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Foreword by David R. King

Strategic Decisions and Sustainability Choices

Mergers, Acquisitions and Corporate Social Responsibility from a Global Perspective

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With Contribution by Svante Schriber

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Foreword

Mergers and acquisitions (M&As) are a pervasive organizational phenomenon. For example, the length of time that firms are listed in the S&P 500 continues to shrink due to technology change and acquisitions with 27 firms replaced in the list just during 2017. Additionally, the annual dollar value of M&A activity rivals the gross domestic product of major nations. Meanwhile, compared to the frequency and dollar value of M&As, research provides limited and largely fragmented insights into M&As and their impact on organizations and society.

The majority of M&A research focuses on the market's reaction to an acquisition announcement, or the interests of the acquiring and the target firm shareholders. Generally, target firm shareholders gain and acquiring firm shareholders experience slight losses, but reactions and subsequent outcomes can vary widely. This reflects that the market reaction at acquisition announcement is only an expectation of M&A value creation or destruction. Actual value creation or destruction occurs during integration, and the process of combining two previously separate organizations can take several years and it is inherently uncertain.

One reason for uncertainty is that multiple stakeholders beyond shareholders are impacted by and can influence acquisitions. For example, employees can resist organizational change or simply leave a combining organization for competing firms. Additionally, competitors can take actions, including lowering prices, to limit the benefits initially planned from an acquisition. Disruptions to customers can also provide an opening for competitors to steal customers following an acquisition, contributing to most firms losing market share following an acquisition. While M&A research has begun to consider additional stakeholders, research continues to largely examine stakeholders in isolation. For example, employee and customer turnovers have been examined separately, but the topics likely relate. Particularly in service industries, the loss of employees may drive a loss of customers.

Beyond the industry environment where M&As occur, another impact of globalization is that the majority of M&A activity is now cross-border. This increases the complexity of stakeholders involved and the potential for miscommunication or government intervention. For example, over 100 countries now have antitrust laws and, in 2018, China denied an acquisition by Qualcomm (US) of NXP Semiconductors (Netherlands). This reflects that global competitiveness drives M&As, as well as associated complexity in managing the process of completing and integrating an acquisition.

The current book takes an important step in understanding the complexity M&As present by undertaking a more explicit consideration of stakeholders that also enables integrating associated research. For example, the failed acquisition of NXP Semiconductors by Qualcomm reflected increased challenges of geographic distance and national languages before considering the interests of different governments. This reflects that M&As need to consider the multinational institutional environments where they occur. For example, after gaining government approval for an acquisition, combining firms confront different legal structures and expectations on employee protections, accounting, and corporate responsibilities. In addition to fiduciary duties to shareholders, there is growing recognition that managers at firms need to ensure their firms are socially responsible.

The need to consider profits, people, and the planet, firms increasingly consider more than economic impacts of their actions to also consider social and environmental implications. Generally, this is referred to under the umbrella of corporate social responsibility (CSR). CSR provides more explicit consideration of a wider variety of stakeholders than shareholders, and it represents a distinct research stream from M&As. However, M&A research could benefit from an integration of different perspectives. This book represents an important step in developing previously unexplored connections between M&As, stakeholders, and CSR.

In outlining a three-stage framework associated with mapping, managing, and measuring stakeholder impacts, the book provides an integrating framework to discuss aspects where related ideas that impact M&As can be considered. While only considering shareholder concerns limits the potential value that can be achieved by an acquisition, the diversity of potential stakeholders to consider threatens to be overwhelming. As a result, mapping stakeholders allows managers to identify and focus attention on the most relevant stakeholder groups. Next, appropriate strategies and communication need to occur with identified stakeholder groups to manage their reactions to an acquisition and its implementation. The resulting goal is to garner an increase in the realized gains from potential gains available at the start of an acquisition by identifying and continuing to track stakeholder concerns across the lengthy process of initiating, completing, and integrating an acquisition.

