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Influential Factors to M & A Market Performance: A Proposal of Moderating Effects

Thi Bich Hanh Tran
Faculty of Business Administration, VNU – Vietnam Japan University, Vietnam

Abstract: Though an increasing amount of research on M&A's performance has been recently added to the literature, a scanty number of studies has been attended to market performance of M&A. Add to this, little discussion has been found on the influential moderating factors for M&A's performance, particularly market performance. In the contemporary economy characterized by a high degree of competition in the market and influences created by Technology 4.0, environmental uncertainties and M&A's capabilities for grasping opportunities become largely relevant to M&A's performance. This study aims to address the effect of post-integration strategies on M&A's market performance and the moderating roles of market uncertainty, technological uncertainty, networking capability, and entrepreneurial orientation in the effects. By reflecting the viable factors in the present economy including the factors of uncertainty of the economic environment and the typical necessary capabilities of M&As (i.e. networking capability and entrepreneurial orientation), the study presents the propositions of the effects and a theoretical framework that is useful for future researchers and managers of M&As.

Keywords: *M&A Market Performance, Moderating Effect, Market Uncertainty, Technological Uncertainty, Networking Capability, Entrepreneurial Orientation*

I. INTRODUCTION

Merger and acquisition (M&A) has increasingly occurred in the world recently. It has been evidential that many foreign firms merged with or acquired local firms while local firms also acquired foreign firms that operated unsuccessfully in host countries. In the former phenomenon, a large number of M&A firms aimed to acquire other firms for the purpose of extending market or overcapacity. Nevertheless, many of the M&As have been a failure. The main reason for this lies in the post-acquisition integration process. Therefore, it is vital to examine the post-acquisition integration process so that M&A can be more successful. To state differently, an investigation into the effectiveness of strategies carried out by M&A, the relevance of integration strategies to M&A performance, and the factors moderating the effect of M&As' adopted strategies on their performance will be useful to enhance the success for M&As.

Though M&A has been popularly studied in developed economies, a review of literature of M&A suggests that several studies have been detected about M&A, but most of them have been case studies that focused on a certain company or specific industries [1], consumer goods [2], logistics regardless of countries of acquirers and acquired firms. A large number of studies have garnered an interest in accounting-based performance or financial performance, yet less research has been found about effectiveness of post-acquisition integration process strategies for market performance in M&As. Recently, some studies of foreign economies have explored the association between integration process strategies and M&A performance, yet most of the studies used financial performance measures like accounting-based performance measure and stock-market based performance measure. Some other studies conceptually proposed the necessity of measuring non-financial performance like socio-cultural integration outcomes, but the research on this is quite limited. Measuring M&A performance on a variety of measures will be particularly helpful to gain an insight into success of M&A. As such, it is necessary to use other measures to evaluate M&A performance such as financial (i.e. sales growth, earnings growth, return on investment) and non-financial performance (shareholder satisfaction, customer satisfaction, employee satisfaction)[3]. Remarkably, the body of literature on post-merger performance using marketing metrics like market performance is quite modest. Therefore, attending to market performance of M&As is useful for both scholarly and practical field.

A review by [4] indicated that several factors may moderate the effect of integration strategies on M&A performance including relative size of firms, degree of diversification of the acquirer, and degree of industry relatedness. Recently, some studies proved that management's decision making style and human resource managers played a significant moderation role for M&A performance. No studies, to date however, has examined the moderating role of market uncertainty, technological uncertainty, and networking capability of firms for M&A performance. Boon-itt and Wong [5] argue that under hyper-competitive conditions that characterize the current economy, companies will suffer from much influence of market uncertainty and technological uncertainty which may affect their performance. In addition, in the era of Industry 4.0 that facilitates firms to build networks with other partners, firms' network capability is a crucial element driving for performance. This suggests that economy's characteristics with degree of market uncertainty and technological uncertainty and firm's prominent characteristic of networking capability can increase or decrease the effect of M&A integration strategies on M&A performance. Hence, this study discusses the moderating influences of these factors for effectiveness of integration processes of M&A. Based on the discussions, the study will suggest useful implications for researchers and managers of M&As.

II. THEORETICAL BACKGROUND AND HYPOTHESES

M&A MARKET PERFORMANCE

Much research has discussed about M&A performance. Categories of performance of M&A that previous studies have discussed range from accounting measures-based performance, market measures – based performance, mixed measures, and qualitative measures - based performance [6].Nevertheless, a rigorous review of research suggests that qualitative measures – based performance and accounting measures – based performance have received most attention from researchers. Meanwhile, market measures –based performance has been researched less [7].Market measures – based performance entails M&A's performance on aspects of market including market share growth, sales revenue, and a reduction in selling, marketing, and administrative costs [3].

