

# *DBA Thesis Presentation*

**What are the most crucial concepts  
for managerial decision making in  
respect of early stage M&A  
Performance**

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# Background - Firm Growth & Performance

While growth patterns are heterogeneous (**Delmar et al., 2003**) firms can grow in three ways:

- Organically (Internal Innovation)
- Inorganic (M&A)
- Hybrid, a combination of both (**McKelvie & Wiklund, 2010**).

# Background - Firm Growth & Performance

Organic growth tends to slow over time as the firm exhausts much of the market available to it.

Unlike organic growth, M&A's give firms an almost immediate increase in scale and scope.

# Background – The Challenge of Small Developing Economies

## **Common Characteristics of Small Developing Economies :**

- Limited Natural Resources
- Small Domestic Markets

*FAO Report (2002)*

Both of which are significant inhibitors to firm growth **Bernal (2008)**

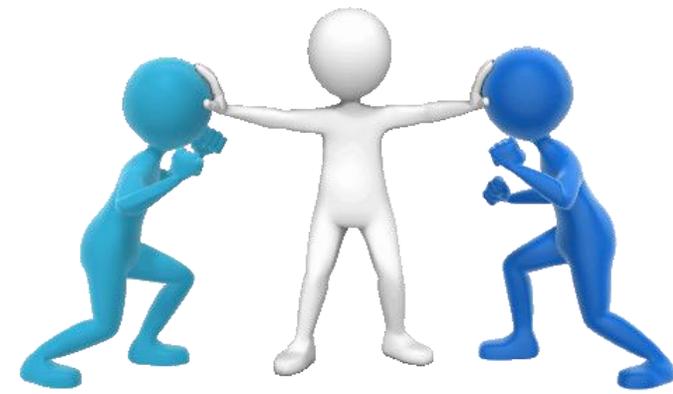
# Background – The Need for Growth?

**M&As is one strategic option for growth but it comes with significant risks.**

*“Historically, half of all M&A activities have failed to create lasting shareholder value.*

**(Perry and Thomas, 2004)**

# In Academia



- There is a widely held view, that M&A's have a very high rate of failure and are in many instances 'highly unprofitable' **(Bruner, 2002) (Sagner, 2012)** .
- There is also research to suggest that M&A's create real value for the acquired and the acquiring firm **(Jensen & Ruback, 1983) (Gugler K. , Mueller, Yurtoglu, & Zulehner, 2003) (Siegel & Simons, 2010)**.

Despite this obvious tension in the literature, we see a global and sustained trend towards increasing M&A activity.

# In Practice



- In 2012, 62% of firm leaders in the food and beverage industry surveyed indicated that M&A is a strategy they would be pursuing for growth. **(KPMG, 2012)**
- In a 2015 report Deloitte reported that M&A activity in Latin America has been solid since 2012.. “deal values have been on a steady rise, as companies are increasingly comfortable making larger deals” **(Deloitte., 2015).**
- In 2016, Thomson Reuters announced that its M&A Deals Database has ‘Surpassed One Million Deals Globally’ and that in 2015 “it tracked over 43,000 deals, marking an all-time high for any single year of global M&A activity” **(Thomson Reuters, 2016)**

# The Gap



Most M&A research is conducted in Developed markets and therefore coloured by that reality and **context**.

- **The Context for firms in Small Developing Economies**, one may argue, is significantly different in most cases to that of Developed markets and therefore deserving particular study. There is extremely limited work in the field of M&A in the region.
- Second, most researchers are positivist and have used purely quantitative methods to study M&A actions.
- Note however that firms are a collection of human beings who make decisions based on their perception of reality. Therefore, to fully understand M&A performance in SDEs, **we need the perspectives of the practitioners from SDEs.**

# Literature Review

## *What We Already Know from Prior Research*



Theme	From	To	Number of years	Number of Articles	% of total
<u>M&amp;A Drivers</u>	1991	2009	18	6	6%
Value Creation - Motive	1986	2013	27	14	14%
<u>Diversification - Motive</u>	1982	2004	22	4	4%
<u>Mode of Entry - Motivation</u>	2002	2010	8	6	6%
<u>Cross Border M&amp;A</u>	2002	2005	3	3	3%
<u>Strategic Factors &amp; Performance</u>	1984	2012	28	34	34%
Human Resources	1988	2011	23	15	15%
Culture	1994	2014	20	2	2%
Integration	1991	2009	18	5	5%
Organizational Structure	2006	2006	0	1	1%
Governance	2003	2016	13	14	14%
				101	

# The Determinants of Performance (1981 – 2014)



**Warning:** “..the proposed critical success factors for M&As are as numerous as the consultants, managers and academics in the field (**Steger & Kummer, 2007**)”

Emerging from the literature are the following key ideas

- Level of R&D Investments / R&D intensity (**RDI**)
- Absorptive Capacity (**AC**)
- Internal Knowledge / Experience (**IK**)
- Coordination capabilities (**CC**)
- Complementarity (**CP**)

