining 57 acquisitions, deal values were not disclosed to the public and not available in the Mergermarket database.
After the 2001 financial crisis, there was a rapid rise in the total deal values during the period of 2001-2005 (Figure 6.5). Parallel to the 8.4% and 6.9% annual GDP growth rates in 2005 and 2006 respectively, and thanks to the many practice of privatisation, the annual total deal value of acquisitions reached its peak during the period 2005-06. Turkish M&A activity totalled US $9.6 billion in 2005, up almost quadruple in deal value compared to 2004 (US $1.5 billion), and this was the highest period after the 2001 financial crisis. With US $9.74 billion-worth of deals in 2006, Turkey achieved its highest annual M&A deal value, allowing Turkey to remain one of the world’s most rapidly growing markets.

Sixth, in Figure 6.6, I examined the annual total deal value in terms of a comparison between domestic and cross-border acquisitions. According to the Figure 6.6, domestic deals in Turkey represented 74% of total deal values of all Turkish M&A with a worth of US $25.6 billion. Cross-border activity amounted to US $8.95 billion with 55 deals (as represented in the data).
The total deal value of annual cross-border acquisitions by Turkish acquirers reached its highest level in 2007 with US $2.8 billion, whereas domestic acquisitions reached a peak in 2006, nearly triple that of 2007’s annual cross-border acquisitions’ total deal values, with US $9.6 billion (Figure 6.6). The total deal value of annual M&A activities considerably dwindled after 2006. After 2006, the total value of cross-border and domestic deals remained steady until 2011. According to the Deloitte Annual Turkish M&A Review report this can be explained with the notion that the majority of acquisitions occurred in the small and mid-size segments, with a scarcity of large-sized deals (Deloitte, 2011). In 2011, Turkey saw a growth in GDP of 8.58%; therefore, the total annual deal values rose slightly for both domestic and cross-border deals.

Seventh, Figure 6.7 characterises a sectoral overview of the number of M&A deals in Turkey during the study period. The Energy, Mining, and Utilities (EMU), consumer, and financial service sectors stand out in terms of the number of deals and in that these sectors alone represent 67% of the total number of M&A deals. The size and scope of the Turkish government’s privatisation programme is reflected in the sector-specific distribution of M&A trends, which show Energy, Mining, and Utilities
(EMU) accounting for 29% of the aggregate deal value of the study period. A closer look at the sectoral M&A trend in Turkey suggests that the consumer sector, which ranges from food and beverage to retail firms and supermarkets, has also become increasingly attractive to firms in general, with 20% of the whole sectoral pie. M&A volume was more evenly scattered across a range of sectors, including Industrials & Chemicals, Technology, Media, and Telecommunications (TMT), and Transportation. In terms of deal volume, the leisure and real estate sectors received almost equal shares (2%) of the overall M&A volume in Turkey. The deals in each of business services, health care, and the other remaining sectors attracted only 1% of the total volume of M&A deals.

Figure 6.7: Sectoral Share of M&A in Turkey by number of deals

![Sectoral Share of M&A in Turkey by number of deals](image)

Source: Mergermarket Database

Eighth, Figure 6.8 provides a snapshot of the sectoral composition of M&A in Turkey when considering total deal values. The total deal value of the Turkish M&A market was highly concentrated in the financial services sector thanks to massive transactions.
from Turkish business groups. The EMU sector alone comprised US $9.9 billion of the total deal value given the vast practices of privatisation (e.g. deals of Enerjisa, Aksa Enerji, and AkEnerji). Activity in the consumer sector, one of the busiest sectors over the study period, had a US $6.7 billion total deal value, whereas the total deal value for financial services dropped slightly, to US $6.3 billion. Financial investors, private equities, and business groups were also active in a wide range of sectors, with a special focus on e-commerce, retail, services, manufacturing and internet & mobile services. In terms of deal value, altogether real estate, leisure, business services, and health care sectors only generated US $6.7 billion worth of M&A activities in the dataset.

**Figure 6.8: Sectoral Composition of M&A in Turkey by deal value ($m)**

![Sectoral Composition of M&A in Turkey by deal value ($m)](image)

Source: Mergermarket Database

Ninth, Figure 6.9 displays the sectoral composition of the total number of domestic and cross-border acquisition deals in Turkey. Interestingly, in terms of the number of deals, the consumer sector took the lead with 49 domestic and 23 cross-border deals. Consumer services, along with the EMU, received the highest sectoral share.
altogether, with 127 of the total number of M&A deals in Turkey. In addition, EMU, financial services, Industrials & Chemicals, and TMT were among the most M&A-active sectors, while the real estate, leisure, business services, transportation, and healthcare sectors were not as active M&A-wise as the others. The numbers of cross-border and domestic deals in Industrials & Chemicals were almost the same.

![Figure 6.9: Sectoral composition of domestic and cross-border acquisitions in Turkey by number of deals](image)

**Source:** Mergermarket Database

Lastly, Table 6.1 displays the top five deals in Turkey based on my dataset. The top deal in terms of deal value ($) in the analysed sample was realised by the Koc Holding company – the largest conglomerate based in Istanbul, comprising 98 consolidated firms focusing their operations on four core industries: energy, automotive, durable goods, and finances. The firm was founded in 1938. Koc acquired the Turkish Petroleum Refineries Corporation (TUPRAS) after its being auctioned in 2005 by the Privatisation Administration for the block sale of 51% of state-owned Tupras shares for US $4.14 billion. The second biggest deal which occurred in Turkey was the Turkish Armed Forces Assistance Fund’s (OYAK)
acquisition of the Erdemir Group, which was founded in 1960 in order to meet Turkey’s need for flat-rolled iron and steel, and was the 8th biggest steelmaker in Europe. OYAK paid US $2.9 billion for the deal and this was the biggest investment in OYAK’s corporate history.

Table 6.1: Top Five Deals in the dataset by deal value ($m)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Deal Year</th>
<th>Target Name</th>
<th>Acquirer Name</th>
<th>Sector</th>
<th>Deal Value ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2006</td>
<td>Turkish Petroleum Refineries Corporation (TUPRAS)</td>
<td>KOC Holding AS</td>
<td>Energy, Mining, and Utilities</td>
<td>4140</td>
</tr>
<tr>
<td>2.</td>
<td>2006</td>
<td>Eregli Demir Celik Fabrikalari T.A.S. (Erdemir)</td>
<td>OYAK</td>
<td>Industrials &amp; Chemicals</td>
<td>2960</td>
</tr>
<tr>
<td>3.</td>
<td>2010</td>
<td>Fortis Bank AS</td>
<td>TEB Holding AS</td>
<td>Financial Services</td>
<td>1600</td>
</tr>
<tr>
<td>4.</td>
<td>2011</td>
<td>SabMiller PLC - Russian Ukranian Operations</td>
<td>Anadolu Efes Biracilik ve Malt Sanayii AS</td>
<td>Consumer</td>
<td>1582</td>
</tr>
<tr>
<td>5.</td>
<td>2005</td>
<td>Yapı ve Kredi Bankası AS</td>
<td>KOC Holding AS</td>
<td>Financial Services</td>
<td>1543</td>
</tr>
</tbody>
</table>

Source: Mergermarket Database

The third and largest deal in the financial services sector in Turkey was the merging of Turk Ekonomi Bankasi AS (TEB) with Fortis Bank AS under the TEB umbrella, with a total deal value of US $1.6 billion. The fourth greatest acquisition in terms of deal value was that closed by Anadolu Efes through a cross-border acquisition of SAB Miller PLC’s Russian and Ukrainian operations. Anadolu Efes Biracilik and Malt Sanayii AS paid US $1.9 billion for the deal, making Anadolu Efes the second-largest beer maker in Russia. Anadolu Efes is the largest brewer in the Middle East and 5th largest firm in Europe in terms of sales volume. Finally, the fifth largest deal
in terms of deal value in Turkey was the acquisition of 57.42% of Yapi ve Kredi Bankasi AS by Koc with US $1.5 billion. In addition, this deal also represented the second largest acquisition conducted in the Turkish financial services sector.

6.3 Properties of Acquisitions in Turkey

Descriptive analyses are frequently used in quantitative studies. Descriptive research deals with questions of what things are like rather than why they are the way they are (De Vaus, 2005). It provides essential information about the measures investigated in the study. It also lays the foundations for all initial knowledge about the features of the dataset. The most frequently used descriptive technique is the mean score of the data in a sample. In this chapter, by grouping each measure together, I will be able to analyse the size characteristics (mean, median, standard deviation, and minimum and maximum observations), as well as the skewness and kurtosis, of all of the measures used in this study.

6.3.1 Acquisition Performance

This section deals with the size and distribution characteristics of the acquisition performances of Turkish firms. As discussed in Section 2.2.5, the most significant stock market changes for acquirer firms occur on the day after the announcement is made. I will use the stock market based “CAR1” (t = -1, 0, +1) as a main acquisition performance predictor for acquisitions in Turkey. In this study, “CAR5” (t = -5…0…+5) is used as a measure of the robustness stock markets by measuring the acquisition performance of firms. Additionally, a long term accounting performance measure, “ROA1” (t = -1y, 0, +1y), also provides supplementary analysis for the robustness tests. Table 6.2 reports the analysis of the acquisition performances of firms using the abovementioned measures.
According to Table 6.2, the average stock market-based acquisition performance, CAR1 \((t = -1, 0, +1)\), the gain of Turkish firms in response to the acquisition’s announcement is 1.3%. This means that, on average, investor reactions to an acquisition announcement generate an annualised CAR1 of 39% (assuming 256 trading days). The range that the measure yields is wide: negative daily market returns (CAR1) to acquisitions can be as low as \(-26.6\%\) in the Turkish M&A market, whereas positive market returns can go up to 25.4%. This result implies that anticipated acquisition activities may be realised by the market and, on the average, it creates superior post-acquisition performance for acquirer firms. Table 6.2 also shows the distributions of the acquisition performance CAR1 via skewness and kurtosis. The normality of CAR1 is tested in both ways; viz., graphical and numerical methods. Its skewness and kurtosis are 0.783 and 6.619, respectively, indicating that the CAR1 is highly skewed to the right with a high peak with thin tails. The skewness/kurtosis normality test performed in Stata also implies that the distribution is normal. Additionally, it can also be seen from Figure 6.10 that the distribution of the market return acquisition performance measure, CAR1, has a huge spike on the positive side of “0”, indicating that most acquirer firms do improve their market performance following an acquisition. The right-skewed histogram (Figure 6.10) for CAR1 is almost perfectly bell-shaped. This also proves that the acquisition performance of Turkish firms is normally distributed.

<table>
<thead>
<tr>
<th>ACQUISITION PERFORMANCE</th>
<th>Code</th>
<th>Obs</th>
<th>Mean</th>
<th>Median</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAR ((-1,+1))</td>
<td>CAR1</td>
<td>279</td>
<td>0.013</td>
<td>0.004</td>
<td>0.064</td>
<td>-0.266</td>
<td>0.254</td>
<td>0.783</td>
<td>6.619</td>
</tr>
<tr>
<td>CAR ((-5,+5))</td>
<td>CAR5</td>
<td>279</td>
<td>0.016</td>
<td>0.001</td>
<td>0.110</td>
<td>-0.353</td>
<td>0.574</td>
<td>1.163</td>
<td>8.423</td>
</tr>
<tr>
<td>ROA ((-1y,+1y))</td>
<td>ROA1</td>
<td>279</td>
<td>0.003</td>
<td>-0.001</td>
<td>0.119</td>
<td>-0.999</td>
<td>1.168</td>
<td>1.269</td>
<td>52.551</td>
</tr>
</tbody>
</table>
The supplementary acquisition performance measures for robustness analyses, when compared to the CAR1, yield two contradictory results. Firstly, Table 6.2 illustrates that all 279 firms reached a mean market return of 1.6% between the five days before and the five days after “CAR5” (t = -5…0…+5), the focal acquisition announcement. On an annual basis (256 trading days), the CAR5 yielded 50.5%. The results for the CAR5 are highly similar with the mean market return of the main acquisition performance CAR1. I cannot, however, make the same inference for accounting performance ROA1. On average, the long-term acquisition performance, ROA1, was relatively low, with 0.3% for the Turkish acquirer firms following an acquisition. As shown in Table 6.2, there is a huge gap between the minimum and the maximum ROA observations, and the ROA gains of Turkish acquirers ranged between 116% and -99%. Assuming no acquisition performance measures are perfect, these extremely long-term returns can be treated as outliers. In addition, Figure 6.11 shows that there is only one observation for each of these minimum and maximum points. The mean and median of the ROA1 are quite close (0.3% and -0.1, respectively).
Besides, Figure 6.11 also exhibits a huge spike at 0; this indicates that Turkish firms, on average, neither improve nor worsen their long-term accounting performance following an acquisition.

![Figure 6.11-Histogram (Cumulative Abnormal Return, “ROA”, Normal distribution)](image)

Notice that Table 6.3 includes the analyses of additional event windows for acquirer firms in Turkey. Notably, the difference between the mean of the cumulative abnormal returns of acquirer firms at the announcement date, which is day 0 (t=0) and other event windows is substantial. As shown, the average market return for Turkish acquirers on the day of announcement is 0.6%, whereas market returns start to increase after the announcement date and range, on average, from 1.3% to 1.7%. Therefore, CAR0 does not supply better inputs for acquisition performance analysis. Thus, Turkey has positive CAR returns following focal acquisitions.
Furthermore, in order to determine whether there is a significant difference between the mean values of the cumulative abnormal returns measures and zero, I used a one sample t-test. As mentioned in the methods section of Chapter 5, this technique is a univariate analysis which is often applied when testing for the mean value of a sample distribution under the assumption of a normal distribution. The main acquisition performance measure of this study, CAR1, and other market return event windows for the robustness tests are shown in Table 6.3. The total number of acquisitions in my dataset for the acquisition performance measures is 279. In order to calculate t-tests for the CARs, I used the equation which was given in the last chapter within the event study methodology section. I also used the Stata statistical software program in order to calculate a t-test for the CARs. To do that, I entered the ‘ttest’ Stata command with the specific CAR measure, whereupon it stated that ‘ttest CAR1 == 0’. In this case, using the stock market data, I tested whether the average CAR0, CAR1, CAR2, CAR3, CAR4, and CAR5 market-based acquisition performances differ significantly from zero.

Table 6.3: Significance of CARs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>t-value</th>
<th>P&gt;0</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAR0</td>
<td>279</td>
<td>0.006</td>
<td>0.035</td>
<td>2.782</td>
<td>0.003</td>
</tr>
<tr>
<td>CAR1</td>
<td>279</td>
<td>0.013</td>
<td>0.064</td>
<td>3.270</td>
<td>0.001</td>
</tr>
<tr>
<td>CAR2</td>
<td>279</td>
<td>0.014</td>
<td>0.088</td>
<td>2.654</td>
<td>0.004</td>
</tr>
<tr>
<td>CAR3</td>
<td>279</td>
<td>0.016</td>
<td>0.099</td>
<td>2.762</td>
<td>0.003</td>
</tr>
<tr>
<td>CAR4</td>
<td>279</td>
<td>0.017</td>
<td>0.107</td>
<td>2.639</td>
<td>0.004</td>
</tr>
<tr>
<td>CAR5</td>
<td>279</td>
<td>0.016</td>
<td>0.110</td>
<td>2.461</td>
<td>0.007</td>
</tr>
</tbody>
</table>

Table 6.3, which depicts the market return acquisition performance measures, reveals that all of the CAR measures following an acquisition announcement are significantly (statistically speaking) different from zero. Each market return measure resulted in significantly positive returns. According to Table 6.3, the t-value of CAR1 is 3.27 with a \( p < 0.001 \). Such a p-value indicates that the mean value of the CAR1 of the market performance of Turkish acquisitions is significantly different from zero. Moreover, other mean CAR measures for acquirers in Turkey, such as CAR0, CAR2,
CAR3, CAR4, CAR5, are statistically significantly distinguishable from zero with t-values of 2.78, 2.6, 2.76, 2.63, and 2.46, respectively (ρ < 0.01).

6.3.2 Acquisition Experience

This section provides background on the prior acquisition activities of the sampled firms in Turkey. Table 6.4 shows that, on average, publicly traded Turkish firms achieved 1.6 acquisitions before each focal acquisition (acqexp) (with as standard deviation of 2.2). In consideration of the 5-year acquisition observation window of this study, the number of minimum and maximum acquisition experiences achieved by firms ranged from 0 to 11 respectively. Moreover, the skewness and kurtosis coefficients are 2.13 and 8.06 respectively, and this shows an asymmetrical and a heavy-tailed distribution for the acqexp measure.

Table 6.4: Summary Statistics of Acquisition Experience

<table>
<thead>
<tr>
<th>ACQUISITION EXPERIENCE</th>
<th>Code</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of M&amp;A Experience</td>
<td>acqexp</td>
<td>279</td>
<td>1.609</td>
<td>2.161</td>
<td>0</td>
<td>11</td>
<td>2.134</td>
<td>8.060</td>
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<tr>
<td>Any M&amp;A Experience</td>
<td>firmexpdummy</td>
<td>279</td>
<td>0.591</td>
<td>0.492</td>
<td>0</td>
<td>1</td>
<td>-0.372</td>
<td>1.138</td>
</tr>
<tr>
<td>Similarity of Prior Industrial Relatedness</td>
<td>priorrelated</td>
<td>188</td>
<td>0.574</td>
<td>0.496</td>
<td>0</td>
<td>1</td>
<td>-0.301</td>
<td>1.091</td>
</tr>
<tr>
<td>Similarity of Prior Geographic Relatedness</td>
<td>priorcrossborder</td>
<td>187</td>
<td>0.77</td>
<td>0.422</td>
<td>0</td>
<td>1</td>
<td>-1.283</td>
<td>2.647</td>
</tr>
<tr>
<td>Any group M&amp;A Experience dummy</td>
<td>groupexpdummy</td>
<td>279</td>
<td>0.712</td>
<td>0.454</td>
<td>0</td>
<td>1</td>
<td>-0.938</td>
<td>1.879</td>
</tr>
</tbody>
</table>

Table 6.4 also demonstrates that, for any acquisition experience measure, 59% of the firms in the dataset undertook at least one acquisition activity prior to the focal acquisition, with a standard deviation of 49%. Another proxy for acquisition experience shows that 57% of the firms in my dataset made industrially similar
acquisitions prior to the focal acquisition. Interestingly, this proportion increased when I considered geographic relatedness, with 77% of the firms in Turkey making consecutively similar acquisitions (i.e. in relation to the focal and the previous ones) in their organisational history, with a standard deviation of 49% (Table 6.4). This means that Turkish firms are more inclined to follow previous deal characteristics during their focal acquisition. Put another way, if a firm undertook an acquisition domestically, their next strategic move would most likely be to acquire another domestic firm.

Importantly, the number of observations for similarity in prior industrial relatedness and prior geographic relatedness decreases due to the testing procedures of these measures. I simply omitted the firm’s first acquisition in order to avoid having a test bias or making wrong inferences. Also, according to the last proxy of the acquisition experience (groupexpdummy), 71% of the business groups in Turkey completed a prior acquisition before the focal deal. I will discuss business groups in Turkey and their organisational learning process later on in this study. Finally, these proxies for acquisition experience in Turkey, which are firmexpdummy, priorrelated, priorcrossborder, and groupexpdummy, are normally distributed, as the skewness is within ±1.96 and the kurtosis is within ±3.

6.3.3 Resource Replacement

I measured post-acquisition outcomes by examining resource replacement within the target firms. To investigate the resource replacement associated with acquisitions, I drew on existing research in order to construct appropriate proxies (Anand et al., 2005; Zollo and Singh, 2004; Hayward, 2002). As discussed in the previous chapter, I identified three resources for examining the acquirer firm’s post-acquisition decisions; namely, top management, firm name, and the headquarters of the target firm. For the
purpose of this research, in this section, I will present the initial univariate analysis associated with the resource replacement decisions of the acquirer firms.