A motivation behind the ideas developed within the pages of the book relates to understanding that gains extend beyond combining firms. For example, managers often justify acquisitions as providing greater value to consumers. By explicitly considering wider stakeholder groups, a better understanding of the performance impacts of M&As is possible. For example, economists have argued that the overall impact of M&As is positive as gains to target shareholders and more efficient use of resources offset losses by acquiring firm shareholders. However, one reason this has not been consistently examined by research relates to methodological challenges of how to measure stakeholder impacts. Again, the book provides a useful reference for addressing this challenge and broadening what is considered by M&A research. Relevant application of developed ideas and research methodologies is then demonstrated with information relating to an acquisition program of a logistic company that grew from a regional to a global reach.

Overall, the combined result of the book is outlining a new focus of M&A research that offers the opportunity to better understand this phenomenon and for firms and society to increase the benefits from high levels of global M&A activity. This is reinforced in the concluding chapter of the book that outlines areas of future research. New perspectives are needed in M&A research, and this book develops novel ideas in how our understanding of M&A and acquisition implementation can advance.

Tallahassee, FL, USA David R. King
20 October 2018

Preface

Companies typically aim to expand. In order to achieve this aim, they rely on a repertoire of organic and non-organic solutions, the latter including mergers and acquisitions (also M&As or acquisitions). M&As continue to grow in number and frequency and are frequently preferred to organic options for being faster and more effective means to acquire resources and capabilities that would be too costly to develop internally. The latest figures point to M&As having returned to levels previously seen only before the 2007 global financial crisis, although now the majority of transactions involve companies from different countries. As a consequence, acquisitions are reshaping industries, affecting our lives as consumers, employees, stockholders, or any of a range of stakeholders. It is not too bold to state that we live with and by acquisitions.

All these characteristics reflect the complexity of these deals and justify the tremendous attention acquisitions have received from scholars from financial economics, organization behavior, and strategic management, just to mention a few of the many fields participating in acquisition research. This array is not surprising as the combination of two different firms leads into numerous issues to investigate and multiple variables or models to test in various empirical settings. Despite such complexity, only a few major players—shareholders and the top management—have dominated the conventional discourse. The remaining stakeholders have received scant attention in existing research. As a result, acquisitions are depicted as serving primarily the interests of shareholders and top management. Employees, suppliers, or customers represent means to this end, and other stakeholders, such as middle management, local communities, or even the environment (if we venture beyond the anthropomorphic research), have remained mainly voiceless.

There are exceptions to these portrayals. Among academics, there are some who advocate for enlarging the domain of analysis of acquisitions to include stakeholders other than shareholders. Specifically, Nordic scholars have suggested analyzing acquisitions as multi-stakeholder deals. This perspective builds upon the investigation by scholars of business and society of the impact of acquisitions upon corporate stakeholders' practices. However, the dialog between these fields and perspectives has not flourished, and stakeholders other than shareholders typically receive little attention in the existing acquisition research. We therefore contend that there is a surprising shortage of analyses of the multitude of stakeholders affecting or who are affected by acquisitions, and we believe it is time to remedy this state of affairs.

In parallel, globalization has triggered multiple changes that impact on the conduct of companies. There has been a change in the division of labor between the political and economic spheres and a corresponding increase in the political roles and responsibilities of corporations in a global society. The decreasing power of nation-states and the corresponding transformation of the power, roles, and responsibilities of multinational companies (MNCs) have favored the emergence of a world with many centers of authority and control. Today, corporations playing on a worldwide scale interconnect with many actors and places and must cope with often contradictory legal and societal demands from a wide range of institutional and cultural environments. This new scenario evokes reflections on notions of power and responsibility across different actors and arenas, such as in both public and private spheres and in for-profit as well as not-for-profit domains.

Seen in this light, the narrative of the existing research portraying acquisitions as the realm of shareholders appears inadequate to cope with such complexity and to provide a convincing explanation of why acquisitions succeed or fail. In this light, even the traditional measurement focus on financial market reactions to acquisition announcements, within a very short event window, becomes meaningless. If companies need to redefine their roles and responsibilities in society, then acquisition research should reflect on how to incorporate these issues—in the questions to ask, the theoretical lenses to apply, or the methods to employ. Most importantly, it is time to investigate the social impact of M&As, on whom and over what time horizon. In other words, we believe the time has come to enlarge the domain of analysis of acquisitions beyond the traditional stakeholders' perspective.