# Building a 3 Stage Conceptual Model for M&A Decision Making

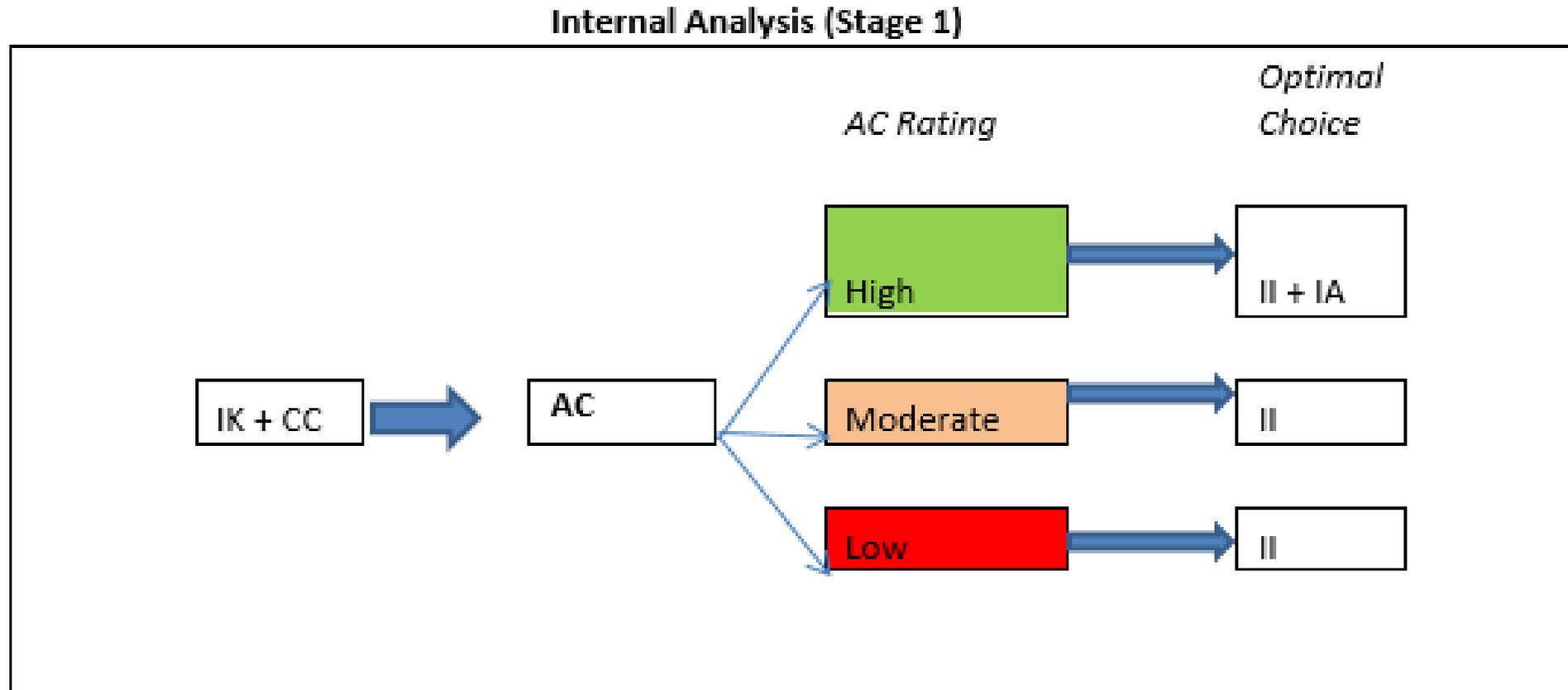


# Relevant Theories (Our Foundation)

- Transaction Cost Theory (Williamson, 1975)
  - Mode of Entry Choice (Brouthers et al, 2003)
- **Resource Based View (Barney 1991)**
  - Choice and firm resources
  - Dynamic Capabilities (Teece et al., 1997; Teece, 2007)
  - Timing and resources (Hayward, 2002)
  - First Mover Advantage stream of strategy
- **Industrial Organisation Theory (Porter, 1980)**
  - Industry structure
- **Institutional Based View**
  - Institutions shape the strategic choice of firms (Peng, 2009)
  - The value of firm resources must be understood within the context that it operates (Barney, 2001)