Table 6.5: Summary Statistics of Resource Replacement

<table>
<thead>
<tr>
<th>RESOURCE REPLACEMENT</th>
<th>Code</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
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<tr>
<td>Degree of Resource Replacement</td>
<td>degree</td>
<td>277</td>
<td>1.52</td>
<td>1.144</td>
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<td>3</td>
<td>0.024</td>
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<td>CEO Change</td>
<td>CEOchange</td>
<td>273</td>
<td>0.645</td>
<td>0.479</td>
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<td>-0.604</td>
<td>1.366</td>
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<td>Name Change</td>
<td>namechange</td>
<td>274</td>
<td>0.452</td>
<td>0.499</td>
<td>0</td>
<td>1</td>
<td>0.191</td>
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<td>HQ change</td>
<td>hqchange</td>
<td>274</td>
<td>0.442</td>
<td>0.497</td>
<td>0</td>
<td>1</td>
<td>0.235</td>
<td>1.055</td>
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</tbody>
</table>

Table 6.5 presents the descriptive analysis for the resource replacement attributes of Turkish firms following an acquisition. Firstly, on average, of the three main resource replacement proxies of this study, acquirer firms replaced just over half of the target’s resources following an acquisition, with a standard deviation of 1.1% (Table 6.5). Secondly, Table 6.5 reports that 64.5% of publicly traded firms in Turkey changed the target firm’s CEO during the post-acquisition period. As discussed in Section 4.6, the reason for this tendency towards replacing the CEO of the target firm during the post-acquisition period might come from the institutional voids in emerging markets. Thus, relational ties are pursued in the structure of the newly acquired firm’s top management. 34% of the firms, on the other hand, retained the target firms’ CEOs. 11 deals appeared as missing values in the dataset due to unavailability of information.

Thirdly, on average, 45% of the emerging market firms in my dataset replaced the target firm’s name following an acquisition. As discussed in Section 3.7, a characteristic of emerging market firms’ marketing strategies is to pursue the development of their own brands; thus, I expected that more firms would change target firms’ names upon acquisition. Only in the 123 deals does the acquirer firm replace the target firm’s name during the post-acquisition period. There were 5 observations recorded as missing values due to unavailability of information. Lastly,
and not unlike name replacement, only 44% of Turkish acquirers replaced the headquarters of the target firm following a focal acquisition. There were 148 instances where the acquirer firm did not replace the target firm’s name; and, for 5 deals, no information was recorded.

### 6.3.4 Controls

I will present the initial analyses of the control measures in this section. Table 6.6 presents the distribution of the sample over some of the deal characteristics; these characteristics include: the cross-border or domestic type of the focal deal, acquirer-to-target industrial relatedness, the payment method, external advisors used during the deal process, attitude towards the deal, maturity of the acquirer, and the controlling stake of the acquirer in the target.

**Table 6.6: Summary Statistics of Controls**

<table>
<thead>
<tr>
<th>CONTROLS</th>
<th>Code</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
<th>Skewness</th>
<th>Kurtosis</th>
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</thead>
<tbody>
<tr>
<td>Cross-border/domestic</td>
<td>crossborder</td>
<td>279</td>
<td>0.254</td>
<td>0.436</td>
<td>0</td>
<td>1</td>
<td>1.127</td>
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<td>Industrial Relatedness</td>
<td>related</td>
<td>279</td>
<td>0.588</td>
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<td>cash</td>
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<td>0.765</td>
<td>0.425</td>
<td>0</td>
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<td>-1.250</td>
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<td>External Advisors</td>
<td>advisory</td>
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<td>0.499</td>
<td>0</td>
<td>1</td>
<td>0.198</td>
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<td>Deal Attitude</td>
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<td>0.277</td>
<td>0</td>
<td>1</td>
<td>3.015</td>
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</tr>
<tr>
<td>Acquirer maturity</td>
<td>maturity</td>
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<td>0.438</td>
<td>0</td>
<td>1</td>
<td>-1.106</td>
<td>2.223</td>
</tr>
<tr>
<td>Controlling stake</td>
<td>stake</td>
<td>279</td>
<td>0.480</td>
<td>0.501</td>
<td>0</td>
<td>1</td>
<td>0.079</td>
<td>1.006</td>
</tr>
</tbody>
</table>

The first measure of the deal characteristics in this section is provided in Table 6.6, which breaks down the acquisitions into two parts – i.e. according to whether the target was a domestic or a cross-border firm during the study period. Consistent with this study’s predictions, domestic targets are more numerous than those cross-border targets (i.e. almost threefold). Of these 279 acquisitions between 1998 and 2011,
approximately one-fourth of them were cross-border acquisitions, whereas domestic acquisitions formed 75% of the Turkish firms’ total acquisitions.

Furthermore, considering industrial relatedness, acquisitions are defined as related when acquirer and target firms have the same 2-digit SIC code for the focal acquisition. As presented in Table 6.6, the number of industrially related acquisitions is greater than the number of industrially unrelated acquisitions. The table also shows that, in 58.8% of the acquisitions in Turkey, the acquirer and target firms were in the same industry when the focal acquisition occurred. In such cases, it is hard to make concrete inferences. Given the entrepreneurial characteristics of emerging market firms, they seek new investment areas and new opportunities to invest in. Thus, industrially unrelated acquisitions are also common in emerging markets.

Next, with regard to the method of payment, the acquisitions are classified into two groups: pure cash (transactions made solely in cash) or mixed payment (transactions made neither purely in cash nor purely in stocks). It is clear from Table 6.6 that the vast majority (76.5%) of firms pay with cash, indicating that cash is the main method of payment for Turkish acquisitions. The greater use of cash by acquirers suggests that the firms prefer internal over external financing (Doukas and Petmezas, 2007). Moreover, this cash payment may have a positive impact on the acquisition performance of acquirer firms according to a hypothesis posited by Myers and Majluf (1984), who asserted that cash payments show a signal that the acquiring firm’s management is expecting a rise in the value of the target firm during the post-acquisition process.

Subsequently, in terms of the external advisory used during the post-acquisition process, the results indicate that Turkish acquirers used advisors for 45% of their transactions on average (Table 6.6). As mentioned in the previous chapter, it is widely accepted that advisory firms (consulting firms, investment banks, accountants, etc.)
are beginning to play a more significant role in global acquisition activities, to the extent of facilitating the acquisition process and maximising the value of the deal. Therefore, almost half of Turkish acquirers obtained help from external specialists in dealing with the acquisition, since they expected greater benefits from being advised than from not being advised. On the other hand, it is also common to maintain an in-house department – especially consisting of major players and frequent acquirers – in emerging market firms. Perhaps not all of the remaining proportion of 55% of the acquisitions in Turkey should be associated with the practice of in-house departments via an acquisition team or sufficient employees within the firm, but the majority of them should.

Furthermore, Table 6.6 implies that there is almost no role for hostile acquisitions and that they are uncommon in the Turkish business landscape. In practice, most deals in Turkey were made on a friendly basis. There were 27 deals, though, for which I could not obtain any data through the Mergermarket database. Moreover, I also examined the acquisitions of relatively mature firms during the deals. According to Table 6.6, for around 74% of the acquisitions in Turkey, the acquirers were older than the target firms in terms of when they were founded. In the previous chapter, I predicted that more mature firms were more likely to manage the post-acquisition process due to the accumulated skills that they had gained over time. Lastly, in almost half of the acquisitions in Turkey, acquirers gained 100% control over the target. In the remaining half (52%), even though acquirers gained a majority of the ownership of the target firms, they did not achieve full control over them.
6.4 Correlation Analysis

As suggested by Cohen et al. (2013), it is of great salience to consider whether there exists any association between any pair of test measures. In this study, I included a correlation analysis, which is used to measure the linear association between metric variables (Cohen et al, 2013). The number representing the correlation is referred to as the correlation coefficient. It ranges from -1.00 to +1.00, with zero representing absolutely no association between the variables in the dataset. We can make initial inferences when a correlation analysis is conducted. In the equation, the larger the coefficient is, the stronger the correlation between the variables. Correlation coefficients can either be positive or negative, depending upon the direction of the relationship between the variables. In some cases, one of the study’s predictor measurements is very nearly a linear combination of the other predictor measures and this is called multicollinearity (Albright et al., 2010). In a multivariate analysis, including highly correlated predictor measures is a definite indicator of multicollinearity (Cramer, 1985).

Table 6.7 presents the pairwise correlation matrix of all of the measures used in this study. This correlation matrix displays the initial relationships between all measures in the dataset. In the table, the bold numbers are significantly correlated at 5% level or lower. Importantly, the correlation matrix indicates that the groups are highly correlated with each other, and this will be further explained in the next chapter. In addition, according to Table 6.7, within-group variables are highly correlated with each other as well.

The correlation matrix (Table 6.7) indicates that the acquisition experience measures (acqexp, firmexpdummy, and groupexpdummy) are correlated with one another. There is a high correlation between the “acqexp” and “firmexpdummy” measures, with a value of 0.59. Also, “priorrelated” and “priorcrossborder” are highly correlated
(0.25). Since these acquisition experience measures are correlated with each other, in order to avoid multicollinearity bias, only one of the acquisition experience variables will be entered in the regression model. Similarly, as shown in Table 6.7, the magnitude of the correlations among the resource replacement measures is relatively high, indicating that multicollinearity is likely to bias the regression of the coefficients. Thus, each resource replacement variable will be included in the regression analysis one by one.

Lastly, considering the acquisition performance measures, the stock market measures CAR1 and CAR5 are highly correlated with each other (65%). Furthermore, the accounting measure ROA1 is also correlated with CAR1 and CAR5 with 0.15 and 0.18, respectively.
Table 6.7: Correlation Table

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<td>3. ROA1</td>
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<td>-0.13</td>
<td>-0.16</td>
<td>-0.06</td>
<td>-0.04</td>
<td>-0.03</td>
<td>-0.10</td>
<td>-0.15</td>
<td>0.01</td>
<td>0.07</td>
<td>-0.01</td>
<td>0.08</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>18. maturity</td>
<td>-0.09</td>
<td>-0.06</td>
<td>-0.17</td>
<td>0.10</td>
<td>0.12</td>
<td>0.16</td>
<td>0.04</td>
<td>0.04</td>
<td>0.07</td>
<td>0.07</td>
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<td>0.10</td>
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<td>-0.10</td>
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</tr>
<tr>
<td>19. stake</td>
<td>0.06</td>
<td>0.02</td>
<td>0.05</td>
<td>-0.02</td>
<td>-0.06</td>
<td>0.07</td>
<td>0.15</td>
<td>0.00</td>
<td>0.17</td>
<td>0.02</td>
<td>0.04</td>
<td>0.23</td>
<td>0.04</td>
<td>-0.08</td>
<td>0.08</td>
<td>-0.01</td>
<td>-0.18</td>
<td>-0.04</td>
</tr>
</tbody>
</table>

* Pearson’s correlation - bold numbers are significant at the $\rho < 0.05$ level.
6.5 Summary

In this chapter, I have provided a general outline of acquisition activities in Turkey during the study period. Through it, I aim to contribute to the understanding of the general trends in the Turkish corporate context by showing the trends and composition of M&A in Turkey from 1998 to 2011. I have also introduced the descriptive summaries of this study. The first part of this chapter implies that M&A became a popular corporate activity in Turkey and in recent years, and that there has been a rapid growth of Turkish acquirers. It can be inferred that Turkish firms enjoy Turkey’s high economic growth rates and attempt to grow in both domestic and global markets. Therefore, the Turkish context provides a good case to test the influence of acquisition performance and post-acquisition strategies on the performance of emerging market acquirers. In the next chapter, I will describe the results of this study.
CHAPTER 7

Determinants of Acquisition Performance
7.1 Introduction

Following the discussion of the data and methodological issues of this research, as well as the descriptive analysis of the study, in this chapter I will present the results of the hypotheses’ analyses. In Section 7.2, I will examine the organisational learning argument in two sub-sections. First, I will present the results for the influence of prior acquisition experience on post-acquisition performance in Section 7.2.1. Then, I will go on to present the association between learning from the similarity of prior acquisitions and post-acquisition performance.

I will examine post-acquisition integration decisions and their effects in Section 7.3. First, I will present the results for the association between the degree of post-acquisition resource replacement and post-acquisition performance in Section 7.3.1. This section will be followed by the findings on top manager replacement and then on name and headquarters replacement. Next, I will present the findings from the control measures of the regression tests. After displaying the results of this study, in Section 7.4, I will present its supplementary analyses and robustness checks. I will conclude this chapter with a summary.

I will start this chapter by presenting organisational learning first, and then I will go through the findings on post-acquisition integration decisions. In each section I will present univariate analysis through an independent samples t-test first, then multivariate analysis via regression analysis.
7.2 Organisational Learning

In general, the first hypothesis of this research concerns the impact of prior acquisition experience on the acquisition performance of firms in Turkey. In Chapter 4, I divided this argument into five sub-hypotheses. According to the first sub-hypothesis, an increase in the number of acquisition experiences leads to greater acquisition experience (H1a). The second sub-hypothesis suggests that firms with any acquisition experience outperform those without any acquisition experience (H1b). Thirdly, I tested whether firms with similar related acquisition experiences achieve higher acquisition performance than firms with unrelated acquisition experiences (H1c). In the fourth sub-hypothesis, I looked at the issue of learning from similar prior acquisitions considering the domestic/cross-border perspective (H1d). In the last sub-hypothesis, I examined group-level organisational learning through group-level acquisition experiences (H1e). Learning-from-similarity hypotheses suggest that if firms have deals with similar characteristics, they reach higher acquisition performance due to the “learning-by-doing” mechanism (Zollo and Singh, 2004), which means that firms improve their understanding and application of the ways acquisitions should be managed.

The results of the independent samples t-test and the regression analysis of the model described in this section are reported in Table 7.1 and Table 7.2 respectively. Table 7.1 shows the independent sample t-test comparing acquisitions by firms with experience with those without acquisition experience. The independent samples t-test is one of the most commonly used hypothesis tests, which is applied to compare whether the means of sub-groups are statistically different from each other. Means and standard error differences between firms without acquisition experience (0) and with acquisition experience (1) groups are presented in Table 7.1. Finally, the t-statistic, which must be compared with the critical value of t in order to judge the null hypothesis, and the p-value which is a tool to test whether data reaches a specified significance level, are presented in Table 7.1. This is while bearing in mind that the effects of independent samples t-test analysis in some cases do not support the
regression analysis results. The difference between these two empirical methods occurs due to controlling the other determinants of acquisition performance variables in the regression analysis. The output of Stata for an independent sample t-test compares whether the group means are significantly different to each other. That is to say, it is a tool for univariate analysis. Given the nature of acquisition experience dummy measures (0-1), as well as, according to the Stata standard output procedure, the t-test results obtained as the difference between the group of no acquisition experience (0) and with acquisition experience (1), at the end of the test we only interpret how the group without acquisition experience (0) is different from that with acquisition experience (1), not the other way round, (1)-(0).

Table 7.2 shows a regression analysis of the organisational learning hypotheses. For each specific variable, coefficient and standard error are presented. As mentioned in the methods section, I enter each acquisition experience variable into models separately because of their relatively high correlation scores. The five separate models presented in Table 7.2 allow each group of acquisition experience variables on acquisition performance to be identified.

Table 7.1: Independent Samples t-test results of Hypothesis 1

<table>
<thead>
<tr>
<th>CAR1</th>
<th>Without experience (0)</th>
<th>With experience (1)</th>
<th>Difference of Means (0)-(1)</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OBS</td>
<td>MEAN</td>
<td>STD ERR</td>
<td>OBS</td>
</tr>
<tr>
<td>firmexpdummy</td>
<td>114</td>
<td>0.0133</td>
<td>0.0073</td>
<td>165</td>
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<tr>
<td>priorrelated</td>
<td>80</td>
<td>0.0074</td>
<td>0.0047</td>
<td>108</td>
</tr>
<tr>
<td>priorcrossborder</td>
<td>43</td>
<td>0.0102</td>
<td>0.0070</td>
<td>144</td>
</tr>
<tr>
<td>groupexpdummy</td>
<td>80</td>
<td>0.0154</td>
<td>0.0086</td>
<td>198</td>
</tr>
</tbody>
</table>
7.2.1 Does Learning From Prior Acquisition Experience Affect Acquisition Performance?

The first sub-hypothesis predicted that firms learn from acquisition experience, so that prior acquisitions lead to better acquisition performance. The descriptive analysis in Chapter 6 associated with the correlation table (Table 6.7) showed that there is no correlation between the number of prior acquisitions and acquisition performance ($r=0.00$). In Hypothesis 1a, I predicted a positive relationship between the number of acquisition experiences (acqexp) and acquisition performance (CAR1).

The independent samples t-test technique is limited to comparing the means of two sub-groups only. For Hypothesis 1a, as a continuous variable, the number of acquisition experiences (acqexp) included more than two groups. For that reason, I could not examine Hypothesis 1a with the independent samples t-test method and I only used multivariate regression technique to test it. It can be seen from the regression results (Table 7.2) that in order to test Hypothesis 1a, I entered the number of prior acquisition experiences and all the control variables into Model 1. One of the organisational learning measures, the number of prior acquisitions five-year prior to focal acquisition, turns out to be an insignificant predictor of acquisition performance, and failed to support Hypothesis 1a. Thus, my analysis has provided a clarification for the mixed results of the organisational learning literature on the performance implications of accumulating acquisition experience (Zollo and Singh, 2004).

In the second sub-hypothesis I tested whether firms with any acquisition experience gain higher market returns compared to firms without acquisition experience (H1b). Table 6.7 presents the correlation between the dependent variable, CAR, and all other variables. The early correlation process shows that there is no correlation ($r=-0.00$) between whether a firm had conducted any prior acquisitions in the last five years and
acquisition performance. Next, I tested the relationship between the acquisition experience dummy (firmexpdummy) and acquisition performance using an independent samples t-test. Linear analysis results (Table 7.1) report that the 114 firms without any prior acquisition experience achieved a mean market return of 1.3% between the day before and the day after a new acquisition announcement, compared with a mean return of 1.2% for the 165 firms that do have any prior acquisition experience. Since the p-value is 0.57, it can be concluded that there is no difference between the means. Therefore, the retrieved t-value of 0.1655 is smaller than the critical value of 2.093, so Hypothesis 1b is rejected in the univariate analysis.