Post-integration strategies and market performance

Several factors have been identified to affect M&As' performance, including market performance. However, the factors selected for study in each paper were rather fragmented. There is a lack of comprehensive research on influential factors to M&As' market performance, especially empirical studies. Some studies focused on the factors of prior merger and acquisition. For instance, [6] showed that eight factors affecting M&As' performance, inclusive of market performance, are method of payment, book to market ratio, type of merger or acquisition transaction, cross-border versus domestic M&A, mergers versus tender offers, firm size, macro-economic conditions, and time period of transaction. Prior study indicated that flexibility within the strategic planning process is a significant driver for M&As' performance in sales and customer satisfaction. [8]also proposed that internal and external strategic planning, priority action plan, and time management are related to both cost reduction and revenue enhancement. [9] accentuated the role of post acquisition integration strategy for M&A's performance. Accordingly, task integration and human integration have been acknowledged as two crucial strategies influencing M&As' performance, but the empirical evidence of the effect is still limited. Task integration refers process of identifying and realizing operational synergies while human integration is known as the process of creating positive attitudes towards the integration among employees on both sides. Task integration can be measured in terms of transfers of capabilities and resource [9]. Meanwhile human integration is more concerned with generating satisfaction and a shared identity among the employees from two companies. Dimensions of task integration includes initial plans for integration, integrating mechanisms used, problems encountered during integration, and task specialization during integration. Human integration includes the following dimensions: prior experience, visibility and continuity of leadership, communication process during integration, integrating mechanisms used, acquired personnel retained, and voluntary personnel loss.

With smooth task integration, there will be effective transfers of capabilities and resource sharing [9], including capabilities for serving customers and improving customer services which are related to better market performance of M&A. When tasks are properly integrated, sharing information among departments and individual employees is enhanced due to proper communication and interaction, which then allows M&As to have better performance in tailoring to customers' needs and reaching more customers. Therefore, M&As can enhance their market performance. Accordingly, the study proposes:

H1: Task integration strategy positively affects M&A's market performance.

Effective integration of human in M&As affords ample opportunities for employees to be more open in sharing and interacting with each other [9],which facilitates triggering a climate for service and for customer orientation. Hence, market performance will be improved. Furthermore, proper human integration also entails placing the right people into the right positions while not excessively redundant human resources. With the suitable human allocation, employees have ideal opportunities to maximize their strengths in assigned tasks, including tasks pertinent to identifying opportunities in the market, serving customers in market, and the similar. This either directly or indirectly contributes to improve market performance of M&A. The study proposes:

H2: Human integration strategy positively affects M&A's market performance.

Environmental uncertainties and M&A market performance

[4]indicated that several factors may moderate the effect of integration strategies on M&A performance including relative size of firms, degree of diversification of the acquirer, and degree of industry relatedness. Recently, some studies proved that management's decision making style and human resource managers played a significant moderation role for M&A performance. Obviously, there is a death of research on the moderating factors for M&As' performance, particularly in the effect of post-integration strategies on M&As' performance. In the literature of M&As, environmental uncertainties including technological uncertainty and market uncertainty have never been studied for moderating influences.

Task integration strategy and human integration strategy of M&As may affect market performance, and these effects can be reduced when M&As are operated in an environment with a high degree of market uncertainty. Market uncertainty refers to the extent of change and unpredictability of a customer's needs and demands[10]. This is because in an environment of market uncertainty, M&As face ample risks as well as unexpected problems [5]. Without a sound preparation to cope with risks and unexpected changes resulted from market uncertainty, task integration and human integration strategies of M&As less likely catalyse market performance of M&As. As a result, the study proposes:

H3: Market uncertainty moderates the effect of (a. task integration strategy; b. human integration strategy) on market performance, such that when market uncertainty is high, (a. task integration strategy; b. human integration strategy) will have more negative effects on market performance than when market uncertainty is low.

Technological uncertainty entails changes and unpredictability of product and process technology development [10]. It reflects the degree that product or process technologies used are new, complex and rapidly changing. In an economy with a high level of technological uncertainty, M&As experience many technological changes in a short period of time. These changes pose more challenges and difficulties for M&As due to commonly limited resources and capabilities to timely catch up with modern technologies. This suggests that technological uncertainty likely creates problems for M&As which may affect their performance, including market performance. The present study proposes that task integration strategy and human integration strategy of M&A may lead to better market performance. However, in an economy with a high degree of technological uncertainty, the impact of task integration strategy and human integration strategy on market performance of M&As will be decreased due to M&As' somewhat limited pace of adopting the most advanced technologies when operating their business, particularly in serving customers in market. Therefore, the study proposes:

H4: Technological uncertainty moderates the effect of human integration strategy on market performance, such that when technological uncertainty is high, human integration strategy will have more negative effects on market performance than when technological uncertainty is low.