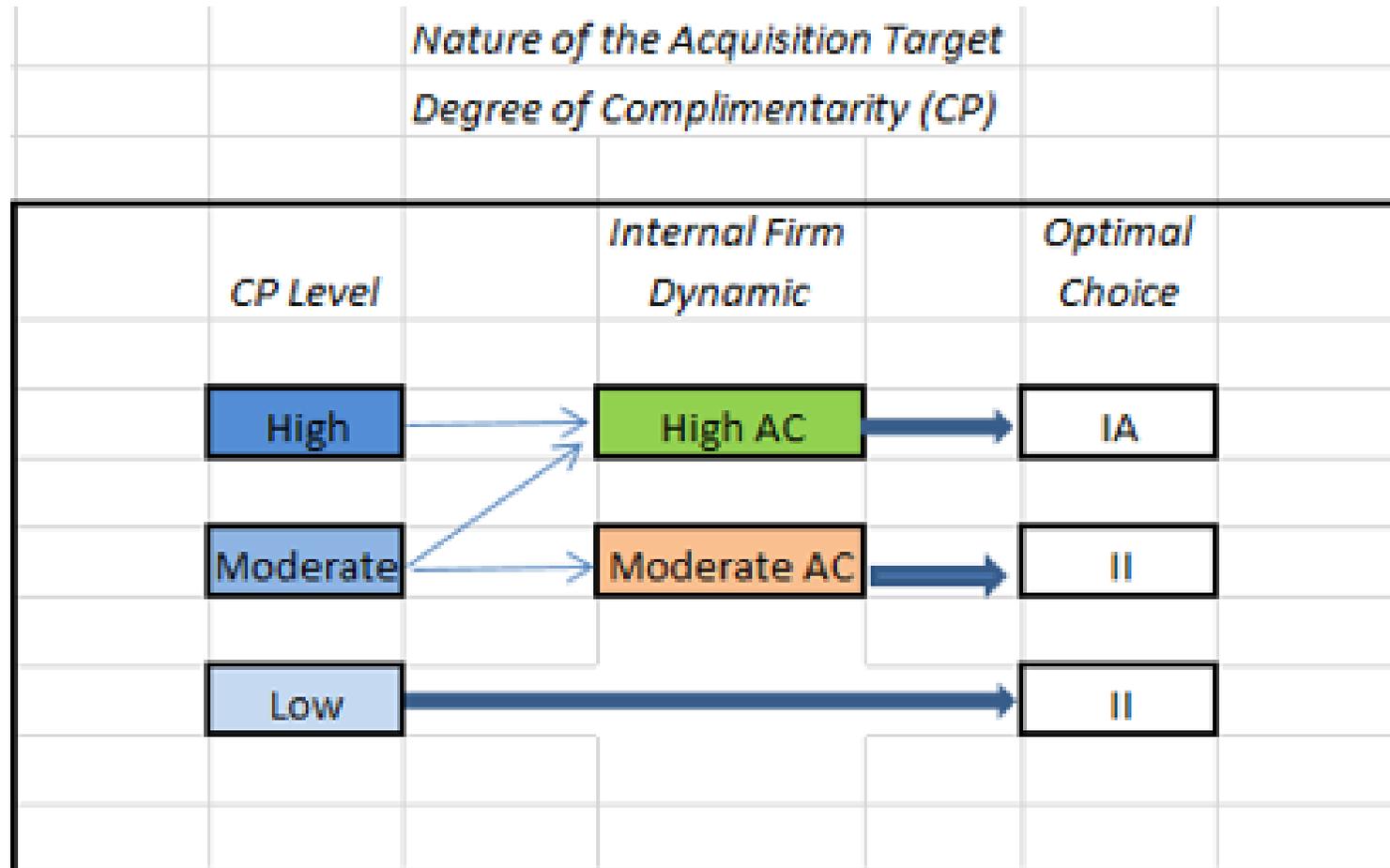
- **Stage One (1)**

- The first stage is an evaluation of the firm's internal capabilities and the firm's most rationale strategic choices as a result. In this framework, Absorptive Capacity (AC), Internal Knowledge (IK), and Coordination Capabilities (CC) are regarded as internal firm resources.



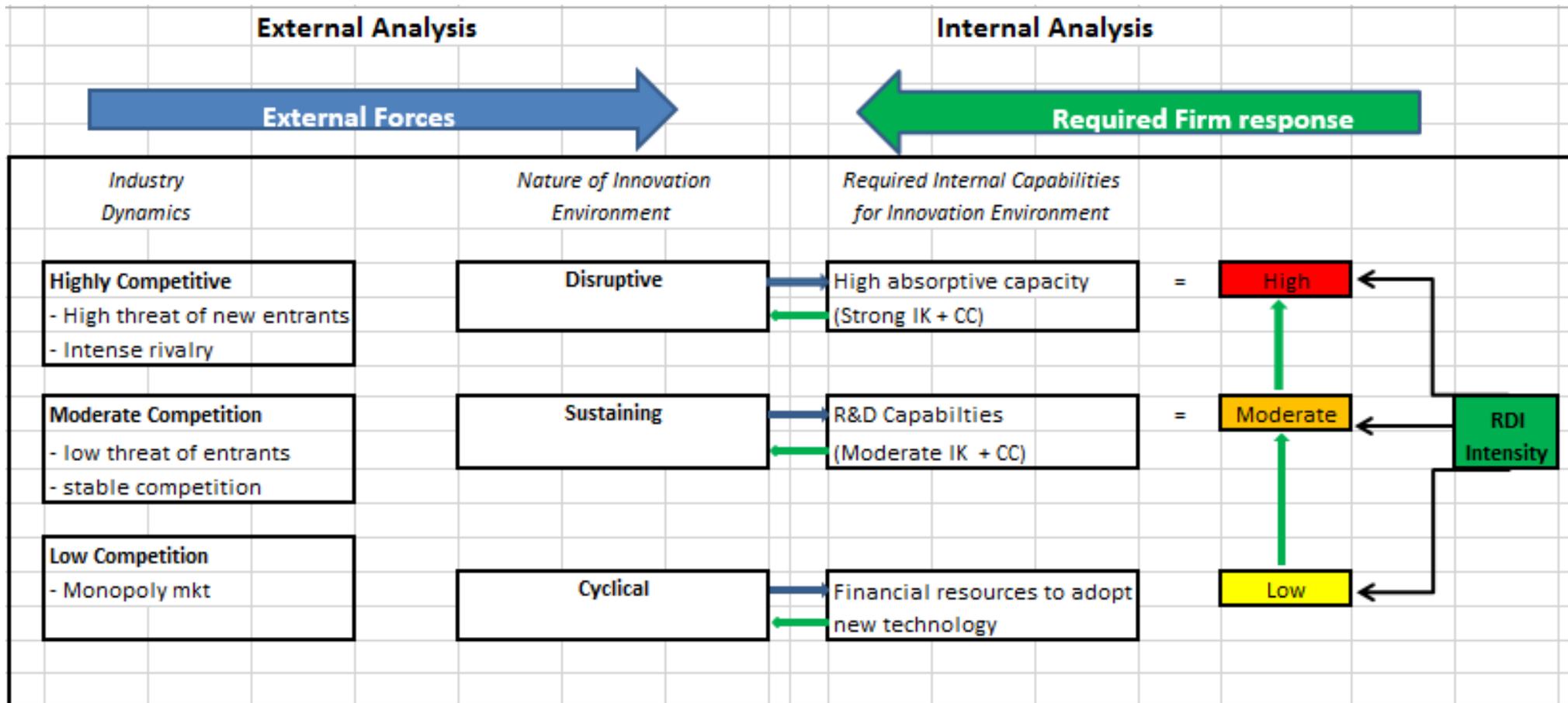
## Stage two (2):