Further, I tested Hypothesis 1b on the basis of multivariate analysis in Model 2 of Table 7.2. In Hypothesis 1b I predicted a positive relationship between having any acquisition experience and acquisition performance. Due to the multicollinearity discussed in section 5.4, I only entered ‘firmexpdummy’ as a predictor variable, and all other control variables into the regression. According to Model 2 reported in Table 7.2, the coefficient for focal acquisition performance was negative and insignificant, failing to support Hypothesis 1b. Comparing the prediction of my arguments in Chapter 4, these results do not support organisational learning via acquisition experience in emerging markets. However, given the inconsistent results in the strategic management literature, my analysis brings further clarification to organisational learning literature and can be seen as a contribution to the mixed results. Taken together, these results suggest that emerging market acquirers do not learn directly from their prior acquisition experiences.
<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable: CAR1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Constant</td>
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<tr>
<td></td>
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<td>(0.015)</td>
<td>(0.014)</td>
<td>(0.018)</td>
<td>(0.015)</td>
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<td><strong>M&amp;A Experience</strong></td>
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<td></td>
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<tr>
<td></td>
<td>(0.002)</td>
<td></td>
<td></td>
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<td>Firmexpdummy</td>
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<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Priorrelated</td>
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<tr>
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<td>(0.01)</td>
<td>(0.01)</td>
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<td>(0.010)</td>
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<td>Relatedness</td>
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<td>-0.004</td>
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<td>(0.010)</td>
<td>(0.009)</td>
</tr>
<tr>
<td>Cash</td>
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<td>0.018</td>
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<td>0.037***</td>
</tr>
<tr>
<td></td>
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<td>(0.01)</td>
<td>(0.011)</td>
<td>(0.012)</td>
<td>(0.010)</td>
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<tr>
<td>Advisory</td>
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<td>-0.022**</td>
<td>-0.012</td>
<td>-0.015</td>
<td>-0.024***</td>
</tr>
<tr>
<td></td>
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<td>(-0.009)</td>
<td>(-0.010)</td>
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<td>(0.009)</td>
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<tr>
<td>F-statistic</td>
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<td>3.06</td>
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</tr>
<tr>
<td>R-squared</td>
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<td>0.11</td>
<td>0.16</td>
<td>0.16</td>
<td>0.13</td>
</tr>
</tbody>
</table>

* \( p < 0.10 \); ** \( p < 0.05 \); *** \( p < 0.01 \)

Coefficients with standard errors are listed under coefficients in parentheses.
7.2.2 Does Learning From the Similarity of Prior Acquisitions Affect Acquisition Performance?

Hypothesis 1c predicted a positive relationship between the similarity of prior related acquisitions and acquisition performance. I argued that the deals similar to those previously completed by a firm would outperform deals that were different. In order to test this prior acquisition experience similarity hypothesis (H1c), I only used firms that had acquired more than one firm in the sample. Hence, firms with only one deal were ignored and the sample decreased to 188 firms for this analysis.

Initially, the correlation table (Table 6.7) indicates that prior acquisition experience similarity in terms of targets’ businesses has a positive correlation with acquisition performance ($r = 0.37$). Then, we seek further analysis for this correlation to identify the relationship between “priorrelated” and “CAR1”. The independent samples t-test result (Table 7.1) shows that the 80 firms without any prior related experience reached a mean market return of -0.7% between the day before and the day after a new acquisition announcement, compared with a mean return of 3.3% for the 108 firms with any similar related acquisition experience. Different mean values were evident in the prior related experience hypothesis and support Hypothesis 1c. This indicated that firms with prior related experience outperform those firms without prior related experience with a t-statistic of -5.3625 and with $\rho < 0.01$.

The regression analysis in Model 3 (Table 7.2) also confirms this positive and significant relationship between prior related experience and acquisition performance ($\rho < 0.01$). I also reran the regression by omitting control variable relatedness (acquirer-to-target relatedness in the focal acquisition) from the regression, which may decrease the strength of the relationship between similar related experiences (target-to-target relatedness between two consecutive acquisitions) and acquisition performance in the regression in Model 3 (Haleblian and Finkelstein, 1999). When
omitting the control variable relatedness (relatedness) from the regression model, coefficients stayed almost the same, and only the F-statistic increased. Both the independent samples t-test and regression analysis results support Hypothesis 1c in an emerging market context, consistently with expectations, and with the literature (Haleblian and Finkelstein, 1999), which proposes a statistically significant and positive relationship between prior related experience (priorrelated) and acquisition performance (CAR1).

Subsequently, as already explained in Chapter 4, I extended the theory of the similarity effect of subsequent acquisitions. In this sub-hypothesis, I assessed the similarity of acquisition experiences in the context of domestic and cross-border acquisitions. The theory suggests that exploiting learning from prior acquisitions of the same pattern, domestic-domestic or cross-border-cross-border, leads to greater subsequent acquisition performance than learning from dissimilar acquisition experiences. As anticipated, preliminary results from the correlation table (Table 6.7) demonstrate that there is a positive correlation between similar cross-border experiences and acquisition performance, and this is significant at the 5% level ($r=0.27$). An independent samples t-test compares the acquisition performance (CAR1) of acquisitions geographically similar to those previously made by a firm and those from dissimilar conditions. Again firms with a single acquisition activity were dropped from the analysis, which resulted in 187 firms in total for this analysis. The independent samples t-test (Table 7.1) demonstrates that the 43 firms without any geographically similar prior acquisition experiences achieved an average market return of -1% between the day before and the day after a new acquisition announcement, compared with an average market return of 2.5% for the 144 firms with any similar cross-border or domestic acquisition experiences.

In this analysis the t-statistic is -3.8416 and $p < 0.01$. This means that firms with similar cross-border experiences outperform those with dissimilar ones. In the regression analysis (Table 7.2), Model 4 examines the effects of similar cross-border experience and whether it explains the changes in acquisition performance. The
coefficient of similar cross-border experience is positive and significant at the 1% level. This supports Hypothesis 1d that geographically similar acquisition positively drives the firm’s subsequent acquisition performance, and is consistent with the idea that an emerging market firm’s focal acquisition performance is positively associated with prior acquisition deal characteristics that are similar to the focal acquisition deal characteristic in terms of geographical similarity. This acquisition behaviour plays an important role in organisational learning through applying similar routine operations during the post-acquisition process of the focal acquisition.

Notably, it can be seen from Tables 7.1 and 7.2 that there are differences between the sample sizes of the univariate and multivariate models. This is simply because of missing values in the dataset, and Stata ignores the observation as a whole if there is any missing value within the variable of an observation. As a default procedure, the statistical software Stata, which I adopted for my analyses, ignores observations with missing values in order for a statistical mechanism to produce meaningful results. Usually, most statistical software programs (e.g. SAS and SPSS) also automatically identify the problem and delete the observations if there are any missing values. Moreover, different measures have different numbers of missing observations. That is the reason why the sample size varies between univariate analysis and multivariate analysis. Due to the risk of misleading information and the possibility of bias, I did not pursue further methods to avoid the missing values in the multivariate analysis.

7.2.3 Does a Business Group’s Learning from Acquisition Experience Affect Acquisition Performance?

The dominant organisational structure in most emerging economies is the business group. Many studies in organisational learning have investigated the learning perspective from the firm level, and thus ignored the relationship between acquisition experience and acquisition performance at the group level. In this part, I expand the
understanding of business groups’ learning by testing the relationship between group level acquisition experience and acquisition performance. I expected that business groups with any prior acquisitions would have higher acquisition performance compared to those without any acquisition experience. Initially, linear association via a correlation matrix (Table 6.7) reveals that there is a very weak negative correlation between group-level acquisition experience and acquisition performance ($r= -0.03$).

Table 7.1 shows that the 80 firms without any group-level prior acquisition experience achieved a mean market return of 1.5% between the day before and the day after a new acquisition announcement, compared with a mean return of 1.1% for the 198 firms which did have any prior acquisition experience. That is to say, there is no significant difference between the two groups. This finding does not support my prediction that any group level acquisition experience within the five year period prior to focal acquisition will not lead to greater acquisition experience. To test Hypothesis 1e via regression analysis, control variables were first entered into Model 5, with the independent variable group level for any prior acquisition experience inserted into Model 5 as well. Interestingly, as shown in Model 5, when controlling for other determinants of performance, group-level acquisition experience has a negative effect on the performance of a business group. However, the findings show that the coefficient of the group-level acquisition experience does not reach the significance level. Thus, Hypothesis 1e is not supported by regression analysis.

### 7.2.4 Effects of the Control Measures

In Table 7.2, analyses for several of the control variables yielded a variety of results. Consistent with expectations, the method of payment was positively and significantly related to acquisition performance for the all models utilising the full sample, apart from Model 3 in regards to similarity of prior relatedness. Acquisitions paid for in cash were positively associated with market returns ($\rho < 0.01$), in line with Muehlfeld
et al.’s (1997) results. Moreover, consistent with Hayward (2002), the use of an external advisor was negatively correlated with market returns ($\rho < 0.01$). This significant negative result for the advisory measure was achieved in all models other than Models 3 and 4. Overall, these insignificant control variables for Model 3 and Model 4 further suggest that the similarity of prior relatedness and similarity of prior cross-border measures considered in my theoretical discussion are meaningful and relevant to the prediction of direct effects of acquisition performance.

None of the other variables entered as controls in the regression analyses, which were cross-border, relatedness, hostile, maturity, and controlling stake, significantly influenced acquisition performance. Contrary to my predictions, acquiring a domestic target versus a foreign firm or vice versa does not add extra explanatory performance to the acquirer firm in focal acquisition. Another outcome indicates that industrial relatedness, the measure of the relatedness of the focal acquisition’s line of business to the acquirer’s line of business, is not positively related to market returns. Researchers have made much progress in uncovering the unknown side of related and unrelated acquisitions. However, the results are contradictory. According to my results, acquirer-to-target similarity, in terms of industry, does not affect acquisition performance.

Table 7.2 shows that models in the acquisition experience section’s R-squares range from 0.13 to 0.16. This means that those acquisition experience variables could explain the dependent variable, CAR1, approximately between 13% and 16%. Even though reported R-squares may appear relatively low, some strategy studies (Lubatkin and Chatterjee 1991; Halebian and Finkelstein, 1999) may also yield low R-squares. For instance, Halebian and Finkelstein (1999) reported R-squares between acquisition experience and acquisition performance ranging from 0.071 to 0.109. As a consequence, such low R-squares are typical in the results of this study in which cumulative abnormal return is the dependent variable.
7.3 Post-Acquisition Integration Decisions

Several studies (Anand et al., 2005; Datta, 1991; Birkinshaw et al., 2000) document the difficulties of integrating acquired firm resources. As discussed in the “Theory Development” section, there are two key dimensions to the integration process, which are the degree of organisational integration between two firms in the acquisition, and the extent to which acquired firm’s resources are replaced. It is the acquirer firm’s responsibility to decide whether to keep or replace the resources of the acquired firm. This section shows the results of the analysis of the post-acquisition integration decisions’ effect on post-acquisition performance of acquirer firms. Similarly to the acquisition experience test procedures, this section also presents two different approaches to test the sub-groups of Hypotheses 2, 3, 4, and 5. The t-test and regression results of testing resource replacement hypotheses are displayed in Tables 7.3, 7.4, 7.5, 7.6 and 7.7.

In order to measure the degree of post-acquisition replacement, I identified three resources that indicate post-acquisition resource transfer, which are CEO change, name change, and headquarters change. Identifying these changes during the post-acquisition process allowed me to capture not only how firms’ decisions influence their post-acquisition performance but also the capability of the acquirer firms to implement the reorganisation of newly acquired resources into businesses.
7.3.1 Does the Degree of Resource Replacement Affect Acquisition Performance?

As discussed in the theory development section for H2, where some strategic management scholars (Krishnan et al. 1997; Cannella and Hambrick, 1993) propose that the replacement of resources in the target firm is harmful to post-acquisition performance, I conversely asserted that replacement of resources boosts the subsequent economic performance of the focal acquisition. Furthermore, in this section, I am interested in identifying the association between the degree of resource replacement and subsequent acquisition performance in the focal acquisition. In Hypothesis 2a, I predict that when more extensive resource replacement is pursued due to the characteristics of emerging market firms, better economic performance of the focal acquisition will be gained. As mentioned in Chapter 4’s ”Data and Methods” section, I included three resources, namely CEO change, name change, and headquarters change, in order to measure the degree of resource replacement for each acquisition. I tested Hypothesis 2a through regression analysis only, because the degree of replacement includes more than two sub-groups. In Model 6 (Table 7.3), regarding the performance implications of the degree of resource replacement, I first note that the direct effect is positive; however, it is not significant, and fails to support Hypothesis 2a (Table 7.3). This result could be explained by having undervalued or underexploited assets, such as brand name change or headquarters change (Zollo and Singh, 2004), as primarily motivated resources for the degree of replacement measurement. The decision on the replacement of the CEO is only loosely connected to the one on the degree of replacement of productive assets (Zollo and Singh, 2004).
### Table 7.3: Regression results for the Hypotheses 2 and 3

<table>
<thead>
<tr>
<th>Dependent variable: CAR1</th>
<th>Model 6</th>
<th>Model 7 (Cross-border M&amp;As)</th>
<th>Model 8 (Domestic M&amp;As)</th>
<th>Model 9 (Cross-border M&amp;As)</th>
<th>Model 10 (Domestic M&amp;As)</th>
<th>Model 11 (Domestic M&amp;As)</th>
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</thead>
<tbody>
<tr>
<td>Constant</td>
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<td>0.001</td>
<td>0.001</td>
<td>0.003</td>
<td>-0.005</td>
</tr>
<tr>
<td></td>
<td>(0.014)</td>
<td>(0.029)</td>
<td>(0.016)</td>
<td>(0.015)</td>
<td>(0.029)</td>
<td>(0.017)</td>
</tr>
<tr>
<td><strong>Resource Replacement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Degree</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.004)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Degree (Crossborder)</td>
<td>-0.007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td><strong>Degree (Domestic)</strong></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>0.011**</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.005)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO change</td>
<td></td>
<td></td>
<td></td>
<td>0.018*</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.009)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO change (Crossborder)</td>
<td></td>
<td></td>
<td></td>
<td>-0.004</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.015)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO change (Domestic)</td>
<td></td>
<td></td>
<td></td>
<td>0.030**</td>
<td></td>
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<tr>
<td></td>
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<td></td>
<td></td>
<td>(0.012)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Controls</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crossborder</td>
<td>-0.007</td>
<td>-0.009</td>
<td>-0.012</td>
<td>-0.007</td>
<td>-0.01</td>
<td>-0.011</td>
</tr>
<tr>
<td></td>
<td>(0.004)</td>
<td>(0.020)</td>
<td>(0.010)</td>
<td>(0.009)</td>
<td>(0.020)</td>
<td>(0.010)</td>
</tr>
<tr>
<td>Relatedness</td>
<td>-0.007</td>
<td>-0.009</td>
<td>-0.012</td>
<td>-0.007</td>
<td>-0.01</td>
<td>-0.011</td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
<td>(0.020)</td>
<td>(0.010)</td>
<td>(0.009)</td>
<td>(0.020)</td>
<td>(0.010)</td>
</tr>
<tr>
<td>Cash</td>
<td>0.033***</td>
<td>0.035</td>
<td>0.027**</td>
<td>0.032***</td>
<td>0.035</td>
<td>0.028**</td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.021)</td>
<td>(0.012)</td>
<td>(0.01)</td>
<td>(0.021)</td>
<td>(0.012)</td>
</tr>
<tr>
<td>Advisory</td>
<td>-0.027**</td>
<td>-0.013</td>
<td>-0.02</td>
<td>-0.019**</td>
<td>-0.013</td>
<td>-0.018</td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
<td>(0.015)</td>
<td>(0.011)</td>
<td>(0.008)</td>
<td>(0.015)</td>
<td>(0.011)</td>
</tr>
<tr>
<td>Hostile</td>
<td>-0.004</td>
<td>-0.011</td>
<td>-0.002</td>
<td>0.005</td>
<td>-0.008</td>
<td>-0.006</td>
</tr>
<tr>
<td></td>
<td>(0.016)</td>
<td>(0.029)</td>
<td>(0.02)</td>
<td>(0.016)</td>
<td>(0.029)</td>
<td>(0.020)</td>
</tr>
<tr>
<td>Maturity</td>
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<td>-0.007</td>
<td>-0.003</td>
<td>-0.008</td>
<td>-0.013</td>
<td>-0.003</td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
<td>(0.017)</td>
<td>(0.012)</td>
<td>(0.01)</td>
<td>(0.016)</td>
<td>(0.012)</td>
</tr>
<tr>
<td>Stake</td>
<td>0.004</td>
<td>0.01</td>
<td>-0.002</td>
<td>0.005</td>
<td>0.008</td>
<td>0.004</td>
</tr>
<tr>
<td></td>
<td>(0.008)</td>
<td>(0.017)</td>
<td>(0.01)</td>
<td>(0.008)</td>
<td>(0.017)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>N</td>
<td>203</td>
<td>59</td>
<td>144</td>
<td>202</td>
<td>59</td>
<td>143</td>
</tr>
<tr>
<td>F-statistic</td>
<td>3.28</td>
<td>1.25</td>
<td>3.10</td>
<td>3.59</td>
<td>1.06</td>
<td>3.21</td>
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<tr>
<td>R-squared</td>
<td>0.12</td>
<td>0.14</td>
<td>0.14</td>
<td>0.13</td>
<td>0.12</td>
<td>0.14</td>
</tr>
</tbody>
</table>

* * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Coefficients with standard errors are listed under coefficients in parentheses.
Additionally, in cross-border deals, replacing the resources of target firms is likely to be harmful to the subsequent performance of the focal acquisition. As discussed in Chapter 4, emerging market firms tend to retain acquired firms’ resources in order to have a home-country-specific advantage through possession of valuable resources, as a way of compensating for the disadvantage of being a foreign firm in the local market (Madhok and Keyhani, 2012). If this is the case, then in Hypothesis 2b, I can propose that the higher the degree of resource replacement in cross-border acquisitions, the lower the subsequent acquisition performance. Model 7 in Table 7.3 displays the results of this argument, and I predicted a negative relationship. In order to test the hypothesis, at this time I only entered cross-border acquisitions into the regression model. However, Model 7’s result is not consistent with Hypothesis 2b and fails to support my argument. Although the direction is right, the effect is not statistically significant. This weak effect size occurred due to controlling for other determinants of acquisition performance in the regression analysis. Additionally, the low sample size of 59 observations might be a factor for the insignificant weak effect. Consequently, the result for resource replacement in cross-border acquisitions does not support the received literature discussed in the theory development chapter, and fails to statistically support Hypothesis 2b.

Conversely to Hypothesis 2b, replacing the target firm’s resources might be positively connected with enhanced performance if the focal acquisition is domestic in character. The advantages of familiarity with the home market, and common network-based behaviours from emerging market firms as well as relational ties, might drive the post-acquisition decisions of the acquirer firm and serve as the main motivations behind resource replacement within the target firm. Model 8 in Table 7.3 tests Hypothesis 2c, focusing on the context-specificity of focal acquisition. I only used a sample of the domestic acquisition panel to test Hypothesis 2c in order to examine the effects of resource replacement decisions on acquisition performance. Interestingly, while Model 6 revealed that the coefficient of the firm’s degree of resource replacement is not statistically significant, Model 8 shows that when selecting only domestic acquisitions for regression, the degree of resource replacement becomes statistically significant at the 5% level. Cross-border acquisitions in Model 6 lower
the effect size for the degree of resource replacement. When considering only domestic acquisitions, this effect becomes clearer and a relationship between degree of resource replacement and acquisition performance is observed. Importantly, these results suggest that including the contextual factors (domestic/cross-border) is important when examining post-acquisition decisions in emerging markets. Only in domestic acquisitions does the degree of resource replacement affect focal acquisition performance. Thus, this paper clarifies the literature on emerging markets’ post-acquisition integration decisions.

### 7.3.2 Does Top Manager Replacement Affect Acquisition Performance?

Apart from learning from prior experiences on how to develop certain characteristics of organisational development, firms also learn from their top management, especially from their top manager or CEO. As discussed in Chapter 4, network-based behaviours are common in emerging market firms, and these firms are more likely to change the acquired firm’s management and appoint someone from their network. Due to social traditions, these relational ties do affect the firms’ choices. In Hypothesis 3a, I argued that emerging market firms who changed their CEO would enhance their economic performance of the focal acquisition.