That we are on the right track is also emphasized by the practice of M&As depicting stakeholders and corporate social responsibility (CSR) issues as gaining increasing importance in acquisition processes. Acquisition motives encompass seeking for targets with an established social conscience as the Unilever-Ben & Jerry's case demonstrates. This is only one among many examples, which we also present and discuss throughout this book, that testifies to the increasing importance of enlarging the domain of analysis of M&As to include a broader array of stakeholders. The recognition of the impact of acquisitions on a multitude of interests, which in turn affect how acquisition processes unfold, represents an untapped potential in the literature. This is what this book is about and also our rationale for embarking into such a research endeavor. In addition, CSR programs and initiatives are a means of gaining legitimacy through internationalization strategies. As companies expand and internationalize, they encounter diverse institutional contexts with competing demands and expectations. CSR provides a means of addressing and encompassing these interests within an overarching context of stakeholder outreach on a global scale, customized into different national institutional environments. These unique national customizations provide the local legitimacy within the global perspective.

With our analysis we go beyond the traditional view that sees the balance between shareholders and stakeholders' interests as a corporate governance matter. Having recognized the political role companies, and MNCs in particular, play in the global arena, we deem it important to position our analysis of CSR issues within different institutional settings. Institutional influences have been already investigated in international

M&A transactions. We take the perspective that CSR enactment cannot be fully explained by organizational-level choices, but rather CSR program development involves institutional influences conjoined with social responsibility goals and practices This logic stems from the awareness that acquisitions more and more represent a vehicle for spreading CSR issues across the globe—and there is 'no one size fits all' formula. CSR needs to be customized to the institutional setting because acquisitions do not take place in a *vacuum*, but rather are embedded in institutional settings. While our emphasis is on multinational companies, our considerations apply also to smaller or less internationalized companies, as they can be targets of acquisitions and can also sometimes expand and become ongoing acquirers themselves.

In this book we therefore acknowledge the interrelationships among acquisitions, CSR, stakeholders, and institutional settings. We provide examples from across the globe to render the variety and richness of solutions that companies acquiring other companies experience worldwide. We additionally offer first-hand empirical evidence about a fascinating institutional setting—in the Arabian Gulf region—which provides an exemplar of interconnection between programmatic acquisitions and CSR.

This book is also in itself a dialog between the two of us, a dialog that, over time, brought the intersection of strategic expansion and CSR to the fore. The book originates from this ongoing dialog and represents only part of a broader research endeavor we are conducting together in conjunction with other colleagues. As such, the book intends to raise questions and provide only provisional answers, as is typical of a journey with stops along the way. Each chapter can be conceived as a set of questions that the chapter attempts to answer by bridging different research streams and contributing to the ongoing conversation among scholars from different fields.

The book is organized into three different parts: each stands on its own, but together they more fully convey the nuanced interrelationships among expansion strategies and acquisitions in particular, CSR and institutional settings. We, as authors, come from and have experienced different institutional contexts that inform the way we address issues and our respective writing styles. Olimpia Meglio wrote the five chapters in

Part I, Kathleen Park wrote the three chapters in Part II, and we jointly provide prefatory and concluding remarks. Eminent M&A scholar David King has written the Foreword. In Part III of the book, we host a Nordic perspective, with Svante Schriber offering insights on how to move the M&A and CSR research agenda onward and upward. Our aim is to provide a polyphonic account of the M&A-CSR topics.

To help the readers navigate the book, we conceive chapters as primarily answering **why**, **how**, **where**, and **what** questions. Specifically, Chap. 1 focuses on **why** it is important to include stakeholders and CSR issues in the analysis of M&As. The ensuing four chapters are all devoted to analyzing **how** questions. Chapter 2 aims at identifying **how** stakeholders' social issues influence and are influenced by acquisitions. Chapter 3 focuses on **how** to handle the relationship with stakeholders and related social issues along the acquisition process. Chapters 4 and 5 are concerned with methodological issues: **how** to measure the multiplicity of outcomes arising from acquisitions and **how** to investigate these issues. These are two distinct, intertwined, research problems that have shaped the debate about how to advance the M&A field from the 1980s to the present date.