- In stage two of the IADM, the nature of the external firm targeted for acquisition is considered using the construct of Complementarity (CP) as an intervening variable between the firm's absorptive capacity (AC) and the optimal strategic choices (II+IA), (IA) & (II).



## Stage three (3):

- Stage 3 of the IADM provides a framework to assess internal innovation capabilities and match it with the industry characteristics in order to determine how best to deploy resources to position the firm for continuous growth.



# Assessing the Model - Bridging The Gap



# Methodology

We started with an “Explanatory Sequential Mixed Methods approach” (Creswell, 2014) which begins with the collection and analysis of quantitative data followed by qualitative data collection and analysis.

After going into the field however, we are looking really at **Case Studies** involving 11 Caribbean Firms from across the region

# Instrumentation

Our research instruments were designed with these key variables in mind and the questions asked sought to determine the presence and degree of these performance variables in each firm as mapped in the table 3.3 below.

# Instrumentation

Construct / Variable	Test Question	Related Hypothesis	Related Theory
Context	Are there unique challenges faced by your firm in this market that you believe would not be encountered if you were operating in a developed market?	H1: Firms in small island emerging economies have weaker institutional support and will find it harder to execute M&As.	Institution based view & Industrial Organization View
	If your response to question 28 (above) is yes, in your view, what are the key challenges faced by firms in executing M&A projects from a small and emerging market?	H2. Small Island Emerging Economy firms with prior experience will demonstrate greater reliance on advisors external to the region throughout the M&A project and will show a greater level of M&A performance.	
	What would be your key set of recommendations to firms from small and emerging markets that are thinking about using M&A as a strategy for growth?		
Coordination Capabilities	Does your organization have a specific team or department assigned to leading M&A projects?	H4: Small Island Emerging Market firms that possess an organized structure for cross functional collaboration (High Coordination Capabilities) will demonstrate greater levels of post-acquisition performance.	Resource Based View
	If teams are used, how are they typically comprised and organised?		
	To what extent are cross functional teams generally used within your organization?		
Internal Knowledge	Which of the following best describes your current job level?	H2. Small Island Emerging Economy firms with prior experience will demonstrate greater reliance on advisors external to the region throughout the M&A project and will show a greater level of M&A performance.	Resource Based View
	About how long have you been in your current position?		
	Your team recently went through an M&A, tell us what this was like for the firm over the last 12 - 36 months?		
	What were your three key reasons for choosing to use M&A as a growth strategy?		
	At what stage is your organisation now with your most recent M&A?		
	How do you think the M&A process is going for your firm?		
	How do you think the process is / has impacted on staff?		
	What is your specific role in the M&A process?		
	About what percentage of your current senior management team have prior M&A experience?		
	Based on your experience, what would you do differently in preparing the current organization for future M&A and why?		
Based on your most recent experience what stage(s) of the M&A process was the most challenging and why?			