Firstly, the correlation table (Table 6.7) shows that CEO change during the post-acquisition period has a positive correlation with acquisition performance ($r= 0.19$). Second, I pursue further analysis to discover the association between CEO change and acquisition performance via an independent samples t-test method. This univariate analysis (Table 7.4) demonstrates that the 97 firms without CEO change after focal acquisition reached a mean market return of -0.2% between the day before and the day after a new acquisition announcement, compared with a mean return of 2.3% for those 176 firms with CEO change after focal acquisition. The difference between mean values was evident in the CEO change hypothesis and supports Hypothesis 3a,
which specified that emerging market firms that change their CEO would outperform those firms without any CEO change, with a t-statistic of -3.3026 and with a $\rho < 0.01$.

Table 7.4: Independent Samples t-test results of the Hypothesis 3

<table>
<thead>
<tr>
<th>CAR1</th>
<th>Without Replacement (0)</th>
<th>With Replacement (1)</th>
<th>Difference of Means (0)-(1)</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OBS</td>
<td>MEAN</td>
<td>STD ERR</td>
<td>OBS</td>
</tr>
<tr>
<td>CEO change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO change (Crossborder)</td>
<td>97</td>
<td>-0.0023</td>
<td>0.0043</td>
<td>176</td>
</tr>
<tr>
<td>CEO change (Domestic)</td>
<td>40</td>
<td>0.0085</td>
<td>0.0081</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>57</td>
<td>-0.0098</td>
<td>0.0044</td>
<td>145</td>
</tr>
</tbody>
</table>

Lastly, in Model 9, I included the CEO replacement measure to test Hypothesis 3a through regression analysis (Table 7.3). When cumulative abnormal return (CAR1) was the acquisition performance measure, the main effect yielded a positive and significant coefficient for the “CEOchange” measure as well. The coefficient of the CEO replacement measure is positive and significant at the 5% level. This is consistent with Hypothesis 3a that replacement of target’s CEO during the post-acquisition period increases economic performance of the focal acquisition in emerging economies and is an important determinant of subsequent acquisition performance.

One of the important factors in this study is the difference between the characteristics of emerging market economies and of economies in the developed world. These features (specified in Section 2.5) indicate that some of the assumptions of existing theories are less applicable for emerging market firms (Xu and Meyer, 2013). In order to cope with new and dynamic environments, emerging market firms act differently in diverse conditions. For instance, the learning perspective, which explores how firms improve capabilities and seek corporate development, differs in emerging market economies.
Therefore, I further extended the resource replacement theory and investigated the impact of domestic and cross-border acquisitions on the relationship between CEO change and subsequent acquisition performance. Importantly, I did not combine all variables into a full model by using cross-border/domestic measure as a moderate variable. Instead, to test the impact of cross-border/domestic acquisitions, I created two panels based on splitting acquisitions into cross-border (Model 10) and domestic (Model 11) deals. This method helps me to make accurate comparisons between geographically identical acquisitions, which are domestic-domestic, and cross-border-cross-border deals.

Interestingly, the results of Hypothesis 3b suggest that cross-border acquisitions had no impact on resource replacement and acquirers did not gain the economic benefits of global diversity predicted by the resource replacement theory. I expected that emerging market firms would retain acquired firms’ resources in a cross-border acquisition, leading to better economic performance of the focal acquisition. This is because emerging market firms have some disadvantages when they move abroad from their home country and these reduce their acquisition performance. When going abroad “emerging market firms need to learn how to operate in new economic, legal, administrative and cultural environments” (Bertrand and Betschinger, 2011, pp. 3). So these emerging market firms prefer smoother integration and retain acquired firms’ resources.

First of all, I tested the relationship between CEO change in cross-border deals and acquisition performance using an independent samples t-test. Table 7.4 reports that the 40 firms without change of acquired firms’ CEO in cross-border acquisitions achieved a mean market return of 0.8% between the day before and the day after a new acquisition announcement, compared with a mean return of 0.4% for the 31 firms with CEO change. This result suggests that CEO change in cross-border acquisitions has a negative effect on acquisition performance; however, it is not significant and
does not support Hypothesis 3b. Contrary to the resource replacement analysis in domestic acquisitions, regression analysis (Table 7.3) also showed that cross-border acquisitions do not support my hypothesis. Model 10 showed that the coefficient for CEO change for focal acquisition performance in cross-border deals was negative but insignificant, failing to support Hypothesis 3b. This finding fails to reach statistical significance and does not support the received literature on the performance implications of emerging market economies’ post-acquisition decisions in cross-border deals, even if the effect is in the right direction.

In the third sub-hypothesis (H3c), I predicted that when emerging market firms perform domestic acquisitions, they achieve greater acquisition performance if they change the acquired firm’s CEO. This is because these emerging market firms are familiar with their own markets and prefer to employ their own people or someone closer to them due to relational ties. According to Table 7.4, 57 firms without CEO change after domestic acquisition achieved a mean market return of 0.1% between the day before and the day after a new acquisition announcement, compared with a mean return of 2.7% for the 145 firms which did have CEO change after domestic acquisition. This is important evidence in support of Hypothesis 3c, which assumed that emerging market firms that change their CEO in domestic acquisitions outperform firms which did not, with a t-statistic of -3.7630 and with a $p < 0.01$. Hence, when adding all control variables into the regression, I obtain further support for Hypothesis 3c. In model 11, I find that there is a strong and significant positive effect (significant at the 1% level) of the change of CEO in domestic acquisitions on acquisition performance (Table 7.4). Therefore, both univariate and multivariate analyses support Hypothesis 3c.
7.3.3 Do Name and Headquarters Replacements Affect Acquisition Performance?

In this study, I also adopt two alternative measures to capture the resource replacement effect in the target firms. As presented in the data and methods section, my first alternative measure focuses on the role of name change in the post-acquisition period. My baseline analysis, Hypothesis 4a, regarding this measure suggests that the target firm’s name change positively impacts the acquirer’s post-acquisition performance. Similarly, in regard to the second alternative measure, Hypothesis 5a expects a positive relationship between the target’s headquarters replacement and the acquirer’s acquisition performance during the post-acquisition period.

Table 7.5: Independent Samples t-test results of the Hypothesis 4

<table>
<thead>
<tr>
<th>CAR1</th>
<th>Without Replacement (0)</th>
<th>With Replacement (1)</th>
<th>Difference of Means (0)-(1)</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OBS MEAN STD ERR</td>
<td>OBS MEAN STD ERR</td>
<td>OBS MEAN STD ERR</td>
<td></td>
</tr>
<tr>
<td>Name change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>150</td>
<td>0.0097 0.0045</td>
<td>124 0.0187 0.0063</td>
<td>274 -0.0090 0.0075</td>
<td>-1.1867 &lt; 0.118</td>
</tr>
<tr>
<td>Name change (Crossborder)</td>
<td>37 0.0156 0.0095</td>
<td>33 -0.0023 0.0083</td>
<td>70 0.0179 0.0127</td>
<td>1.4066 &lt; 0.918</td>
</tr>
<tr>
<td>Name change (Domestic)</td>
<td>113 0.0078 0.0051</td>
<td>91 0.0263 0.0079</td>
<td>204 -0.0185 0.0091</td>
<td>-2.0379** &lt; 0.021</td>
</tr>
</tbody>
</table>

Initially, Table 6.7 shows that name change (r= 0.07) and headquarters change (r= 0.05) have very low correlations with acquisition performance CAR1. After I looked at the correlation analysis, I conducted independent samples t-tests for these alternative measures. Table 7.5 shows that the 150 emerging market firms, which did not change the target firms’ names almost reached a mean market return of 0.1% between the day before and the day after a focal acquisition announcement, compared with a mean return of 1.8% for the 124 emerging market firms that changed the target firms’ names.
Table 7.6: Independent Samples t-test results of the Hypothesis 5

<table>
<thead>
<tr>
<th>CAR1</th>
<th>Without Replacement (0)</th>
<th>With Replacement (1)</th>
<th>Difference of Means (0)- (1)</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OBS</td>
<td>MEAN</td>
<td>STD ERR</td>
<td>OBS</td>
</tr>
<tr>
<td>HQ change</td>
<td>153</td>
<td>0.0105</td>
<td>0.0046</td>
<td>121</td>
</tr>
<tr>
<td>HQ change (Crossborder)</td>
<td>48</td>
<td>0.0146</td>
<td>0.0075</td>
<td>23</td>
</tr>
<tr>
<td>HQ change (Domestic)</td>
<td>105</td>
<td>0.0087</td>
<td>0.0058</td>
<td>98</td>
</tr>
</tbody>
</table>

According to Table 7.6, the independent samples t-test for headquarters replacement indicates that the 153 emerging market firms which did not change target firms’ headquarters achieved a mean market return of 1% between the day before and the day after a focal acquisition announcement, compared with a mean return of 1.7% for the 121 emerging market firms that changed the headquarters. Thus, the result from the univariate analysis shows that the relationship between corporate headquarters replacement of the target firm and acquisition performance is not statistically significant.

Regarding regression analysis of Hypotheses 4 and 5, the direct effects of name replacement and headquarters replacement are positive, but statistically not significant in Models 12 and 15 respectively, suggesting that acquirer firms were not affected directly by name or headquarters replacement of the target firm. As mentioned earlier in this chapter, I entered the two alternative resource replacement measures separately in different models because of their relatively high correlation ratio and to avoid multicollinearity. These results failed to support the baseline arguments, which are Hypotheses 4a and 5a, and indicate that name change and headquarters change did not have any direct influence on acquisition performance.
Table 7.7: Regression Results for Hypotheses 4 and 5

<table>
<thead>
<tr>
<th>Dependent variable: CAR1</th>
<th>Model 12 (Cross-border M&amp;As)</th>
<th>Model 13 (Domestic M&amp;As)</th>
<th>Model 14 (Cross-border M&amp;As)</th>
<th>Model 15 (Domestic M&amp;As)</th>
<th>Model 16 (Cross-border M&amp;As)</th>
<th>Model 17 (Domestic M&amp;As)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.010</td>
<td>0.005</td>
<td>0.007</td>
<td>0.001</td>
<td>0.003</td>
<td>0.010</td>
</tr>
<tr>
<td></td>
<td>(0.014)</td>
<td>(0.029)</td>
<td>(0.017)</td>
<td>(0.014)</td>
<td>(0.028)</td>
<td>(0.016)</td>
</tr>
</tbody>
</table>

Resource Replacement

| Name Change | 0.004 |          |            |              |                |                          |
| Name Change (Crossborder) | -0.015 |          |            |              |                |                          |
| Name Change (Domestic)     | 0.013 |          |            |              |                |                          |

HQ change

| HQ change (Crossborder) | 0.002 |          |            |              |                |                          |
| HQ change (Domestic)    | 0.016 |          |            |              |                |                          |

Controls

| Crossborder | -0.009 |          |            |              |                |                          |
| Relatedness  | -0.005 | -0.007 | -0.006 | -0.005 | -0.08 | -0.009 |
| Cash         | 0.035*** | 0.035 | 0.032** | 0.035*** | 0.032 | 0.031** |
| Advisory     | -0.022** | -0.016 | -0.025** | -0.022** | -0.013 | -0.024 |
| Hostile      | -0.002 | -0.008 | -0.000 | 0.005 | -0.002 | -0.001 |
| Maturity     | -0.008 | -0.006 | -0.003 | -0.008 | -0.004 | -0.004 |
| Stake        | 0.005 | 0.008 | -0.001 | 0.005 | 0.016 | 0.002 |
| N            | 202 | 58 | 144 | 203 | 59 | 144 |
| F-statistic  | 3.12 | 1.16 | 2.54 | 3.10 | 1.52 | 2.58 |
| R-squared    | 0.11 | 0.14 | 0.12 | 0.11 | 0.17 | 0.12 |

* p < 0.10; ** p < 0.05; *** p < 0.01

Coefficients with standard errors are listed under coefficients in parentheses.
Following the previous resource replacement test procedures, I also created two sets of clusters for name change and headquarters change measures by grouping them into domestic acquirers and cross-border acquirers. The results for emerging market cross-border acquirers suggest that the resource replacement argument is supported for headquarters replacement. However, they failed to support the name change measure in an independent sample t-test. According to Table 7.6, the 48 emerging market cross-border acquirers which did not change target firms’ headquarters achieved a mean market return of 1.4% between the day before and the day after a focal acquisition announcement, compared with a mean market return of -0.9% for the 23 emerging market cross-border acquirers that did change target firms’ headquarters. This result indicates that emerging market cross-border acquirers that keep the target firm’s headquarters outperform those firms that replace the target’s headquarters, with a t-statistic of -1.7957 and with a $\rho < 0.05$. This finding is also consistent with the regression analysis (Table 7.7). In Model 16, I only include the headquarters change in the cross-border acquisitions as a predictor variable to test Hypothesis 5b. When controls are added to the model, the coefficient of the headquarters change is negative and significant at the 5% level and supports Hypothesis 5b. By contrast, name change as an alternative resource replacement measure turns out to be a non-significant predictor of acquisition performance, failing to support Hypothesis 4b.

Finally, in order to test Hypotheses 4c and 5c, that the emerging market acquirers that replace the target firm’s resource achieve better acquisition performance in domestic acquisitions, I followed a similar procedure with the other resource replacement measures. The independent sample t-test results for both name replacement and headquarters replacement measures support Hypotheses 4c and 5c. According to Table 7.5, 113 emerging market domestic acquirers that did not change the target’s name after domestic acquisition reached a mean market return of 0.7% between the day before and the day after a focal acquisition announcement, compared with a mean return of 2.6% for the 91 emerging market domestic acquirers that changed the target’s name. Similarly, Table 7.6 shows that the 105 emerging market domestic acquirers that did not change the target firms’ headquarters achieved a mean market return of 0.8% between the day before and the day after a focal acquisition.
announcement, compared with a mean market return of 2.3% for the 98 emerging market domestic acquirers that did. These independent t-tests yield significant differences in the sub-groups of name change (t-stat = 2.0379, \( p < 0.05 \)) and headquarters change (t-stat = -1.6614, \( p < 0.05 \)). However, the regression analysis did not support these results. According to Table 7.7, both Model 14 and Model 17 were not statistically significant and failed to support Hypotheses 4c and 5c for domestic clusters, implying that, once controlled for other determinants of acquisition performance, the effects have changed from univariate analyses to multivariate analyses.

These results show that these proxies, namely corporate name change and headquarters change, are less likely to be determinants of acquisition performance compared to top manager change. Surprisingly, in terms of the performance implications of these alternative resource replacement measures, the strength of the results was too low. Given the theoretical arguments for both Hypothesis 4 and Hypothesis 5, I expected that name change and headquarters change would be stronger predictors of acquisition performance in the emerging market; however, the results specify the opposite.

### 7.3.4 Effects of the Control Measures

With respect to the control variables included in the resource replacement models (Table 6.4 and Table 7.7), all the indicators of the coefficient estimates behaved the same as in the acquisition experience models. Apart from method of payment and advisory measures, none were statistically significant.

Consistent with prior acquisition studies (Loughran and Vijh, 1997; Hayward, 2002), the acquirer method of payment was positively and significantly associated with
acquisition performance, further implying that cash payment generates significantly higher returns than stock financed deals, and is beneficial in acquisitions. Another significant finding from the control variables shows that the relationship between the use of an external advisory and focal acquisition performance was negative. Following to Hayward’s (2002) argument, this negative effect might be explained by the firms’ poor acquiring skills or higher premiums and commission to be paid to investment banks in return for bank loans for the final deal value.

The results for some of the traditional control variables are worth mentioning even though they were insignificant in the resource replacement models. Firstly, consistent with Laamanen and Keil (2008), the cross-border measure was found to be negatively related to acquisition performance in Models 6, 9, 12, and 15; however, the relationships in these models were not statistically significant. Secondly, I expected a positive relationship between the traditional measure of industrial relatedness, which is the measure examining whether the target and acquirer are in the same industry, and acquisition performance. Following Halebian and Finkelstein (1999), it was anticipated that due to similarity and potential synergies between related resources, the market is likely to value related acquisitions more highly than unrelated acquisitions. Surprisingly, industrial relatedness measures were negatively associated with acquisition performance in all resource replacement models. While all these negative relatedness effects were insignificant, the negative relationship is an unexpected outcome and it might be interpreted as corroborating the overall picture of diverse acquisition types. Furthermore, consistent with hostile acquisitions underperforming friendly ones, acquirer attitude was negatively related to acquisition performance in resource replacement models. Finally, contrary to expectations, the maturity of the acquiring firm was negatively associated with acquisition performance. Summaries of the expected effect of hypothesised relationships, and their univariate and multivariate outcomes, can be seen in Appendix D.
7.4 Supplementary Analyses and Robustness Checks

In this section, I will examine the robustness of my results and present additional analyses. To explore the study's hypotheses further, and to enhance the robustness of the results, I have conducted several different supplementary analyses. These are: using the accounting proxy as an acquisition performance measure (ROA), changing the acquisition performance (CAR5) time window, changing the observation period of acquisition experience, excluding the outliers, trimming the sample, aggregating the sample, and adding extra measures.

First of all, given the importance of accurately assessing acquisition performance, I followed King et al.'s (2004) recommendation and conducted all the analyses through Return on Assets (ROA) as an alternative acquisition performance measure. I computed and tested long-term change following an acquisition through an accounting-based measure. This measure helps me capture to what extent the acquisition generated value for the acquirer in the long-term. Therefore, using both the CAR and ROA measures as dependent variables allows me to examine hypothesised effects in the short- vs. long-term and see the differences. As explained in the data and methods section (Section 5.4.2), consistent with the acquisition literature (Zollo and Reuer, 2010; King et al., 2004) I computed ROA as the difference between each firm’s pre-acquisition and post-acquisition ROA performances. This enabled me to see the changes in the accounting-based measure following an acquisition. I tested all the hypotheses with an independent samples t-test and reran all the regression with the dependent variable ROA. However, the results were dissimilar to those based on the market-based measure of acquisition performance. Similarly to Selcuk and Yilmaz (2011), I found that there is no significant difference between the pre-performance and post-performance of ROA in the publicly listed Turkish firms which were engaged in acquisitions. Only the similarity of cross-border acquisitions (H1d) and CEO change hypotheses (H3a and
H3c) was supported by the long-term accounting based measure. I also constructed an alternative measure of explanations for ROA, but these approaches provided almost identical estimates of the acquisition performance. I present the results for acquisition performance ROA in Appendix C1.

Second, consistent with prior studies (Capron and Shen, 2007; Hayward, 2002), I conducted several different event windows for the cumulative abnormal returns measure. As I mentioned earlier in this study (section 5.4.1), following the prior acquisition literature I used commonly practiced event windows to test the robustness of my results through the market based measure CAR. These different event windows are \((t = 0), (t = -2, 0 \ldots +2), (t = -3 \ldots 0 \ldots +3), (t = -4 \ldots 0 \ldots +4)\) and \((t = -5 \ldots 0 \ldots +5)\) day intervals for the CAR analysis, and they brought almost identical results. These different time windows were all statistically different from zero and positive. Consistent with prior studies (Haleblian and Finkelstein, 1999; Hayward, 2002) I did not use longer time periods. This was in order to avoid the lack of market anticipation of acquisitions after a focal acquisition announcement due to possible organisational activities that may occur and affect market performance. Regarding Hypotheses 1c and 1d, both similarity of prior related experience \((\rho < 0.05)\) and similarity of prior cross-border experience \((\rho < 0.05)\) are positively and significantly correlated with acquisition experience. Moreover, in regard to the resource replacement hypotheses, degree of resource replacement, CEO change, and HQ change arguments also supported Hypotheses 2, 3, and 5. Results for another commonly used CAR window, \(\text{CAR5} (t = -5 \ldots 0 \ldots +5)\), are presented in Appendix C2 and provide strong corroborative support for my arguments and confirm the robustness of the overall pattern of results.