M&A's capabilities and market performance

Networking capability refers to firm's abilities to initiate, maintain, and utilize relationships with various external partners [11]. In this way, networking capability is known as an organization-wide characteristic. According to [12], networking capability has four components that support each other including coordination, relational skills, partner knowledge, and internal communication. Coordination activities refer to activities connecting firm to other firms and connecting individual relationships into a network [11]. Relational skills comprise communication ability, extraversion, conflict management skills, empathy, emotional stability, self-reflection, cooperativeness [13].Partner knowledge entails organized and structured information about a firm's upstream and downstream partners and competitors. Internal communication shows firm's being responsive and open in communicating with partners like assimilating and disseminating up-to-date information on partners [14].Networking capability of M&As may moderate the effect of task integration strategy and human integration strategy on market performance. Task integration and human integration by M&As can affect their market performance, and when M&As have a strong networking capability, they are more likely to make the effect of their strategies with task integration and human integration on performance more robust thanks to benefits and resources brought by networking partners. Hence, the study proposes:

H5: Networking capability moderates the effect of (a. task integration strategy; b. human integration strategy) on market performance, such that when networking capability is high, (a. task integration strategy; b. human integration strategy) will have more positive effects on market performance than when networking capability is low.

Entrepreneurial orientation is defined as the propensities, processes, and behaviors that lead to entry into new or established markets with new or existing goods or services [11]. Prior research has conceptualized entrepreneurial orientation with five dimensions: autonomy, risk taking, innovativeness, pro-activeness, and competitive aggressiveness. Autonomy entails the degree the entities (individuals, teams) are free to act independently and to make key decisions [15]. Risk taking refers to a proclivity to support projects that the expected returns are uncertain. Innovativeness entails tendency to support new ideas and foster creative processes. Pro-activeness is taking initiative by anticipating and pursuing new business opportunities. Competitive aggressiveness indicates challenging competitors to achieve market entry or to improve a position. Entrepreneurial orientation of M&As may make the effect of task integration and human integration on market performance more pronounced because this capability allows M&As to have more opportunities and to properly attend to market's needs which may improve market performance of M&As. Entrepreneurial orientation also enables M&As to be more active in seeking solutions for responding to markets. Therefore, the study proposes:

H6: Entrepreneurial orientation moderates the effect of (a. task integration strategy; b. human integration strategy) on market performance, such that when networking capability is high, (a. task integration strategy; b. human integration strategy) will have more positive effects on market performance than when entrepreneurial orientation is low.

Based on the aforementioned hypotheses, the study proposed the research model as below:

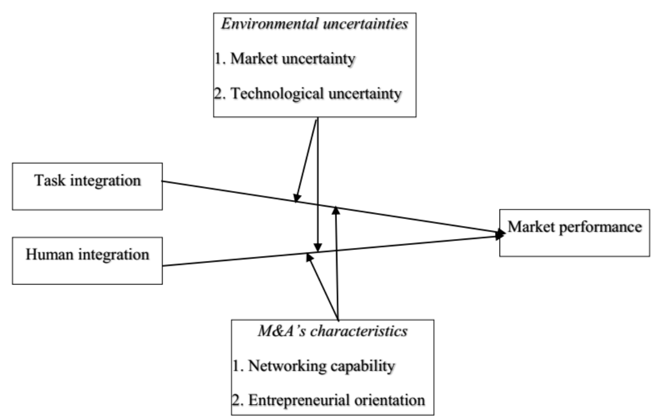

Fig. 1 The proposed research model

III. DISCUSSIONS

Though prior study has acknowledged the relevance of M&As' post integration strategies for their performance, it did not specifically attend to market performance[9]. This lacuna in research is addressed in the present study. With this attempt, the study advances existing literature by integrating both management perspective and marketing perspective in interpreting effectiveness of post integration in M&As. Furthermore, by focusing on moderating effects of environmental uncertainties and M&As' characteristics that are featured by the contemporary economic conditions, the study raises an awareness of intervening role of prominent factors of the present economy to M&As' operations. To reiterate, while environmental uncertainties (i.e. market uncertainty and technological uncertainty) and firms' characteristics of networking capability and entrepreneurial orientation have been stressed as influential elements for business performance, their viable roles in M&As' performance have been overlooked. With its novelty of the model, the study extends the extant literature of M&A and it may provide an insight into the phenomenon for the managers and practitioners. Importantly, managers of M&A need to consider both management perspective and marketing perspective in evaluating performance of M&As. In addition, managers should be aware of intervention of environmental uncertainties in their operations for effectiveness, especially for market performance. Managers may also need to channelize their focus on key capabilities like networking capability and entrepreneurial orientation. A limitation of the study lies in its lack of empirical evidence for validating the effects in the proposed model. Desirably, future research is invited for testing the model across various contexts with different samples.

CONCLUSIONS

With the increasing addition of M&As over the world, research of M&A operations and performance is needed for understanding about the phenomenon. Despite the recent increase in research of M&As, little is known about moderators for M&A performance, particularly market performance. This lacuna in research may prevent managers from grasping an effective approach for interfering into management of M&As. Specifically, managers may fail to channel their focus and resources to more influential elements for boosting performance of M&As. By attending to viable characteristics of the present economy and prominent characteristics of firms in the contemporary world, this study presented propositions of the moderating effects of market uncertainty, technological uncertainty, networking capability, and entrepreneurial orientation on the relationship between two integration strategies (i.e. task integration strategy and human integration strategy) and market performance of M&As. The study model has well-defined constructs with existing measures, which is feasible for empirical testing. Though empirical testing of the proposed model is not a pursuit of this present research, the study suggests future research to validate the model with various empirical contexts.

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