# Instrumentation

Construct / Variable	Test Question	Related Hypothesis	Related Theory
Internal Knowledge	Below are several possible stages of an M&A programme. Which of these stages do you consider most critical to ensuring optimal performance? (Check all options that apply in your view)	H2. Small Island Emerging Economy firms with prior experience will demonstrate greater reliance on advisors external to the region throughout the M&A project and will show a greater level of M&A performance.	Resource Based View
	Why do you consider the stage(s) selected above the most critical to M&A performance for your firm? (Please provide your response listing each selected stage in order of importance 1-3)		
R&D Intensity	It is assumed that your organization conducts Due diligence (DD) prior to executing an M&A deal. Do you typically engage outside consultants as part of the DD process?	H2. Small Island Emerging Economy firms with prior experience will demonstrate greater reliance on advisors external to the region throughout the M&A project and will show a greater level of M&A performance.	
	If your response to the question above was yes, please indicate the stage(s) below where external consultants were used? (Check all answers that apply)		
	If outside consulting firms are used, which of the following may be your main reason(s) for using them?		
	About what percentage of the total spend on your last M&A programme was Due diligence costs?		
	Was the level of investment stated above on Due diligence below, within or above your organization's appetite?		
Complementarity	Did you have clear and specific targets for the early stages of your M&A project?	H3: Small Island Emerging Economies that acquire firms which are complementary (Share similar core attributes) will display a higher level of post-acquisition performance.	
	If your response to the question 23 is no, what are the three (3) main reasons for not achieving your early stage targets?		
	If your response to question 23 (above) is yes, what are the three main reasons for achieving your early stage targets?		
	What were your top 3 to 5 early stage targets?		
	Are you achieving the early stage targets you had set for yourselves?		

# The Data Set

- A detailed process of identifying the domicile of each acquiring firm in the data set was done and summarised below:

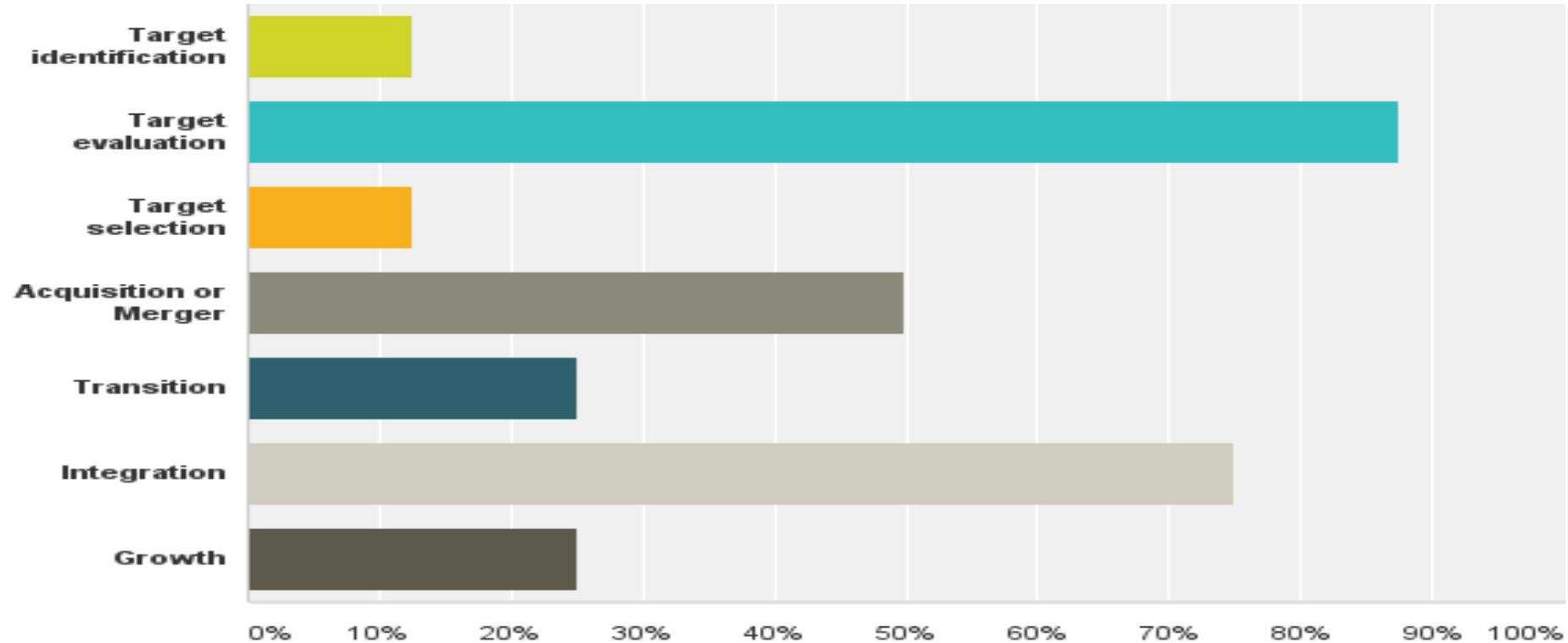
Latin America	# of M&As	Caribbean	# of M&As	# of Firms
Argentina	54	Bahamas	5	3
Bolivia	1	Barbados	5	2
Brazil	612	Belize	1	1
Chile	94	Bermuda	11	8
Columbia	60	British Virgin Islands	28	23
Costa Rica	4	Cayman	11	9
Ecuador	2	Dominican Republic	11	4
El Salvador	2	Jamaica	16	10
Honduras	3	Trinidad	11	6
Mexico	240		<b>99</b>	<b>66</b>
Panama	3			
Peru	35			
Venezuela	8			
	<b>1,118.00</b>			