Third, I observed the acquisition experience of the sampled firms from different time periods. To create alternative explanations for the number of prior acquisition experiences \((\text{acqexp})\), I counted the number of acquisitions a firm made over the two, three, four, six, and seven years preceding a focal acquisition, and analysed their impact on acquisition performance. Rerunning regressions with alternative time
windows provided essentially the same results. Experiences gained from acquisitions in the three, four, and six years in the past were highly correlated with the main five year time window.

Fourth, I reran the analyses without the most acquisition-active firm, Haci Omer Sabanci, in Turkey. Going back to Figure 6.2\textsuperscript{13}, Haci Omer Sabanci made 15 acquisitions in total during the study period. I tested the hypotheses without the most active acquirer firm in the dataset. Removing outliers is an important technique used in robust statistics that enables the data to fit the assumptions of normality (Larson-Hall and Herrington, 2009). Outliers can have an undue impact on analysis. When omitting Sabanci Holding from the analyses, results were virtually unchanged.

Fifth, I used the trimming technique as an alternative explanation of acquisition experience variables. This robust statistical technique allows me to make more accurate conclusions about my data. I trimmed the first and the last 1%, 5%, and 10% of the sample equally and did not find any significant result for Hypothesis 1a.

Sixth, I aggregated the multiple acquisitions observed by the same firm in the same year. In my sample, there were multiple observations from the same responding firm. This may result in a calculation problem for long-term accounting-based measures in capturing the real acquisition effect of the focal acquisition. In order to address this problem, I took the average of all acquisitions that occurred in the same year by the same firms, and then all the acquisitions done by the same firm were aggregated. I reached almost identical results and did not find significant results for direct acquisition experience’s effect on acquisition performance.

\textsuperscript{13} Figure 6.2 considers the whole study period, not 5-year time window prior to focal acquisition.
Finally, I added extra variables into the regression and extended the acquisition experience analysis. I included the squared term of the number of acquisition experience variables to test for the U-shaped relationship found by Haleblian and Finkelstein (1999), but found no evidence of such a relationship. I also conducted additional analysis to experiment with the resource replacement variable. “AnyRR” is a dummy variable that takes the value 1 if any one of the three resource replacement variables (CEOchange, namechange, and hqchange) is captured in the post-acquisition period following a focal acquisition and gets 1 in the deal, 0 otherwise. However, the dummy variable “anyRR” statistically failed to support the resource replacement argument.

7.5 Summary

In this chapter, I have presented the results of univariate and multivariate analyses of my hypotheses. I have presented the results for the acquisition experience arguments (H1). Consistent with the prior literature on M&A, I find that the number of acquisition (H1a) and any prior acquisition (H1b) turns out to be a non-significant predictor of acquisition performance, and has failed to support hypotheses H1a and H1b. Regarding the performance implications of prior acquisition similarity arguments (H1c and H1d), the similar prior acquisition industrial and geographical relatedness hypotheses are supported for both univariate and multivariate analyses. In the group acquisition experience argument, I attempted to increase the level of analysis by examining the business group experience as a whole, but failed to support Hypothesis 1e.

In Hypothesis 2, I investigated the influence of degree of resource replacement on the performance of emerging market acquirers. Only the argument for the domestic acquisition acquirers (H2c) supports the degree of resource replacement arguments for the univariate analysis. When I control for other determinants of acquisition
performance, the results of H2c are no longer statistically significant. Then, the analyses for the top manager replacement in domestic acquisitions supported Hypothesis 3c, but failed to support Hypothesis 3b for cross-border acquisitions. Considering the name and headquarters replacement arguments (H4 and H5), only headquarters replacement in cross-border acquisitions supports Hypothesis 5b both in univariate and multivariate analyses.

I present the summary of the analyses in Tables 8.1, 8.2, 8.3, 8.4, and 8.5 in the next chapter. I will further discuss the findings in the next chapter.
CHAPTER 8

Conclusion, Contributions, and Future Research
8.1 Discussion and Summary of Acquisition Performance Determinants in the Emerging Markets

Mergers and acquisitions (M&A) are always challenging for firms. The acquisition of a firm brings with it the challenges of successfully integrating the target firm and reaching the expected outcome. Learning how to manage the post-acquisition integration process gives the acquirer a better understanding of the target firm and its resources. Through learning how to manage the post-acquisition process, the acquirer firm may more easily evaluate the target firm’s business environment, its economic health with acceptable financial risk, and its quality of tangible and intangible resources, and may know which strategies will be practiced. Many prospective acquisitions look good on paper, and managers assume that they can handle the M&A process successfully, but in reality a high number of M&A fail to reach their expected goals and do not achieve economic growth. In their recent book “Masterminding the Deal”, Clark and Mills (2013) listed 20 references to support the indications that approximately two-thirds of all M&A fail (e.g. Sakoui, 2012; Hitt et al., 2009; Papadakis and Thanos, 2010).

In this study, I focused on the post-acquisition period in emerging markets by examining Turkish acquirers as a case that is much needed in the literature for better understanding of the organisational learning phenomenon. From a comparative perspective, Turkey represents an interesting emerging market case and provides a rich research setting for the purpose of this study. It is a country where M&A activities started at a relatively early stage of 2000s, but could only gather momentum after a significant economic development following the major global financial crisis of 2007-2008. Therefore, Turkey is at an earlier stage of economic development in comparison to the developed markets as well as BRIC economies. Furthermore, Turkish economic environment represents a diverse and complex setting as a unique country with its Western market style economy and Muslim cultural heritage (Demirbag et al., 2007; Kirca, 2011). I investigated 279 acquisitions in Turkey where the announcement date was between January 1, 1998 and December 31, 2011. In the
main quantitative analysis of this study, I hypothesised and tested the effects of prior acquisition experience on the economic performance of focal acquisition. I began by building on the acquisition experience perspective, and then I hypothesised and tested the effects of prior acquisition similarity on the economic performance of focal acquisition. I then went on to focus on post-acquisition resource transfer decisions, especially top manager replacement, and argued that these resource replacements affect the economic performance of focal acquisition. Through integrating the target firm successfully, acquirer firms gain or develop their acquisition capabilities.

In this chapter, bringing together the existing literature on M&A studies and my findings from empirical research, firstly I will discuss the proposed effects and the results given in the quantitative analysis. Then, I will note the theoretical and practical implications of the findings of this study. Afterwards, a number of limitations of the research project will be highlighted. Additionally, I will outline recommendations for future research.

8.1.1 Effects of the Acquisition Experience

The literature on organisational learning mentions that in order for firms to enhance their acquisition performance, acquirer firms should choose a proper combination of integration decisions. Experience accumulation is one way of benefiting from the acquisition and managing the post-acquisition process effectively. The results from prior research (Fowler and Schmidt, 1989; Haleblian and Finkelstein, 1999; Hayward, 2002; Laamanen and Keil, 2008) have demonstrated that organisational learning from prior acquisition experience is an important aspect of the post-acquisition management phase, which in turn is a significant determinant of acquisition performance. Through frequent practice, firms learn how to use their newly acquired resources and may routinise the process.
Complementing the studies on the relationship between acquisition experience and acquisition performance in the developed world, I studied and tested the same phenomenon from the emerging market perspective. I expected a significant positive effect based on the number of prior acquisition experiences, and the change in cumulative abnormal returns to the acquirer firms’ performance measure indicates that organisational performance is enhanced as the number of acquisition experiences increases. Similarly, I also predicted a significant positive relationship between any acquisition experience and the focal acquisition performance of the acquirer firm.

I drew upon multiple theoretical backgrounds, such as behavioural learning, the process-based approach, evolutionary economics and the dynamic capabilities view in order to enrich the existing literature. In this study, I proposed that acquisition capability evolves from the acquisition itself instead of generating processes internally. Firms can achieve acquisition capability through transferring experience from prior acquisition activities to the focal one. Managers dealing with M&A activities within the firms attempt to apply exemplary settings to similar acquisitions with sufficient flexibility. Here, the conceptual necessity of routine procedures in dynamic capabilities comes to mind.

In the evolutionary economics perspective, organisational routines that conserve a firm’s experience are the core instrument for knowledge accumulation (Cyert and March, 1963). Moreover, it is suggested that the value of these capabilities rises if they are transferred into special or higher-level routines that are embedded more broadly in firm’s resource base (Nelson, 1982; Zollo and Winter, 2002). On the other hand, the heterogenous structure of prior acquisitions may bring diverse levels of knowledge to the acquirer firm. Proper combination of all these forms of knowledge may not be applicable to all situations. This is because certain tasks may require more individual and flexible use, which varies according to the situation. Therefore, merely transferring knowledge is not an appropriate way of integrating diverse sets of knowledge efficiently with the aim of forming acquisition capability. A firm’s main
task is rather to make these routines more flexible and adaptable to heterogeneous and complex acquisition types.

Essentially, the entrepreneurial mind-set in emerging markets may fit with this flexible use of knowledge, and I predicted that emerging market firms would use their routines and capabilities better in managing the acquisition process. Success in the relatively fragile and capricious institutional environments which characterise emerging markets requires a certain degree of flexibility and resilience to take advantage of the opportunities that arise, and to deal with different acquisition types. Under highly unstable institutional conditions, firms learn what is needed for specific situations, and they can be more generalist in their decisions in order to compete in this dynamic environment (Madhok and Keyhani, 2012). This feature can be explained with a certain kind of entrepreneurial dynamism attempting to make the best use of its resources. Thus, emerging market firms, especially business groups, are compelled to be more nimble and entrepreneurial in their decisions.

However, my results found no evidence for positive effects of prior acquisition experiences on focal acquisition performance. This result confirms the diverse assertions of the existing literature on the performance applications of accumulating acquisition experience, providing a further clarification to the literature. Thus, simple exposure to the acquisition experience effect does not seem to suffice.

There might be several reasons why the acquisition experience accumulation that should have resulted in an improvement of performance was found to be less effective than expected. Pre-acquisition based factors, such as high acquisition premiums paid, misjudged targets’ value and synergistic effects, might result in M&A failure. In this study, however, I am interested in the managerial decisions and post-M&A process; thus, pre-acquisition factors are beyond the scope of this study.
Firstly, these acquisition decisions are infrequent compared to those organisational activities that are associated with daily operations. Overall, in my dataset, M&A frequency in Turkey increased from 12 per year in 2001 to 40 in 2011. This clearly diminishes the success rate of these events in the Turkish setting. This is because managers usually base their implicit or explicit inferences about the performance effects of specific decisions on actual evidence from the past (March, 1991). Taking account of the very recent increases in the number of mergers and acquisitions activities in the emerging markets, as well as lack of managerial capabilities (Madhok and Keyhani, 2012) compared with managers from developed countries, the acquisition experience effect might be more problematic and may not impact directly on acquisition performance.

Secondly, these infrequent corporate activities might be erroneously linked with prior decisions learned in past contexts that seem similar to acquisition but are different in nature (Zollo, 2009). Most strategic decisions vary considerably from each other in critical ways, and managers can make generalisation mistakes in their decisions by applying these different decisions in irrelevant contexts. Given the industrially diversified structure of publicly traded firms in Turkey, wrong inferences from the past could be a factor for the ineffective acquisition experience influence on acquisition performance.

Thirdly, the characteristics of prior acquisitions may also vary in terms of the target’s geographical context, its industrial setting, its managerial capabilities, and the motivation for the acquisition. This heterogeneity makes it very tough to tease out which action or decision produced which consequence. Managers may not be sure whether applying a prior acquisition’s decisions will generate a positive consequence for the focal acquisition. On the other hand, the heterogeneity of acquisition experience can be beneficial in offering managers a range of possible decisions (Haunschild and Ni, 2002). This sounds more meaningful in the context of emerging markets with their diversified firms. However, I found no evidence that heterogeneity of acquisition experience leads to better acquisition performance. Zollo and Singh
(2004) have suggested investment in deliberate learning processes to learn more from heterogeneous prior experiences. Through deliberate work to articulate and codify prior actions, managers can make better quality inferences from prior decisions (Zollo, 2009). But related research failed to determine which of the target’s resources relate to better inferences and which to worse.

Lastly, the potential market imperfections in emerging markets and the lack of structural corporate governance may cause poor performance for emerging market firms. These diversified emerging market firms may carry huge coordination and administration costs (Young et al., 2008). A network mode of governing may reduce information asymmetry between affiliated firms, but due to the lack of transparency, minority shareholders in emerging markets find it difficult to determine where control resides. It also makes it difficult to find and challenge unfair transfer of acquired resources from the acquirer firm to affiliated group firms within the group (Chang, 2003) since such networks are not transparent and unethical transactions are common (Hoskisson et al., 2000).

As a result, considering the case of an emerging market, I have not observed acquisition capability grow through direct acquisition experience in which firms accumulate knowledge from prior experiences, develop routines, and transform these learning into capabilities. In Table 8.1, I present the summary results for determinants of acquisition performance characterised by prior acquisition experience.
### Table 8.1: The outcome of Hypotheses 1a – 1e

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Regression Outcome</th>
<th>t-test Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1a: For emerging market acquirers, the greater the acquirer’s prior acquisition experience, the better the performance of the focal acquisition.</td>
<td>Not Significant</td>
<td>-</td>
</tr>
<tr>
<td>H1b: For emerging market acquirers, having any prior acquisition experience will be positively related with the performance of the focal acquisition.</td>
<td>Not Significant</td>
<td>Not Significant</td>
</tr>
<tr>
<td>H1c: For emerging market acquirers, having a similar prior acquisition in terms of industrial relatedness will be positively related with the performance of the focal acquisition.</td>
<td>Supported</td>
<td>Supported</td>
</tr>
<tr>
<td>H1d: For emerging market acquirers, having a similar prior acquisition in terms of geographical relatedness will be positively related with the performance of the focal acquisition.</td>
<td>Supported</td>
<td>Supported</td>
</tr>
<tr>
<td>H1e: For emerging market business groups, the greater the acquirer’s prior acquisition experience, the better the performance of the focal acquisition.</td>
<td>Not Significant</td>
<td>Not Significant</td>
</tr>
</tbody>
</table>

#### 8.1.2 Effects of Prior Acquisition Similarity

In the first hypothesis I examined how prior acquisition experiences affect the focal acquisition performance of firms in an emerging market. In the second group of prior acquisition experience hypotheses, in a similar direction to Haleblian and Finkelstein’s (1999), and Hayward’s (2002) argument on acquisition similarity, I proposed that similarity between two successive acquisitions is a factor that can affect the focal acquisitions performance of the acquirer firm. The similarity issue I examined in this study is considering the characteristics of corporate acquisition, such as industrial relatedness or geographic similarity between two successive acquisitions’ targets.

The role of this prior similarity experience phenomenon is to provide a deeper understanding of the nature of acquisition capabilities. As examined earlier, the number of acquisition experiences or presence of any acquisition experience as measures of acquisition experience are usually hypothesised to have a direct effect on focal acquisition performance, and these studies have produced mixed outcomes (Kusewitt, 1985; Fowler and Schmidt, 1989; Haleblian and Finkelstein, 1999; Zollo
and Singh, 2004). My findings suggest that the relationship between acquisition experience and acquisition performance is more than a direct effect. It is the similarity between acquisitions that determines whether experience affects the post-acquisition period and the performance of the focal acquisition. The results show that those firms that make similar acquisitions within the same industry learn by generalising knowledge from prior acquisitions. Needless to say, it is possible to make poor inferences from prior experience, but poor inferences might be avoided if firms learn from their mistakes and apply this knowledge to similar acquisitions. Also, apart from target firms’ industrial similarity, I extended the theory by using the similarity between target firms’ geographical relatedness. That is to say, a series of international or domestic acquisitions leads to performance enhancement in the focal acquisition. I found that the better-performing firms in this study’s sample were also those that made acquisitions similar to prior acquisitions in terms of geographical relatedness.

Regarding the similarity between prior businesses, Hayward (2002) argued that acquiring a series of highly similar businesses leads to specialised learning about that business on the one hand, but on the other hand these firms may lack the skills to generalise this capability for dissimilar acquisitions. From the other side, acquiring a series of highly dissimilar businesses on the one hand leads to exploration of new bases of knowledge and experience, but on the other hand averts specialised learning about any specific business. Hence, Hayward (2002) suggested an inverted U-shaped association between the similarity of the businesses of acquisition experience and subsequent acquisition performance. This might be true in some cases within a specific environment. However, corporate acquisition is not a regular organisational activity and on average, it occurs quite infrequently and unsystematically throughout an organisation’s life, thus reducing a firm’s ability to accumulate large amounts of knowledge to utilise in “learning-by-doing” mechanisms (Zollo and Singh, 2004). Moreover, in a world that’s changing very rapidly, firms should adapt to these changes in order to stay competitive. Firms should refresh their capabilities, their knowledge, and their resources to be able to make accurate inferences and right decisions about their organisational activities. Organisational decisions and systems that become routinised are in danger of eroding when not applied regularly (Argote,
The inferences from prior acquisition experiences may not be applicable after some time has passed. Therefore, we cannot consider a set of prior acquisitions over a long time period and with many prior acquisitions. It seems problematic to include all of a firm’s prior acquisition experiences in measuring the similarity of prior acquisitions.

It is worth noting that I did not directly investigate post-acquisition process issues through qualitative study, such as case studies and observing firms that may offer deeper understanding of the learning-by-doing argument. Instead, my focus was on the development of theoretical frameworks for emerging markets based on the antecedent-behaviour-consequence and post-acquisition management models (Haleblian and Finkelstein, 1999). I was able to determine antecedent conditions by studying the similarity of acquisitions and determine consequences through assessing the acquisitions’ performance. Through observing the antecedents and consequences, I could make inferences about the nature of organisational learning patterns, and I was able to make generalisations.

With similar acquisition types, firms increase routine procedures and gain acquisition capability. An increase in organisational routines can be observed via a series of similar acquisitions, whereas this increase cannot be observed with a series of dissimilar acquisitions. With the help of similarity in prior acquisitions, these acquirers can recognise similarities, make the right inferences, and routinise the procedure to use in focal acquisition management, while simultaneously developing their acquisition capabilities. Despite the use of routines gained from prior similar acquisitions, firms should be aware of the need to keep these routines flexible enough to make them suitable for varying conditions.
8.1.3 Effects of Group Acquisition Experience

In this research, the role of acquisition experience in organisational learning was examined through firm-level analysis. Only Hypothesis 1e solely focused on group-level learning. This group level argument should be seen as a contribution to the received literature and requires a further research to better capture the phenomena. Characteristically, business groups are the main player in the Turkish corporate environment. As mentioned in Chapter 3, in the Turkish stock exchange, the Borsa Istanbul (BIST), many firms operate as subsidiaries of large business groups or as business groups themselves. Apart from examining organisational learning from the perspective of business groups’ subsidiaries, at the firm level, it is also important to consider the business groups’ learning process through their subsidiaries’ interactions with each other to better grasp the phenomenon.

One important factor which might have contributed to the nature of the existing literature on acquisition experience is that previous papers have almost exclusively conceptualised and examined acquisition experience and organisational learning effects at the firm level. But firm-level assessment is just one level of organisational learning. We lack answers as to whether the capability development of a group subsidiary leads to the capability development of another subsidiary of the same business group. In other words, is there any collectiveness or interaction between group subsidiaries or are they totally separate in terms of learning from acquisition experience? Given the fact that an emerging market business group consists of a set of legally independent subsidiaries, the level of the group is a crucial level of organisational learning and has been rarely explored before in the literature. Examining how inter-subsidiary learning affects a business group’s corporate performance is important to better understand organisational learning in emerging markets, as well as the acquisition capability of these business groups. Through
Hypothesis 1e, I aimed to contribute to the literature by raising the level one step further and examining the business group as a whole.

However, as discussed in the previous chapter, analyses of group learning failed to support Hypothesis 1e and found no effect of acquisition experience on acquisition performance at the group level. This result might be occurred due to differences in learning ability across groups and its subsidiaries, depending on the characteristics of acquisitions, industry, and geographic location, as well as the group’s capacity to successfully manage the post-acquisition process. Therefore acquisition capability may not be developed collectively within the business group.