Part II is primarily devoted to answer **where** and **what** questions. The **where** refers to the comparison of different institutional settings, and the **what** refers to CSR policies adopted in these settings. Specifically, Chap. 6 provides an analysis of CSR, acquisitions, and institutional contexts around the world. Chapter 7 analyzes CSR in practice based on an exemplar firm, Agility, that has pursued a global acquisition strategy and contemporaneously developed a global CSR program. Chapter 8 assesses M&As and CSR in both developed and developing economies toward surfacing a strategic convergence spanning levels of economic development.

In Part III, Svante Schriber lays out a research agenda for the future. His analysis extends from M&As to other strategic growth options. It also involves a rethinking on how strategic decisions are taken, how they are executed, and how performance is measured. In Chap. 10 we elaborate upon our own reflections on a research agenda by outlining the responsibilities of scholars who actively shape the acquisition research agenda and will continue to do so in the future. We encourage scholars, along with editors and reviewers, to pursue novelty over conformity and favor methodological pluralism over unitary research approaches.

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Last, but not least, a heartfelt thank you goes to our families for being patient all the times we were absent or elsewhere, even when we were at home. This book is for you, with all our love.

Benevento, Italy — Olimpia Meglio
Boston, MA, USA — Kathleen Marshall Park
October 2018

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Part I

Expansion Strategies and Responsibility Issues

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Mergers and Acquisitions: Advancing an Institutionally Embedded Stakeholder View

Olimpia Meglio

Abstract Mergers and acquisitions represent a popular strategic choice companies rely upon to respond to external complexities and reconfigure business models. So far, scholars have been primarily concerned with their effects on shareholders. Their centrality represents a common thread in existing research that relies on shareholder value as a metric for gauging acquisition performance. However, acquisition practice provides a different paint with stakeholders other than shareholders playing a role. In this chapter we suggest to enlarge the domain of analysis by applying the stakeholder view and incorporating institutional settings. We therefore propose an institutionally embedded stakeholder view of acquisitions. We also discuss implications upon corporate social responsibility.

Keywords Mergers and acquisitions • Shareholders • Stakeholders • Shareholder value • Acquisition performance measurement • Stakeholder theory

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1.1 Introduction: How Acquisitions Are Changing Our Lives

Mergers and acquisitions (M&As or acquisitions) represent a popular strategic choice companies rely upon to adapt to changing environments, reconfigure resources and capabilities, or renew business models (Capron & Mitchell, 2012). Despite frequently reported high failure rate (Risberg & Meglio, 2012), figures indicate that they continue to grow in frequency and volume involving mature and nascent industries as well as emerging and developed countries across the globe. In 2017, global M&As fell just short of previous years: Cross-border activity has once again been a key component and the technology sector has reached its highest annual deal count on Mergermarket (2018) record (since 2001). The year 2018, Bloomberg reports, has been the best start for overall global M&A activity, since 2000 (Forbes, 2018).

Mapping completed acquisitions has attracted scholarly interest over time. Scholars identify 'M&A waves' according to peculiar financial, economic, or sociocultural bases (Alexandridis, Mavrovitis, & Travlos, 2011). Different peaks in the history of M&As have different foci. While in the 1960s and 1970s, diversification and the creation of conglomerates were common reasons for acquisitions (Schleifer & Vishny, 1990), in the late 1990s and early 2000s acquisitions were more horizontal and international in scope (Öberg & Holtström, 2006). In a reconstruction of the seven merger waves in the time span 1895–2017, Park and Gould (2017) outline how US acquirers dominated the first three waves, while European and Japanese firms increasingly entered the international M&A arena from the fourth wave onward. Since the fifth wave, the diffusion of economic power across a broader range of countries has heightened opportunities for emerging multinational companies (EMNCs) to compete globally, and firms from emerging economies—such as China, India, or the Arabian Gulf states—have become prominent players in the worldwide market for corporate control (Luo & Tung, 2007; Madhok & Keyhani, 2012; Nair, Demirbag, Mellahi, & Pillai, 2017). We can