# Where are we now? Learnings to Date

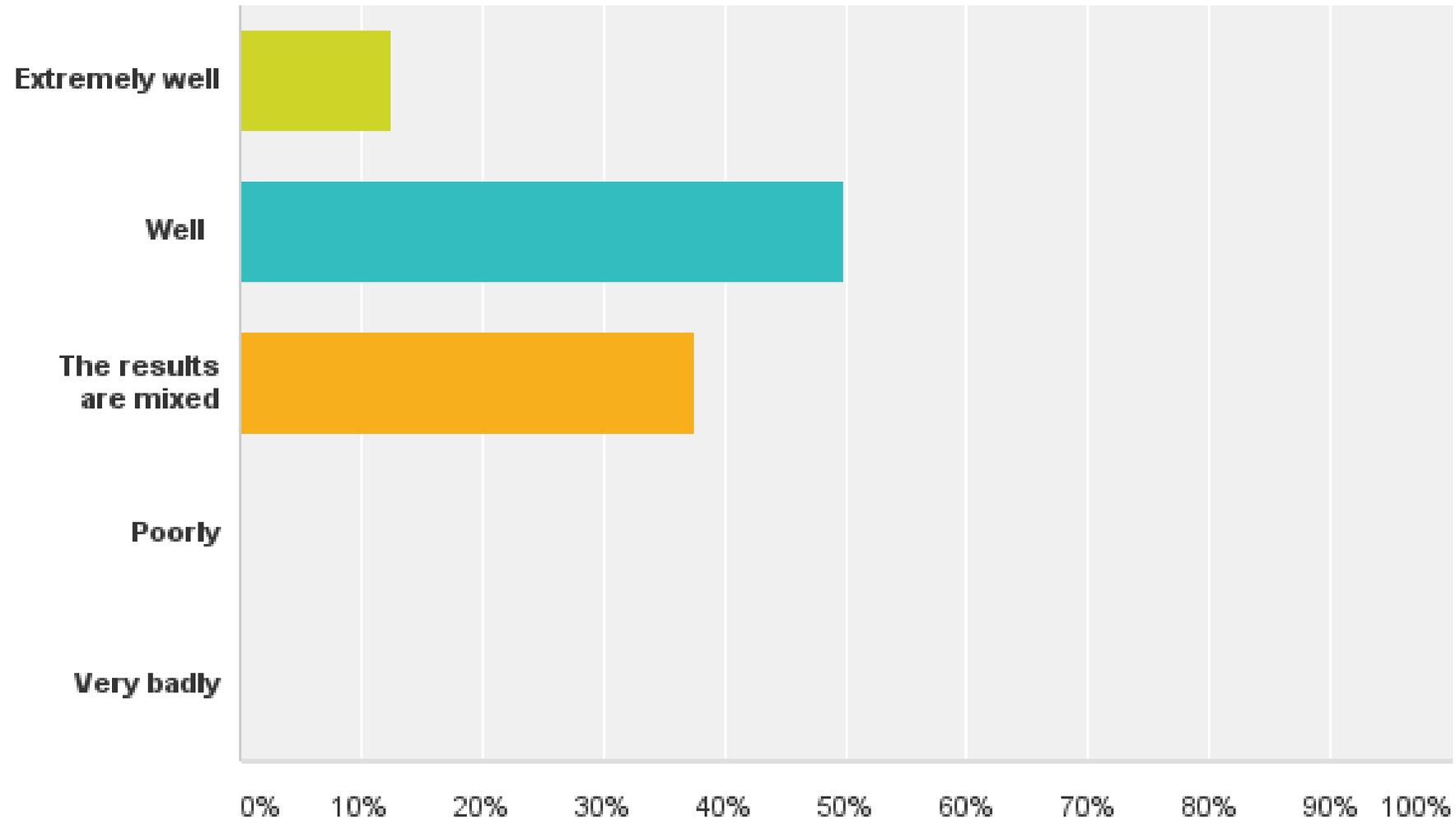


- We designed a survey instrument with 28 questions and completed a pilot.
- We had canvassed 45 of the 66 firms in the Caribbean data set and invited them to participate in the study.
- Of the 45, only 17 responded with only 7 fully completed responses