On the other hand, some examples of business groups and its subsidiaries conceptually support my argument about group-level learning. For instance, in Koc’s and Yildiz’s cases, where these emerging market groups seek to grow both domestically and globally as well as to optimise their capabilities, group-level learning was detected between subsidiaries of these groups and acquisition experiences and led to an increase in the performance of subsequent acquisitions. Therefore, these firms achieved the adoptive ability to generalise one individual subsidiary’s learning for the benefit of another, thanks to the collaborative coordination strategy of Turkish business groups, which is a specific and important acquisition-based dynamic capability. These supporting cases provide room for improvement for future studies both qualitatively and quantitatively, enabling M&A research to advance by using multi-level approaches as well as by examining the interaction mechanisms between subsidiaries of a business group.
8.1.4 Effects of Resource Replacement

There is no doubt that the processes of partnering, reconfiguring, and re-coordinating present formidable challenges for a firm attempting to develop acquisition capabilities in handling these issues. The heterogenous forms of each acquisition and a number of unique challenges related to the post-acquisition management period force top management to work harder to integrate acquired businesses (Hespaslagh and Jemison, 1991).

Accumulated knowledge through prior experiences might be a required precondition for the improvement of the capability to manage the acquisition process (Zollo and Singh, 2004). However, knowledge accumulation by itself is not an adequate mechanism to determine the improvement of acquisition capabilities. In this research, we have seen that it is not direct acquisition experience itself, but the similarity between two consecutive acquisitions that affects acquisition performance in emerging markets. Integration strategies and detecting which resources should be changed or retained in the target are obviously linked to overall acquisition capability improvement through development of integration capability (Helfat et al., 2007; Anand and Capron, 2007). Firms thus have to start accumulating knowledge regarding the post-acquisition integration process. By creating and updating management mechanisms for executing the post-acquisition integration and implementation, the acquirer firm may be able to practice and enhance its understanding of the determinants of acquisition performance. It is therefore very important to comprehend the performance implications of post-acquisition integration decisions (Hespaslagh and Jemison, 1991) and to link them to the integration-based acquisition capability development process.

At this point, it is a worth mentioning that in this study I specifically consider Turkey as a second tier of “biggish” emerging markets. There might be misjudgement and
measurement errors if we treat Turkey as being in the same category as rapidly growing countries such as Brazil, Russia, India, and China, and I have already discussed the differences between MIST and BRIC countries in Section 2.5.1. It is not appropriate to accept each of the developing countries on equal terms. The heterogeneity of emerging markets is the main reason for this categorisation. While the heterogeneity of developed countries is being increasingly studied (Hoskisson et al., 2013), emerging markets also possess unique social, political, and economic conditions (Wright et al., 2005). Therefore, through this research, I attempt to advance existing literature on categorisation of emerging markets by drawing on the context-specific nature of organisational learning, as well as to present a more fine-grained understanding of the determinants of acquisition performance in regards to the post-acquisition period in mid-range emerging economies (Hoskisson et al., 2013) or countries aiming to catch up to the BRIC members.

Central to my second hypothesis, I did not find support for my baseline argument about the positive relationship between the degree of resource replacement and acquisition performance in the emerging market context. Then, I extended the theory and suggested that the effects of post-acquisition management decisions through replacing or holding target’s resources vary depending on the acquisition context with regard to domestic/cross-border differences in emerging markets.

According to the resource replacement argument for cross-border acquisitions, emerging market firms use cross-border acquisitions for knowledge attainment to develop their capabilities, which is an issue of particular concern in emerging markets because firms are constantly seeking knowledge about new and rapidly changing environments, while aiming to increase their economic performance. In comparison to many developed world multinationals, which are now going abroad to seek lower costs, emerging market foreign acquirers are usually already low-cost and are seeking knowledge and development of their capability bases to become more global and competitive (Madhok and Keyhani, 2012). They simply cast aside the routines that they are using in their home country in order to compete in the open global
environment, and are willing to make a new start to learn more. Probably the last thing these emerging market firms want to do is to change the target firm into a completely “Turkish” firm.

The challenge for these emerging market firms during the post-acquisition of cross-border deals would be that they do not utilise their own unique advantages and relations originating from their home country context. For instance, characteristically, emerging markets have institutional drawbacks, where regulatory structures are more inconsistent and less sophisticated. The emerging market context demands forming complex relationships with governments and key institutional actors. That is to say, these business groups largely rely on institutional support from the government, which is not the case with their new environment abroad.

Arguably, the role of governments may be of vital importance in being supportive and taking on pioneer tasks to encourage firms to go abroad, and being internationalist with “open door” and “go global” policies (Hoskisson et al., 2013). Through such policies, emerging market firms obtain internationalisation experience and are evolved with the help of capability upgrading. Furthermore, gaining international experience might be a substitute for governmental dependency, and leads to more institutional and more democratic management structures. For instance, Koc and Sabanci are the main players in Turkey. They are not only the largest and most successful groups of firms in Turkey but also the most active players on the global scale. It can be observed from Turkey’s perspective that these firms’ relations with the government are not as good as those of newly-emerged family-oriented business groups. At present, this argument is beyond the scope of this study. However, the relationship between internationalisation and institutional improvement in emerging markets will be a noteworthy area to study.
To summarise, considering the emerging market international acquirers, although the results for the resource replacement argument in cross-border acquisitions are not statistically significant, at least there is a correct direction with the expected effect that supports the argument for cross-border acquisitions. The reason for that insignificant result might be the relatively smaller number of cross-border acquisitions in Turkey compared to the BRIC countries. This may present difficulties for proposing a generalisation effect. Besides, there might be differences in some of this second group of emerging market firms’ motivations for carrying out acquisition activities.

From the other side, another dimension of resource replacement variables suggests that emerging market domestic acquirers are more inclined to change the target’s resources during the post-acquisition period, as asserted in Hypothesis 3c. After the empirical work for this study, I found evidence for my argument about emerging market acquirers in integrating their domestic target’s resources. Market extension and industrial diversification are the main motivators behind these domestic acquisitions.

Post-acquisition strategies of emerging market firms may be shaped by a specific set of decisions. Performance outcomes of the acquisitions would be helpful for firms in deciding how to reconfigure the target firm’s resources. At this point, the reconfiguration capability of firms plays an important role for a successful integration strategy. Having the required resources to reach the acquisition’s desired goals is critical for a firm to gain economic performance. Managing a post-acquisition process includes the effective combination of acquired resources, which might be the most important factor for successful integration. These integration strategies may represent context-based behaviours but may not be sufficient conditions for better performance. The emerging market context plays a decisive role in a firm’s domestic acquisition strategies, with three important factors during the post-acquisition process.
Firstly, a weak institutional environment would be the main factor affecting domestic acquisition strategies. As we have seen, concentrated ownership is the most practised governance model in markets (Young et al., 2008), and family-controlled business groups are the main players (Xu and Meyer, 2013) in emerging markets, and typically, this is equally the case for Turkey. Ideally, investors look for a range of institutional settings to enable the efficient functioning of markets. However, emerging markets fall short of meeting these institutional requirements. In the absence of said institutional requirements, which were discussed in Sections 2.5 and 3.5, emerging market firms face “institutional voids” (Khanna and Palepu, 2010). To illustrate, in Turkey, the public procurement law as well as laws regarding rezoning plans and tender offers have been changed many times during the last decade (Kantrowitz, 2013). Thus, it is hard to speak of stability in this environment. These regulatory constraints and unstable environments not only challenge domestic firms but also challenge foreign firms that attempt to do business in these emerging markets. Therefore, by aiming either to benefit from these institutional voids or to generate substitutes for formal institutional settings to avoid inefficient market structures, these firms develop strategies specific to the emerging market context. On top of that, globalisation and liberalisation have also enabled multinational firms from developed markets to enter emerging market firms and use all their organisational capabilities. Beyond institutional challenges, emerging market firms have also been required to develop their acquisition capabilities in order to compete with these global players.

Secondly, as a consequence of institutional voids, relationships are imperative in emerging markets. These relational ties can be recognised as a way of establishing and building strong positions at home. To do so, these firms need to constitute their management teams from family members or from their local networks or their government relations. Relational ties are, in fact, increasing due to continuously growing demands for transparency and more stable legislation practices. This may create challenges when uniformity and homogeneity continues in a firm’s management team.
Thirdly, by using their context-based advantages and unique capabilities, emerging market firms pursue a path-dependent approach when integrating the target firm. As I am interested in resource reconfiguration in the target firm, in order to explore the process, I use three main resources, namely top manager, company name and headquarters, to identify the degree of change in the target. Emerging market acquirers, generally, choose to replace the target’s key resources in their domestic acquisition. These acquirers commonly build on their current capabilities instead of exploring new ones. This is because, characteristically, emerging market firms pursue a strategy to develop their existing businesses or diversify into new areas with their own brands. For example, some of the Sabanci Group’s companies are AKbank, AKLease, AK Investment, AkcanSA, TeknoSA, CarrefourSA, CimSA, TemSA, BriSA, and PhilSA.

To sum up, three aspects of the results concerning resource replacement in the emerging market domestic acquisitions come into focus, and these aspects determine the resource replacement decisions in the home country. These aspects are: institutional voids, relational ties and lack of transparency, and lastly a path-dependent approach by emerging market firms. I present the determinants of acquisition performance characterised by degree of resource replacement in Table 8.2.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Regression Outcome</th>
<th>t-test Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>H2a: For emerging market acquirers, the degree of resource replacement will be positively related with the performance of the focal acquisition.</td>
<td>Not Significant</td>
<td>-</td>
</tr>
<tr>
<td>H2b: For emerging market acquirers undertaking cross-border acquisition, the degree of resource replacement will be negatively related with the performance of the focal acquisition.</td>
<td>Not Significant</td>
<td>-</td>
</tr>
<tr>
<td>H2c: For emerging market acquirers undertaking domestic acquisition, the degree of resource replacement will be positively related with the performance of the focal acquisition.</td>
<td>Supported</td>
<td>-</td>
</tr>
</tbody>
</table>
8.1.5 Effects of Top Manager Replacement

I carried out further analyses to examine resource replacement in the target firms in emerging markets. Acquirer firms face the concern of how to integrate an acquired firm and what to do with the target firm’s resources when participating in acquisition activities. Basically, acquirer firms may either retain the target’s resources or replace them with equivalent ones. In the previous hypothesis, I attempted to investigate the overall resource replacement effect during the post-acquisition period. Hypotheses 3, 4, and 5 are extensions of Hypothesis 2, and can be used as proxies for the resource replacement variable. In general, the set of arguments asserted in Hypothesis 2 can be applied to the subsequent hypotheses. However, given the vital importance of the top manager in the organisational context, I have kept this section separate.

In cross-border acquisitions, I tested for the direct effect of the replacement of the target firm’s top manager on acquisition performance. My results show that the main effect of the replacement decision in the cross-border acquisitions was negative, which supports my argument, but it was not significant. Another way of saying this is that the prediction of the impact of top manager replacement on acquisition performance was correct and this supports the scholars’ (Kumar, 2009; Chattopadhyay et al., 2012; Kumar and Steenkamp, 2013) argument that emerging market acquirers retain, instead of replace, almost all of the senior top managers of the target firm when they acquire a firm outside their home country. However, the impact of top manager replacement was not statistically significant as reached after the tests.

Importantly, it can be clearly seen from the results that when I control for other determinants of acquisition performance, the effect of the resource replacement on the acquisition performance changes, suggesting univariate and multivariate analyses can lead to diverse outcomes.
Additionally, these results confirm the value of doing empirical research with a bigger data set for more robust results for the literature on the view of cross-border acquisition strategies for emerging market acquirers. This is because Kumar (2009), Chattopadhyay et al. (2012), and Kumar and Steenkamp (2013) based their arguments on qualitative analysis through a few real-world cases. Under these circumstances, this study is a further step towards empirically examining the emerging market cross-border acquirers’ decisions during the post-acquisition period and their performance implications.

The findings highlight that strategies in the post-acquisition integration of cross-border acquisitions should consider the international environment that they are going to operate in, and should not be a plan merely to save the day. Completely assimilating acquisitions and pursuing a path-dependent approach, as suggested for domestic acquisitions, may be challenging, and firms will not attain the goal of the acquisitions. It is unusual for an emerging market firm to practice cross-border acquisition, then completely assimilate the target firm and be successful with this acquisition, for several reasons. Firstly, to the extent that relational ties and family-based management approaches are common in emerging market firms, most of the emerging market firms, and even business groups, lack adequate managerial capabilities when they compete globally. Secondly, lack of recognition in foreign environments is a disadvantage for emerging market acquirers and it would be better for them to keep the top management of the target firm at first, as they know the environment and key stakeholders better. Thirdly, in parallel to the second argument, there are institutional, cultural, and geographical differences between home and foreign countries for emerging market acquirers which lead to the liability of foreignness. These emerging market acquirers do not reach key resources and acquire capabilities as easily as they can reach and acquire them in their home countries. Lastly, if they change the key resources of the target firm immediately, changed resources may not have the same effect as at home and may not provide value for a firm to gain competitive advantage.
Briefly, then, to escape the above situations, emerging market firms should follow a softer integration strategy when they practice an acquisition, especially if it is of a developed world firm. Only in this way can they learn from the foreign environment and develop their existing capabilities. This is an important element for reconfiguration capability in regard to emerging market firms’ cross-border acquisitions.

On the other side, in domestic acquisitions, I expect that acquirer firms will be more likely to change the top manager of the target firm in the domestic acquisitions, and this is supported by the quantitative research. Acquisition can serve as a means by which an acquirer firm gains excess managerial capabilities in addition to its existing capability. Changing the top management of the target firm and redeploying existing top management to the target firm allows the acquirer firm to retain skilled managers and to profit from any improvements that may happen in the target (Penrose, 1959). Furthermore, the managers of emerging market acquirers are often confident in their own managerial capabilities. They are eager to control the management of the target firm rather than to use the target’s managerial resources as part of the acquirer (Capron et al., 1998). Hence, emerging market acquirers often colonise the target firm by employing their own management tools and taking control of the management.

This can also be explained in terms of the entrepreneurial spirit of the emerging market firms. As was already discussed, in the majority of emerging market firms, especially family-based business groups, ownership and management are concentrated within a family unit, and its members strive to maintain intra-organisational family-based ties (Sharma et al., 1996). The desire for growth through seeking new business opportunities for development by taking risks characterises the entrepreneurially managed and family-oriented business groups in emerging markets. Thus, the process of reconfiguring and leveraging resources effectively is creative and entrepreneurial (Barney and Arikan, 2001). These processes require firm specific tacit knowledge that is usually embedded in human capital (Sirmon and Hitt, 2003). Moreover, a primary source of tacit knowledge for effective post-acquisition management and
reconfiguration needs substantial experience. In this regard, family-oriented business groups may have an advantage in managing and reconfiguring these newly acquired resources, because family members or their relatives or friends are involved in the management and they may already be familiar with the process. They are unwilling to pursue heterogeneity in their management teams (Yiu et al., 2005). They tend to not recruit nonfamily and professional managers in order to increase heterogeneity of the experiences; rather, they usually seek management control from these family members. This path-dependent and relational knowledge is very critical and this time it is an important element for reconfiguration capability in regard to emerging market firms’ domestic acquisitions. I summarise the quantitative analysis results of this study’s Hypothesis 3.

### Table 8.3: The outcome of Hypotheses 3a – 3c

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Regression Outcome</th>
<th>t-test Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>H3a: For emerging market acquirers, replacing the top manager of the acquired firm will be positively related with the performance of the focal acquisition.</td>
<td>Supported</td>
<td>Supported</td>
</tr>
<tr>
<td>H3b: For emerging market acquirers undertaking cross-border acquisition, replacing the top manager of the acquired firm will be negatively related with the performance of the focal acquisition.</td>
<td>Not Significant</td>
<td>Not Significant</td>
</tr>
<tr>
<td>H3c: For emerging market acquirers undertaking domestic acquisition, replacing the top manager of the acquired firm will be positively related with the performance of the focal acquisition.</td>
<td>Supported</td>
<td>Supported</td>
</tr>
</tbody>
</table>

### 8.1.6 Effects of Name and Headquarters Replacement

In order to extend the resource replacement argument, I also performed two more tests through consideration of two distinct proxies. Considering replacement of name and headquarters of the target firm as proxies leads to a specific construct of firm-wide replacement of resources. Measuring the extent of these resource transfers during the post-acquisition period allowed me to capture not only the degree of resource replacement but also the integration capability of the emerging market acquirers to
implement the reconfiguration of newly acquired specific resources between combined firms.

However, once controlled for other determinants of acquisition performance, many of the results did not support the name and headquarters replacement arguments (H4 and H5). One insight worth mentioning from the results, which seems to be supported in both tests, is that emerging market firms that keep the HQ of the acquired firm have better acquisition performance than those that change their HQ. Locating headquarters in a foreign market may send a clear signal about firm strategies to the market, to current and future employees, customers, and to other external stakeholders. Still, given the small sample size of cross-border acquisitions in the Turkey case, that outcome needs to be developed through further analysis. Furthermore, redefining the role of corporate headquarters and a firm’s regional divisions is critical as the functions of headquarters generally add complexity but little value (Collis et al., 2007). With the rise of the digital world, the era of growing new communication technologies may decrease the perception of lower levels of hierarchy, but this does not mean regional offices should not receive full responsibility for their own organisational activities. In summary, further studies should better clarify the role of the corporate centre and its regional divisions. Otherwise it is difficult to make inferences about headquarters as a direct predictor of acquisition performance.

Regarding the name replacement measure as a proxy for the resource replacement argument, the results suggest that it is unable to link this alternative measure directly with subsequent acquisition performance. It might be more meaningful to include other measures related to a firm’s marketing capability to further explore the role of name changes during the post-acquisition period. Other determinants of acquisition performance variables in the model might influence the effect of name replacement. Limited cross-border acquisition activities by emerging market acquirers may be the other reason for lack of influence for Hypothesis 4.
Table 8.4: The outcome of Hypotheses 4a – 4c

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Regression Outcome</th>
<th>t-test Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>H4a: For emerging market acquirers, replacing the name of the acquired firm will be positively related with the performance of the focal acquisition.</td>
<td>Not Significant</td>
<td>Not Significant</td>
</tr>
<tr>
<td>H4b: For emerging market acquirers undertaking cross-border acquisition, replacing the name of the acquired firm will be negatively related with the performance of the focal acquisition.</td>
<td>Not Significant</td>
<td>Not Significant</td>
</tr>
<tr>
<td>H4c: For emerging market acquirers undertaking domestic acquisition, replacing the name of the acquired firm will be positively related with the performance of the focal acquisition.</td>
<td>Not Significant</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Table 8.5: The outcome of Hypotheses 5a – 5c

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Regression Outcome</th>
<th>t-test Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>H5a: For emerging market acquirers, replacing the HQ of the acquired firm will be positively related with the performance of the focal acquisition.</td>
<td>Not Significant</td>
<td>Not Significant</td>
</tr>
<tr>
<td>H5b: For emerging market acquirers undertaking cross-border acquisition, replacing the HQ of the acquired firm will be negatively related with the performance of the focal acquisition.</td>
<td>Supported</td>
<td>Supported</td>
</tr>
<tr>
<td>H5c: For emerging market acquirers undertaking domestic acquisition, replacing the HQ of the acquired firm will be positively related with the performance of the focal acquisition</td>
<td>Not Significant</td>
<td>Supported</td>
</tr>
</tbody>
</table>

8.2 Implications

Research Implications and Contributions

Several outcomes from this study deserve special attention. Taken together, the findings of this study contribute to the research on M&A in strategy by providing extension to the literature on organisational learning through acquisition experience,
M&A capabilities, M&A in the dynamic capability context, and M&A strategies in emerging markets.