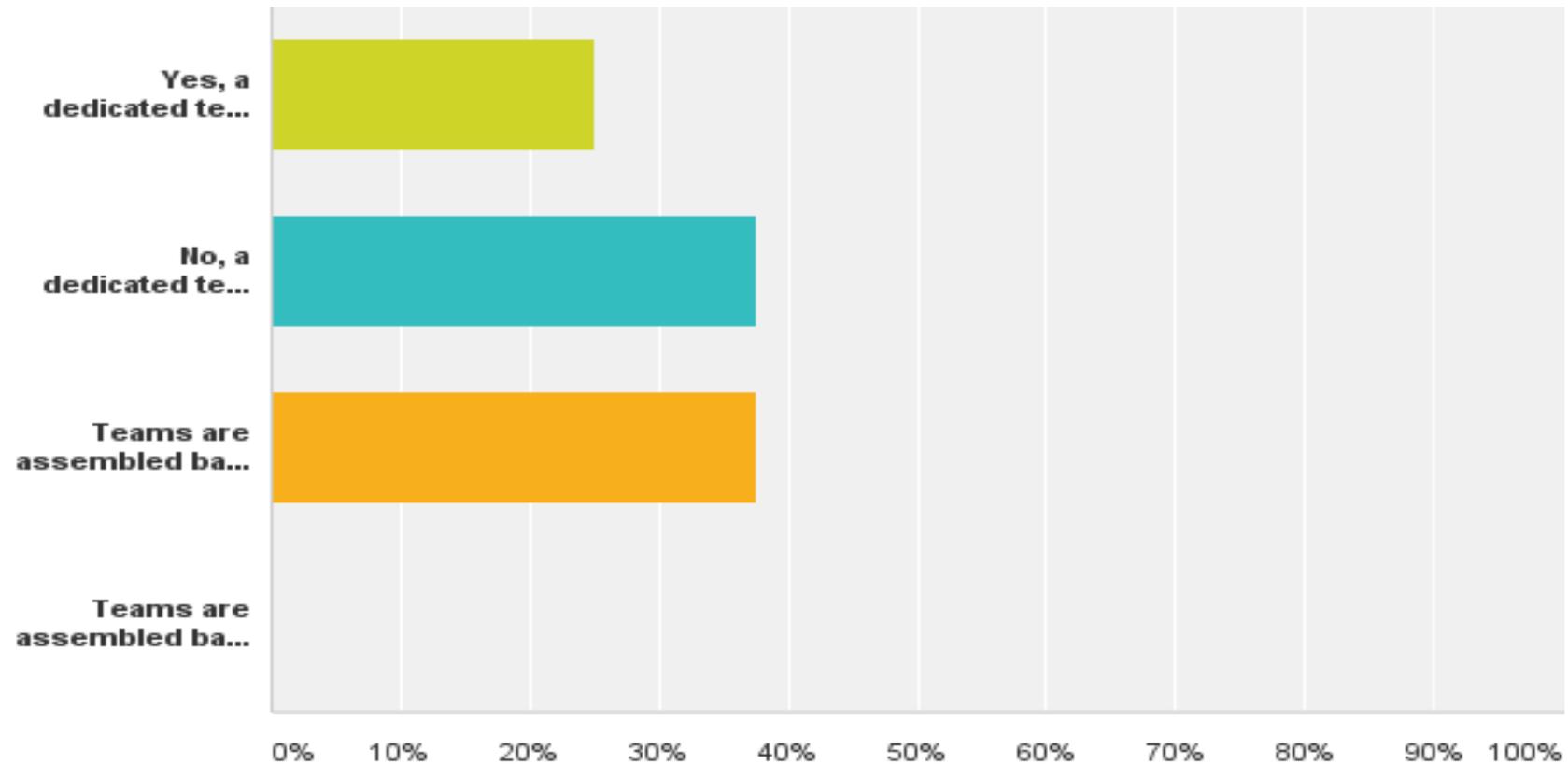
Q6: Which stages of an M&A programme do you consider most critical to ensuring optimal performance? (Check all options that apply in your view)



Q9: How do you think the M&A process is going for your firm?