First, this study mainly offers a contribution to the literature by extending the scope of enquiry to an emerging market, Turkey. Prior studies have usually focused on the developed world or on US cases. Transcending this uniformity not only enhances our understanding of this topic per se, but also is likely to contribute to the further development of M&A strategies in emerging markets. To overcome this problem, I extend the findings and theoretical suggestions of Haleblian and Finkelstein (1999), Hayward (2002), Zollo and Singh (2004), and Laamanen and Keil (2008) by providing the attributes of emerging market acquirers in domestic and cross-border acquisitions that can enhance post-acquisition performance, and develop acquisition capabilities.

Second, using similar theoretical backgrounds, I extend previous research (Haleblian and Finkelstein, 1999; Laamanen and Keil, 2008) by examining the role of acquisition experience on the performance of acquirer firms and derive conclusions on how similarity of prior acquisitions can enhance the acquisition performance of the focal M&A. Prior studies that employed the number of acquisitions as a measure of acquisition experience and looked at a direct effect on acquisition performance have suggested mixed results (Haleblian and Finkelstein, 1999; Kusewitt, 1985; Zollo and Singh, 2004). The results of H1a, H1b, and H1e support the insignificant results in the literature and found no direct effect between acquisition experience and acquisition performance. In a more theoretical level, the findings of this study suggest that acquisition experience has a more sophisticated relationship with acquisition performance. When firms have experience of an M&A that was highly similar to the focal one, they gain specialist knowledge about how to manage the M&A process and achieve better performance. According to this theory, when executing the focal M&A, firms repeat or adjust their organisational routines in view of previous acquisition outcomes. Therefore, this finding refines our knowledge of how organisations learn from prior M&A activities.
Third, this study contributes to the strategy literature on the emerging market context, especially on business groups and international business. Emerging economies are growing rapidly, and in some cases are already the largest economies in the world (Chattapodhyay et al., 2012). The extant scholarly literature on the strategies and performance of emerging market firms deals predominantly with particular national and regional cases, more often in large emerging markets of Brazil, Russia, India and China (BRIC). Specifically, I focus instead on the country case of Turkey, one of the second tier of biggish growing economies of “MIST” (Mexico, Indonesia, South Korea and Turkey). Given that each emerging market has its own history and its own set of business environment, there can be no best model for imitation among the BRIC markets for developing firm-level organisational actions (Colpan et al., 2010). Therefore, the nation-specific case studies are important in order to better understand the nature of diversified emerging market acquirers’ unique M&A strategies and capability development mechanisms. Given the emerging nature of the Turkish market and the transitional characteristics of the institutional environment, Turkish context has a good potential for future analyses as well.

Fourth, another expected contribution of this study is to provide a deeper understanding of the role and nature of M&A capabilities. In this study, I primarily focused on two of them. In the first one, similar to many studies (eg. Halebian and Finkelstein, 1999; Zollo and Singh, 2004), I focused on capability development through prior acquisition experience. In the second one, I found that the capability to manage post-acquisition period is also an important layer of capability development for acquisitions. Importantly, I found that geographic scope of the acquisition affects the resource replacement decisions and capability development of acquirer firms. The different knowledge requirements and resource replacement decisions for successful cross-border and domestic acquisition are substantial in the post-acquisition process. Specifically for emerging market acquirers, the challenges involved in competing across the border are significant, as are the resources already present in the target firm that help acquirer firms’ deal with these challenges. On the other hand, given the unique characteristics of the emerging market context, acquirers are more likely to
pursue a path-dependent approach in their domestic acquisitions. Therefore, the findings of this study suggest that acquirers develop their integration capability, which is considered an important dynamic capability, differently when they acquire a firm across the border versus domestically, highlighting that contextual characteristics matter for emerging market M&A. We can clearly say that firms’ post-M&A integration decisions vary depending on the geographic scope of the acquisition. Further, this study also contributes to the emerging literature on CEO effect on firm performance by emphasising the role of individuals in learning strategy. My unstructured validating interviews are also in line with the view of how specific contexts map onto post-acquisition organisational routines, and support my empirical conclusions.

Lastly, at a more theoretical level, this paper also aims to contribute to M&A literature on strategy by attempting to bridge and integrate different theoretical approaches. In this study, I draw upon multiple theoretical approaches, using organisational learning, the resource-based view, and institutional theory arguments to enrich the existing literature on the dynamic capabilities perspective. I extend it by explicating how emerging market acquirers shape the post-acquisition routines of M&A and develop their integration capability, which is considered an important dynamic capability affected by the requirement of context-based decision-making and strategic responses. Therefore, this study contributes to the dynamic capabilities literature of strategy by quantitatively examining the role of dynamic capabilities in contributing to the post-acquisition performance enhancement of an acquirer.

**Managerial Implications**

There are clearly some implications of this study for business people. For managers, the results in this study have three broad implications.
First of all, the results for the direct acquisition experience effect on acquisition performance indicate that an acquirer’s focal acquisition usually underperforms its previous acquisition, further suggesting that top managers may not fully consider the dissimilarity between acquisitions. It appears that managers in emerging markets feel more confident in generalising prior acquisition experience when their focal acquisitions are similar to prior ones. Given the unique institutional nature of emerging markets, and the way that highly diversified business groups are prominent in this context, managers should pay closer attention when evaluating the acquisition performance of both similar and dissimilar M&A, and shape their strategic actions by learning from failure and success. Furthermore, having an appropriate team or M&A specialist could be a vital aspect of the acquisition management of firms in order to pursue collaborative organisational practices. Similarly, Zollo and Winter (2002), and Inkpen (2000) raised the issue of the need for focused professionals or even specialized M&A departments and units responsible for M&A transactions (including contracting and coordinating advisors) for big businesses. In light of this need, some of the largest groups in Turkey (e.g. Yildiz, Sabanci, Koc, and Dogus) have pursued this option in order to better integrate the resources of the target. Many of these people and departments are highly specialised in individual elements of the M&A process (e.g., deal-making or integration), and this improves the final success level of domestic and cross-border deals by implementing the right strategies.

Second, business conditions are continuously changing in today’s world, in part owing to increasing competition globally and to the developing digital era. Thus, firms should continually renew themselves and seek external consultation to keep up with changing circumstances. When managers turn to academia for some direction on how to increase their chances of creating value from their corporate actions, they are usually faced with a set of highly partitioned recommendations (Zollo and Singh, 2004). I hope this study will help to describe the nature of the emerging market business environment, offering managers more clearly-defined post-acquisition integration strategies that are helpful for staying competitive in their domestic and cross-border acquisitions. M&A activity should be beneficial to the economy as a
whole if the decision-makers use the firms’ resources wisely and behave in the best interests of the stakeholders so as to maximise the firm’s performance.

Finally, so long as institutional voids and relational ties remain in an economy, these highly diversified emerging market firms will continue to hold unique advantages and play a significant role in their home country. In that case, managerial ties and relations as well as entrepreneurial management facilitate opportunity capture for these diversified emerging market firms. On the other hand, things can change across the border and emerging market firms may face managerial weaknesses in their global organisational structure. The pyramidal structure of management and dependence on the founder family in their strategic directions may create operational conflict when these firms go abroad. Increasing the professionalisation of the management is likely to have a positive role in performance enhancement.

8.3 Limitations

As with all academic studies, it is necessary to explicate some of the limitations of this research. In this research, I only focused on publicly-traded firms in the study context. Although this creates some limitations for the generalisability of the findings, the choice was justified by the focus on variables which were only available in publicly-traded firms. The unobserved deals by SMEs may be important for the Turkish context because they are paving the way for the transformation of Turkish industry. However, it was not possible to uncover any publicly-available data about these corporate activities and to make objective performance assessments of them.

Furthermore, measuring acquisition performance remains an on-going challenge in M&A literature in strategy and finance. I attempted to overcome this problem by introducing multiple measures of acquisition performance, namely cumulative
abnormal returns (CAR) and return on assets (ROA). While both measures estimate the post-acquisition performance of M&A, they are conceptually distinct. Announcement returns reflect the market’s initial reaction to announcement of the acquisition. Return on assets is the ex post accounting measure of the longer-term performance of the M&A. There is discrepancy between the results for the two acquisition performance variables and this raises doubts about which one to rely on.

As many strategy scholars highlight that under the assumption of an efficient market, CAR is the most effective technique to capture acquisition performance and predict post-acquisition performance (Haleblian et al., 2009; Healy et al., 1992; Kaplan and Weisbach, 1992; Capron and Shen, 2007). However, it is widely accepted by M&A scholars that there is no perfect acquisition performance measure that accurately captures the effect. I have therefore analysed the research arguments with both acquisition performance variables in order to capture evidence about investors’ and accounting views. This is because I support the view that all the aforementioned acquisition measures in the literature are of value and performance metrics should be carefully selected according to the purpose of the study. In the case of this research, stock market performance CAR serves well for the purpose of H1, as following prior studies that have examined acquisition experience, I also used short-term CAR to determine the impact of an acquisition on a firm. Many confounding factors, such as new product development, changes in corporate strategy, top management, and headcount, may affect firm performance. Thus, we cannot reach the realised effect from the acquisition. Moreover, while stock market measure allowed us to distinguish among the performance of individual acquisitions completed in close temporal proximity, accounting-based measures cannot differentiate these effects. In addition, long-term measures may assess post-M&A integration decisions better than short-term measures, as it incorporates information about the changes in the resource base of the firms. Given these issues, one can argue that there is simply no measure of performance that can be considered to be the most reliable one. Every performance measure has its own advantages and disadvantages. Thus, future research is required to develop a more comprehensive and complete empirical framework in order to guide researchers’ choice of appropriate acquisition performance as well as M&A capability measures.
I further limited my sample to essentially single-case, country-based, emerging market firms in Turkey, and so the relatively narrow nature of the number of mergers and acquisitions may not allow for wider generalisation across other emerging markets as a whole. All the same, it is important to note that this restricted focus of my context-specific approach was consciously selected. There was a need for a highly dynamic environment in terms of M&A activity within the emerging market context. Moreover, theoretically, firms in other emerging markets may experience similar processes in their own environment. The results related to the capability development mechanisms might be extended to other institutional contexts, as long as they maintain same emerging market characteristics. Therefore, a useful extension would be to conduct this study in other emerging markets.

One of the striking characteristics and an irony of the Turkish business environment is that the Turkish politics have been trying to adopt Western practices and aiming to “reach not only the standards of economic, scientific, and technological development of the West but also to establish a secular and democratic political order” as the negotiation to join the EU is still an on-going process (Onis, 2006, pp. 280). However, there is an evolving characteristic of Turkish business environment that political connectedness through personal ties and institutional networks become critical for business success (Ozcan and Gunduz, 2014). Institutional voids may deepen these business-politics connections and can have an impact on the strategic choices of firms and their performance outcomes. Thus, the findings of this study may best be applicable to some emerging market economies in which there are similar abuses and absence of credible law enforcement, and institutional settings to rule economic development beyond narrow group interests and political relations.

It is important to note that there may be a particular limitation related to using the stock market measure as part of testing organisational learning and capability development arguments in a market where the stock market plays a relatively small role. Many of the emerging market economies underwent a liberalisation process within the last two decades and these developments take time for these economies in
adopting them to their capital markets. Specifically, the Turkish stock market is not fully integrated into the world capital markets (Neuhaus, 2005; Oelger and Schiereck, 2011). The negotiations with the European Union since 2005 constrained Turkey to open its economy and become more integrated into the global markets. However, the reforms to develop the integration are not finished yet. Therefore, when abnormal stock returns are analysed as a performance metric, it should be kept in mind that the efficiency of the emerging market stock market is questionable since they are relatively small and emerging market. Future studies should also address this limitation in their work.

Another limitation was the unavailability of firm-specific data needed to further analyse the impacts of some firm characteristics pertaining to the difference between the effects of domestic and cross-border acquisitions on the acquisition performance of Turkish acquirers. This is a common problem for emerging markets because more detailed data cannot be gathered as easily as in developed world cases. The manual data collection of this study proved to be a time and effort-consuming exercise.

Additionally, another limitation of the analyses might come from differences in the target firm’s characteristic, as privatisations were included as acquisitions in my dataset. There might be several problems with including privatisations in the analyses. First, energy privatisations, where the majority of privatisation activities in my dataset recognised in this sector, may take long periods and have been subject to extensive bureaucratic negotiations between the private firm and the government. Second, acquirer firms might constitute a consortia and finance pooling, which may cause a trouble in determining the acquirer firm’s focal acquisition performance. Third, there might be a political interference in the management of the acquired firm.

As mentioned earlier, relational ties and governmental networks are very important in emerging markets and may influence firm performance. For instance, Acemoglu et al.
(2010) argued that having a personal connection with a senior politician produced a cumulative abnormal return for financial firms. Moreover, Ozcan and Gunduz (2014) also found that firms with political connections have had an abnormal performance on average over non-connected firms in Turkey considering the period between 2003 and 2011. However, there are also cases where inefficiencies and risks come out of this close relationship with political interference (Boubakri et al., 2012). Thus, possible selection effects in the privatisation process may bias the observed ownership-performance relationship and performance measures may not accurately predict the expected effects. However, we are not sure whether the privatisation process was biased in a number of ways and was an outcome of a relational tie. Thus, this subject beyond the scope of this study and the research presented here does not attempt to enter the politically sensitive debate. Rather, I sought to develop and test a conceptual model that would identify the strategic resource replacement decisions associated with performance improvements after an ownership change. For my study, since the emphasis is on the determinants of acquisition performance from the acquirer’s perspective following the ownership change, and due to the exclusion of privatisation deals from my dataset where a consortia won the auction, I ignored the privatisation effect that may arose on the performance of the acquirer. In this respect, it should also be noted that privatisation plays only a small role in my sample, as there are only 16 deals. However, it remains unclear whether the results apply to other geographies. Future research could usefully concentrate upon developing more elaborate models and methods.

The limitations mentioned above demonstrate that further research is necessary, as outlined in the following section.
8.4 Further Research

The previous sections listed this study’s implications for existing management theory and practice as well as its inevitable limitations. Based on these considerations, in this section I will provide recommendations and suggestions for future investigation in order to gain greater understanding of the results presented in this study and to improve them.

As already touched upon in the previous section, future research on M&A performance should engage more deeply in developing appropriate measures for post-acquisition performance. The recommendation to apply multiple performance measures is in line with prior research. More careful selection of the acquisition performance measure is likely to provide an explanation for the greater variation in acquisition impact on acquisition performance.

Understanding of the role of acquisition experience may be advanced in the strategy literature by qualitatively examining the post-acquisition process issues through participant observation that may better capture the organisational routines generalised from prior acquisition experiences. Instead, my focus in this study was on the development of a theoretical framework and testing it using quantitative data. I was able to capture antecedent settings by exploring acquisition similarity and determine consequences by predicting M&A performance. Then, through the combination of antecedents and consequences, I was able to make inferences about the nature of organisational learning and generalisation. Since the conclusions of the results are inferential, further work should develop a model to identify antecedents that can help predict post-acquisition performance, and apply multiple levels of analysis to better understand the specific learning process and application of experience. Furthermore, the learning mechanisms specific to pre- and post-acquisition processes may differ. Associating acquisition experience with learning during the pre-acquisition stages
such as screening, target selection, and due diligence would be a fruitful study for examination of these phenomena.

Deeper understanding of the role of post-acquisition integration capabilities could be achieved through exploring the important moderators in the study context. There are unexplored moderators between post-acquisition strategic decisions and acquisition performance. Such moderators could be country-level factors (such as national culture, governmental effects, or corporate governance structure), firm-level factors (such as corporate culture, management structure, or size), or individual-level factors (such as a CEO’s prior experience, education, or leadership characteristics). Further research is required to develop a better understanding of such moderators and better predict acquisition performance.

The results of this study indicate the need for future work on the moderating role of context on organisational learning related to mergers and acquisitions, and other corporate activities. Therefore, future research could build on my study by testing the hypotheses in different geographical contexts and corporate level diversification strategies in order to attain a more fine-grained appreciation of the conditions under which post-acquisition strategies lead to better outcomes and of how firms develop their integration capabilities. Applying the analyses presented in this study to other emerging markets as well as developed world markets can guide scholars in promising directions toward developing understanding of the antecedents of acquisition performance. Additionally, further research should also use the analyses of this study when examining the capability development mechanisms in strategic alliances, greenfields, and joint ventures. These approaches will be helpful to validate and extend the knowledge of the capability-based view of the firm.

Moreover, there is need for better description and analysis of the post-acquisition strategies of emerging market firms. Supplementary to the findings of this study’s
resource replacement hypotheses (H2, H3, H4 and H5), demonstrating what changes happen after firms’, usually business groups’, domestic and cross-border acquisitions is also important in order to obtain a better sense of the post-acquisition process in emerging markets at the group level. My empirical models focused on firm-level variables and employed publicly available data to measure them. However, characteristically the majority of the firms in the Borsa Istanbul are either subsidiaries of a business group or business group themselves. Therefore, a useful direction for future research would be to explore the interaction mechanism between the subsidiaries of a business group at the group level. Indeed, going beyond what numbers may indicate, there is a need to assess the process of how these business groups’ post-acquisition decisions occur in the emerging markets by presenting the evidence through in-depth analysis. This should contribute to the scholarly debate about emerging market business groups’ post-acquisition strategies by untangling the black box of coordination and learning mechanisms between a group’s subsidiaries.

A further promising avenue for M&A-related studies to come may be associated with cross-disciplinary approach. The majority of M&A papers and studies come from either management or finance scholars, and usually with divergent perspectives (Haleblian et al., 2009). If our interest is in expanding our understanding of mergers and acquisitions by emphasising the conditions under which strategies and organisational routines give firms superior M&A performance, scholars should also look at the other literatures. Otherwise, practitioners will continue to complain about the contradictory instructions on how to generate value from M&A activities. So, one clear way forward for M&A scholars is to develop multi-disciplinary work.

The presented approach to the dynamic capabilities view opens up several areas for further investigation. Much has been written about dynamic capabilities; however, there are misunderstandings, inconsistencies, and overlapping definitions within the field (Zahra et al., 2006; Barreto, 2010). In this study, I conceptualise M&A capability and integration capability as dynamic capabilities for emerging market acquirers, which contributes to the post-acquisition performance enhancement of the firms and
makes the term “dynamic capability” more tangible. Going beyond this, future research should deepen the understanding of M&A capabilities by using mixed methodological approaches. It is a promising approach to qualitatively explore the M&A capability development process through in-depth or comparative case studies, then testing the anticipated effects by applying appropriate empirical methods. Moreover, it is recommended that future research in the dynamic capabilities field should offer a clearer framework that may shed light on the uncertainties inherent in measurement of the capability’s effect on overall performance.

8.5 Conclusion

Why are some firms more successful in their corporate actions than others? What distinguishes those which perform better from those which underperform or worse? Is it their visionary ability to predict the future, their creativity which allows them to do things differently, the way they take risks for more returns, being more disciplined in their corporate actions, or being more innovative? The reasons could perhaps be all of the above, or it could be none. In essence, “greatness is not primarily a matter of circumstance; greatness is first and foremost a matter of conscious choice and discipline” (Collins and Hansen, 2011, pp.182). Thus, the main driver of this success is a good strategy designed by the management of a firm.

But what is a good strategy and where does it come from? In fact, a good strategy contains a set of rational activities, and they are not hidden in the implementation details; rather, they are the punch in the strategy (Rumelt, 2011). Realising the main factors that may affect the performance of a situation and designing a way of coordinating activities to take advantage of those factors are the essentials of a good strategy. A firm’s management is responsible for identifying the nature of the main challenges and designing a way of dealing with these factors. In short, strategy matters for firms, and a good strategy is usually determined by its success.
Over the past decade, emerging markets have enjoyed huge economic success. The remarkable growth in emerging markets has made them prime grounds for the global economy. As economies get wealthier, their institutional environment improves and emerging market firms become more global. Most emerging market firms are frequently reforming their corporate strategies to keep up with the increasing pace of change. What worked in the beginning of the 2000s may not be right in the current time, and will not be right for the next 15 years. Thus, a clear and well-understood strategy is vital for these emerging market firms to better compete not just with their developed world counterparts but even at home, and to become successful in their corporate activities. Yet strategy is only one component of what a firm needs. It is equally important to successfully execute this strategy on the ground.

As a result of the economic development in emerging markets, the strategy perspective for emerging market firms has gained increasing attention. Consulting firms have increased their attention to emerging markets and published various studies adopting this perspective, and several academic contributions investigating the emerging market phenomena have been realised. As these dynamic markets continue to evolve, the exploration of emerging market firms’ strategies remains incomplete and more insights into this largely unexplored topic are of great importance for the field of management.

I undertake this research to contribute to the exploration of the strategies of emerging market firms and to understand more about their acquisition events. I document the stock market and accounting-based performance measures for a sample of acquisitions performed by Turkish firms. I first examine whether emerging market firms can develop their collective M&A capabilities through the accumulation of acquisition experience. I find that a firm’s focal acquisition performance positively relates to prior acquisition experience that is similar to the focal acquisition. Then, I focus on the emerging market firms’ post-M&A consequences on performance of
integration decisions. I realise that post-M&A integration strategies of emerging market firms vary depending on the geographical similarity of the focal acquisition. However, the analyses only statistically support the view that replacing the acquired firm’s resources, especially top manager, is an important determinant of focal acquisition performance in domestic M&A. Apart from HQ replacement, I find no statistical support in my analyses for the view that emerging market firms those keep acquired firm’s resources in their cross-border acquisitions reach superior performance. The lack of results may owe in part to the inaccuracy of determining the emerging market firms’ motivation behind undertaking a cross-border M&A. In my research, I assume that these emerging market firms use cross-border acquisitions to obtain technologies, and capabilities essential for their globally expansion strategies—not merely lowering costs. Therefore, there may have different motivations or expectations for why emerging market firms would choose cross-border M&A as a way of expansion that could also affect the post-M&A integration decisions. Likewise, pre-M&A performance of the acquired firm may affect the resource replacement decisions of the acquirer firms. Much deeper understanding of these discussions; how emerging market firms use cross-border acquisitions, what the selection process of the target is, and how they shift resources from one area to other, may help to better understand the performance implications of emerging market cross-border acquisitions. Future researchers should take these factors into consideration to further explore the strategies of emerging market firms.

Moreover, the unsupported hypotheses may have some links with the recently evolving market conditions in Turkey, as the full integration of Turkish stock market into the world and especially into the European capital markets is still not achieved yet. Also, the institutional Turkish market of corporate control is still under-developed and concentrated ownership is common. Apart from these conditions, Turkish firms are still in the process of evolving and growing globally. In fact, Turkey looks like a laggard, as it has only three firms in the Boston Consulting Group’s 100 global challenger list (2014), while China and India supplied nearly two-thirds of the list, Brazil has 13, and 6 from Mexico. This point needs further argument as industry structures, institutional environment, and infrastructural settings may not only vary
greatly between developed market economies and emerging market economies, but also within the emerging market economies as well. Therefore, what works with developed market firms may not be applicable to emerging market firms. Needless to say, the approach and arguments chosen should depend on the focal issue of concern. To more fully benefit from the underlying research opportunities, further research should go beyond mere verification and extension of existing theory and instead involve deeply in the emerging market context for theory building.

The globally continuing importance of emerging markets requires that academics, managers, and policy makers strive to better understand them. I hope that this study is a step towards providing insight on emerging market firms’ post-acquisition strategies and their capability development mechanisms. I further hope that this study develops manager perspectives by providing more specific guidance regarding value generation from M&A.
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### Appendix A: Summary of Empirical Research on Acquisition Performance

<table>
<thead>
<tr>
<th>AUTHOR</th>
<th>TITLE</th>
<th>AIM OF THE STUDY</th>
<th>METHOD &amp; SAMPLE</th>
<th>Dependent Variable</th>
<th>Independent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barkema and Schijven</td>
<td>Toward unlocking the full potential of acquisitions: The role of organisational restructuring</td>
<td>Building on behavioural theory, they studied when and how firms unlock synergy from acquisitions over extended periods of time. They conceptualized organisational restructuring as a second stage in the integration process</td>
<td>Panel data on 1600 acquisitions over four decades. 25 large Dutch multinational firms</td>
<td>Return on Assets (ROA)</td>
<td>1) Organisational restructuring. 2) Number of related acquisitions since last restructuring. 3) Number of related acquisitions between last two restructuring. 4) Elapsed time since last restructuring. 5) Acquisition experience. 6) Restructuring experience</td>
</tr>
<tr>
<td>Cannela and Hambrick</td>
<td>Effects of Executive Departures on the performance of acquired firms</td>
<td>They examined post-acquisition performance in relation to pre-acquisition performance. They also used relatedness as a moderator variable</td>
<td>Sample of 96 acquisitions occurred between 1980 and 1984. They concluded that the departure of executives from acquired firm is harmful to post-acquisition performance</td>
<td>Acquisition performance through survey (expert informants) (Subjective)</td>
<td>1- Management change 2- status bestowal 2- relatedness</td>
</tr>
<tr>
<td>Capron</td>
<td>The long term performance of horizontal acquisitions</td>
<td>She examined the impact of post-acquisition asset divestiture and resource redeployment both asset divestiture and resource. Redeployment can contribute to acquisition performance. on the long-term performance of horizontal acquisitions</td>
<td>Survey – 253 horizontal M&amp;A in the period of 1988-92. European and US firms (Insight from cost efficiency and resource-based theories)</td>
<td>Managerial judgement (survey on synergies) &amp; self-reported measures of changes on acquisition performance. CONTROLS: Relatedness, Geographic scope, relative size of the target, diversified acquirer</td>
<td>1- Asset divesture 2- Resource redeployment (R&amp;D capabilities, manufacturing know-how, marketing resources, supplier relationships, distribution expertise)</td>
</tr>
<tr>
<td>Authors</td>
<td>Journal</td>
<td>Taking stock of what we know about M&amp;A – review and research agenda</td>
<td>They developed a framework to organize and review recent empirical findings principally from management, economics, finance in which interest in acquisition behaviour</td>
<td>Firm characteristics – acquisition performance. Moderators of the Acquisition–Performance Relationship (p 478-83) Measurement issues (p 492-493)</td>
<td>Many studies examined abnormal returns over either short (2-4 days) time period. Scholars consider CARs as the most effective technique and seemingly default measure of the post-acquisition performance. Longer term measures also present challenges</td>
</tr>
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<tr>
<td>Haleblian and Finkelstein (1999) – Administrative Science Quarterly</td>
<td></td>
<td>The influence of acquisition experience on acquisition performance: behavioural learning perspective</td>
<td>They examined the influence of prior organisational acquisition experience on the performance of acquisition from the behavioural learning perspective</td>
<td>Data from 449 acquisitions show an overall U-shaped relationship. (1980-92)</td>
<td>Abnormal returns (5 day prior and 5 day after the announcement) 1- Acquisition experience 2- target to target similarity (4 digit SIC) CONTROLS: Acquirer to target relatedness, relative acquisition size, attitude, acquisition slack</td>
</tr>
<tr>
<td>Hayward (2002) – SMJ</td>
<td>SMJ</td>
<td>When do firms learn from their acquisition experience?</td>
<td>Used the org learning theory to examine how the nature, performance, and timing of a firm's acquisition experience help it to learn how to select the right acquisition.</td>
<td>214 acquisitions made by 120 firms in 6 industries over the study period 1990-95</td>
<td>CAR (30 days prior to announcement – after 5 days interval) 2- survey assessment (Likert scale) 1- Acquisition experience 2-relatedness (4 digit SIC) 3- Small acquisition losses 4- Timing of prior acquisition 5- discount factors Many control variables</td>
</tr>
<tr>
<td>King et al (2004) – SMJ</td>
<td>SMJ</td>
<td>Meta analyses of post-acquisition performance</td>
<td>Employed meta-analytic technique to empirically assess the impact of the most commonly researched antecedent variables on post-acquisition performance</td>
<td>Meta-Analysis – 93 empirical studies and 852 effect sizes</td>
<td>1- Acquisition experience 2-relatedness (4 digit SIC) 3- Small acquisition losses 4-Timing of prior acquisition 5- discount factors Many control variables</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Article</td>
<td>Industry Focus</td>
<td>Sample Size</td>
<td>Result</td>
<td>Control Variables</td>
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<tr>
<td>-----------</td>
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</tr>
<tr>
<td>Laamanen and Keil (2008) – SMJ</td>
<td>Performance of serial acquirers</td>
<td>First, they examined whether different acquisition frequency patterns affect acquirer performance. Second, they examined whether firm level influences moderate the relationship between the acquisition frequency patterns and acquirer performance.</td>
<td>5,518 acquisitions of 611 active U.S. acquirers in seven industry sectors during the 10 years between 1 January 1990 and 31 December 1999. They find that ‘high acquisition rate is negatively related to acquirer performance’</td>
<td>Acquirer performance: Longer term excess market returns to acquirer shareholders.</td>
<td>(1) Acquisition rate, (2) variability of the acquisition rate, (3) acquisition experience, (4) acquirer size, and (5) acquisition program scope. CONTROLs: target similarity, target to target similarity, the use of external advisors, the method of payment, the proportion of international acquisitions, the proportion of hostile acquisitions, the proportion of private targets, and acquirer’s leverage.</td>
</tr>
<tr>
<td>McDonald et al (2008) – SMJ</td>
<td>The effects of outside director acquisition experience on firm acquisition performance</td>
<td>They focused on asset divestiture and resource redeployment following an acquisition. Directors will develop expertise in making particular kinds of acquisition decisions through their past experiences</td>
<td>Large and medium size US listed industrial and service firms 1989-98. 1916 deals by 489 firms.</td>
<td>Cumulative Abnormal return</td>
<td>Directors’ prior experience, board member experience. CONTROLs; size, profitability, financial slack, no of acquisition experience.</td>
</tr>
<tr>
<td>Vermeulen and Barkema (2001) – AMJ</td>
<td>Learning through acquisitions</td>
<td>They focused on the distinction between acquisitions and greenfield investments.</td>
<td>Longitudinal database containing data on the subsidiaries of 25 large Dutch firms</td>
<td>Survival. Acquisition/greenfield.</td>
<td>1- No of preceding deals 2- preceding greenfields in familiar market 2- preceding acquisition in related/unrelated domains</td>
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</tr>
<tr>
<td>Zollo and Singh (2004) – SMJ</td>
<td>Deliberate learning in corporate acquisitions; post acquisition strategies and integration capability in US bank mergers</td>
<td>They focused on acquirers’ performance and examined how learning processes specific to management of the post-acquisition phase affect it.</td>
<td>Questionnaire based sample study. 250 largest US bank holding companies.</td>
<td>Return on Assets (ROA): 3 years after the deal vs. the same measure 1 year before the deal. 1- Knowledge codification 2- Acquisition experience 3- Integration 4- Replacement CONTORLS: Relatedness, Resource quality, Asset size, relative asset size</td>
<td></td>
</tr>
</tbody>
</table>
## Appendix B: Description Of Variables

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Code</th>
<th>Type</th>
<th>Relevant Hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative Abnormal Return (CAR)</td>
<td>Cumulative Abnormal Return (CAR) represents the change in stock-market reaction</td>
<td>CAR</td>
<td>continuous</td>
<td>all</td>
</tr>
<tr>
<td>Return on Assets (ROA)</td>
<td>Accounting based approach shows how firm’s assets are generating revenue</td>
<td>ROA</td>
<td>continuous</td>
<td>all</td>
</tr>
<tr>
<td><strong>Independent Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of acquisition experience</td>
<td>Number of acquisitions completed by the acquiring company 5 years before the focal acquisition</td>
<td>acqexp</td>
<td>continuous &gt;0</td>
<td>1a</td>
</tr>
<tr>
<td>Acquisition experience dummy</td>
<td>Any prior deal in the past 5 years by the firm (Yes=1) (No=0)</td>
<td>firmexpdummy</td>
<td>dummy</td>
<td>1b</td>
</tr>
<tr>
<td>Similarity of prior relatedness</td>
<td>The dummy refers to the similarity across the targets in terms of their industrial relatedness. If the prior acquisition has the same 2 digit SIC code as the focal acquisition (1), otherwise (0)</td>
<td>priorrelatedness</td>
<td>dummy</td>
<td>1c</td>
</tr>
<tr>
<td>Similarity of prior crossborder</td>
<td>The dummy refers to the similarity across the targets in terms of geographic similarity that is cross-border or domestic. If the prior acquisition has the same cross domestic code as the focal acquisition (1), otherwise (0)</td>
<td>priorcrossdomestic</td>
<td>dummy</td>
<td>1d</td>
</tr>
<tr>
<td>Group level acquisition experience dummy</td>
<td>Any prior deal in the past 5 years by the group (Yes=1) (No=0)</td>
<td>groupexpdummy</td>
<td>dummy</td>
<td>1e</td>
</tr>
<tr>
<td>Degree of resource replacement</td>
<td>Resource replacement proxy that shows the overall resource replacement in the target firm</td>
<td>degree</td>
<td>Ordinal</td>
<td>2</td>
</tr>
<tr>
<td>Top management replacement</td>
<td>The dummy that indicated whether acquired company’s CEO change occurred in a year time after the deal (Yes=1) (No=0)</td>
<td>CEOchange</td>
<td>dummy</td>
<td>3</td>
</tr>
<tr>
<td>Name replacement</td>
<td>The dummy that indicated whether acquired company’s name change occurred in a year time after the deal (Yes=1) (No=0)</td>
<td>namechange</td>
<td>dummy</td>
<td>4</td>
</tr>
<tr>
<td>Headquarters replacement</td>
<td>The dummy that indicated whether acquired company’s headquarter change occurred in a year time after the deal (Yes=1) (No=0)</td>
<td>hqchange</td>
<td>dummy</td>
<td>5</td>
</tr>
<tr>
<td>Category</td>
<td>Description</td>
<td>Code</td>
<td>Type</td>
<td>Relevant Hypotheses</td>
</tr>
<tr>
<td>---------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------</td>
<td>------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Cross-border</td>
<td>Based on the companies' headquarters; If the acquirer and acquired HQ in the same country, domestic (0), or cross-border (1)</td>
<td>crossborder</td>
<td>dummy</td>
<td>all</td>
</tr>
<tr>
<td>Relatedness</td>
<td>Acquirer to target business similarity (Related=1) (Unrelated=0). By doing the same business, the company have already routinized their system and able to manage properly</td>
<td>relatedness</td>
<td>dummy</td>
<td>all</td>
</tr>
<tr>
<td>Cash</td>
<td>Cash is a dummy where (1) is a cash offer, and (0) for stock payments or combination of stock and cash. According to the research stock financed acquisitions generated significantly lower returns than cash financed ones</td>
<td>cash</td>
<td>dummy</td>
<td>all</td>
</tr>
<tr>
<td>Advisory</td>
<td>The dummy in which external advisors have been engaged in (Yes=1) (No=0). Acquirer firm may lack acquisition skills and thus employ an external advisor on the deal either financially, or legally, or on the decision making process.</td>
<td>advisory</td>
<td>dummy</td>
<td>all</td>
</tr>
<tr>
<td>Hostile</td>
<td>The attitude of an acquisition may vary from friendly to hostile. Coded friendly acquisitions or neutral acquisitions 0, and hostile acquisitions as 1. Hostile acquisitions may negatively affect acquirer returns by attracting multiple bidders who drive premiums higher.</td>
<td>hostile</td>
<td>dummy</td>
<td>all</td>
</tr>
<tr>
<td>Maturity</td>
<td>The dummy shows the maturity of the acquirer company. If an acquirer company's establishment date was older than acquired company (1), otherwise (0). Mature acquirers are expected to be better in co-ordinating and managing the process.</td>
<td>maturity</td>
<td>dummy</td>
<td>all</td>
</tr>
<tr>
<td>Stake</td>
<td>The dummy which indicates the acquiring company's controlling stake in the acquired company (Wholly owned=1) (Majority stake=0) With the higher share of controlling stake, acquirer firm has more power on the decision making</td>
<td>stake</td>
<td>dummy</td>
<td>all</td>
</tr>
</tbody>
</table>
Appendix C1: Return on Assets (ROA) as an Acquisition Performance Measure

Table C1.1: Regression results for the Hypothesis 1

<table>
<thead>
<tr>
<th>Dependent variable: ROA</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.008</td>
<td>0.007</td>
<td>0.022</td>
<td>-0.023</td>
<td>0.026</td>
</tr>
<tr>
<td>(0.03)</td>
<td>(0.031)</td>
<td>(0.019)</td>
<td>(0.018)</td>
<td></td>
<td>(0.031)</td>
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<td>M&amp;A Experience</td>
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<td></td>
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<tr>
<td>Acqexp</td>
<td>-0.004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.004)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firmexpdummy</td>
<td></td>
<td>-0.008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.018)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priorrelated</td>
<td></td>
<td></td>
<td>-0.004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.013)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priorcrossborder</td>
<td></td>
<td></td>
<td></td>
<td>0.011</td>
<td></td>
</tr>
<tr>
<td>(0.027)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Groupexpdummy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.039</td>
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<tr>
<td>(0.02)</td>
<td></td>
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<tr>
<td>Controls</td>
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<tr>
<td>Included</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
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<tr>
<td>Observation</td>
<td>203</td>
<td>203</td>
<td>140</td>
<td>141</td>
<td>203</td>
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<tr>
<td>F-statistic</td>
<td>0.94</td>
<td>0.84</td>
<td>1.20</td>
<td>0.97</td>
<td>1.27</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.04</td>
<td>0.03</td>
<td>0.06</td>
<td>0.05</td>
<td>0.05</td>
</tr>
</tbody>
</table>

* $\rho < 0.10$; ** $\rho < 0.05$; *** $\rho < 0.01$

Coefficients with standard errors are listed under coefficients in parentheses.
Table C1.2: Regression results for the Hypotheses 2 and 3

<table>
<thead>
<tr>
<th>Dependent variable: ROA</th>
<th>Model 6</th>
<th>Model 7 (Cross-border M&amp;As)</th>
<th>Model 8 (Domestic M&amp;As)</th>
<th>Model 9 (Cross-border M&amp;As)</th>
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* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$
Coefficients with standard errors are listed under coefficients in parentheses.
Table C1.3: Regression results for the Hypotheses 4 and 5

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* \( p < 0.10 \); ** \( p < 0.05 \); *** \( p < 0.01 \)

Coefficients with standard errors are listed under coefficients in parentheses.
APPENDIX C2: CAR5 as an Acquisition Performance Measure

Table C2.1: Regression results for the Hypothesis 1

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*p < 0.10; **p < 0.05; ***p < 0.01
Coefficients with standard errors are listed under coefficients in parentheses
Table C2.2: Regression results for the Hypotheses 2 and 3

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* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Coefficients with standard errors are listed under coefficients in parentheses
Table C2.3: Regression results for the Hypotheses 4 and 5

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Resource Replacement

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Controls

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* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Coefficients with standard errors are listed under coefficients in parentheses.
## Appendix D: Summary of the Univariate and Multivariate Results

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