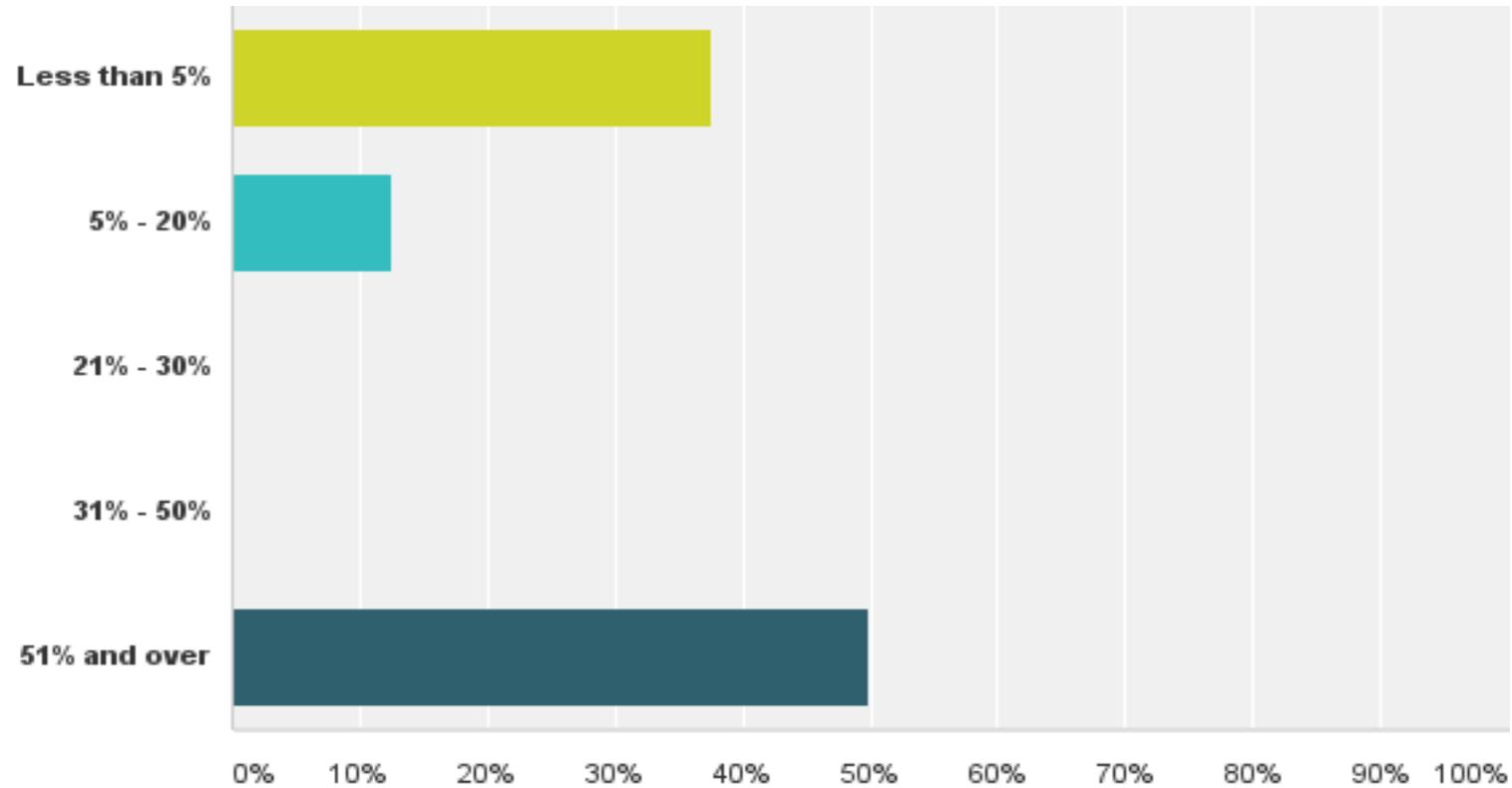


Q12: Does your organization have a specific team or department assigned to leading M&A projects?



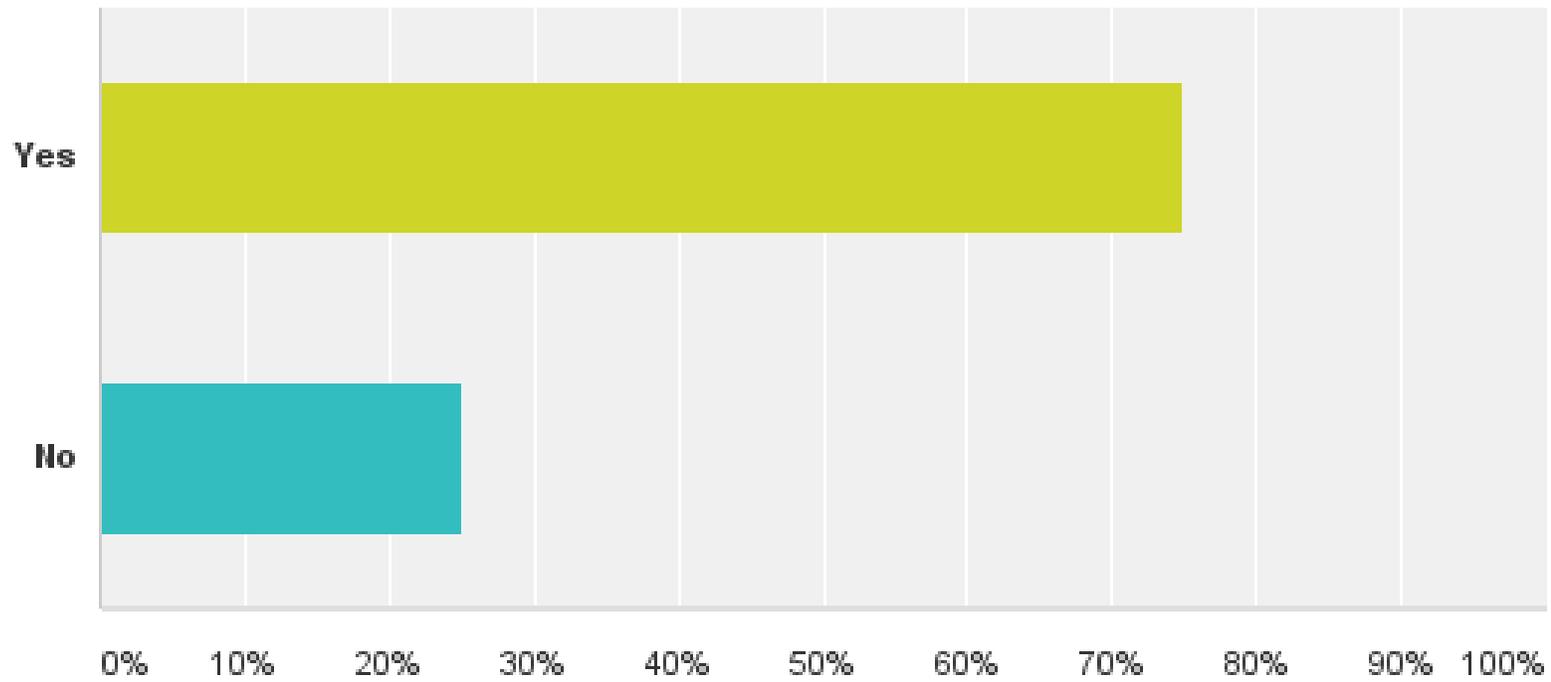
- RDI

Q14: What percentage of your current senior management team have prior M&A experience?



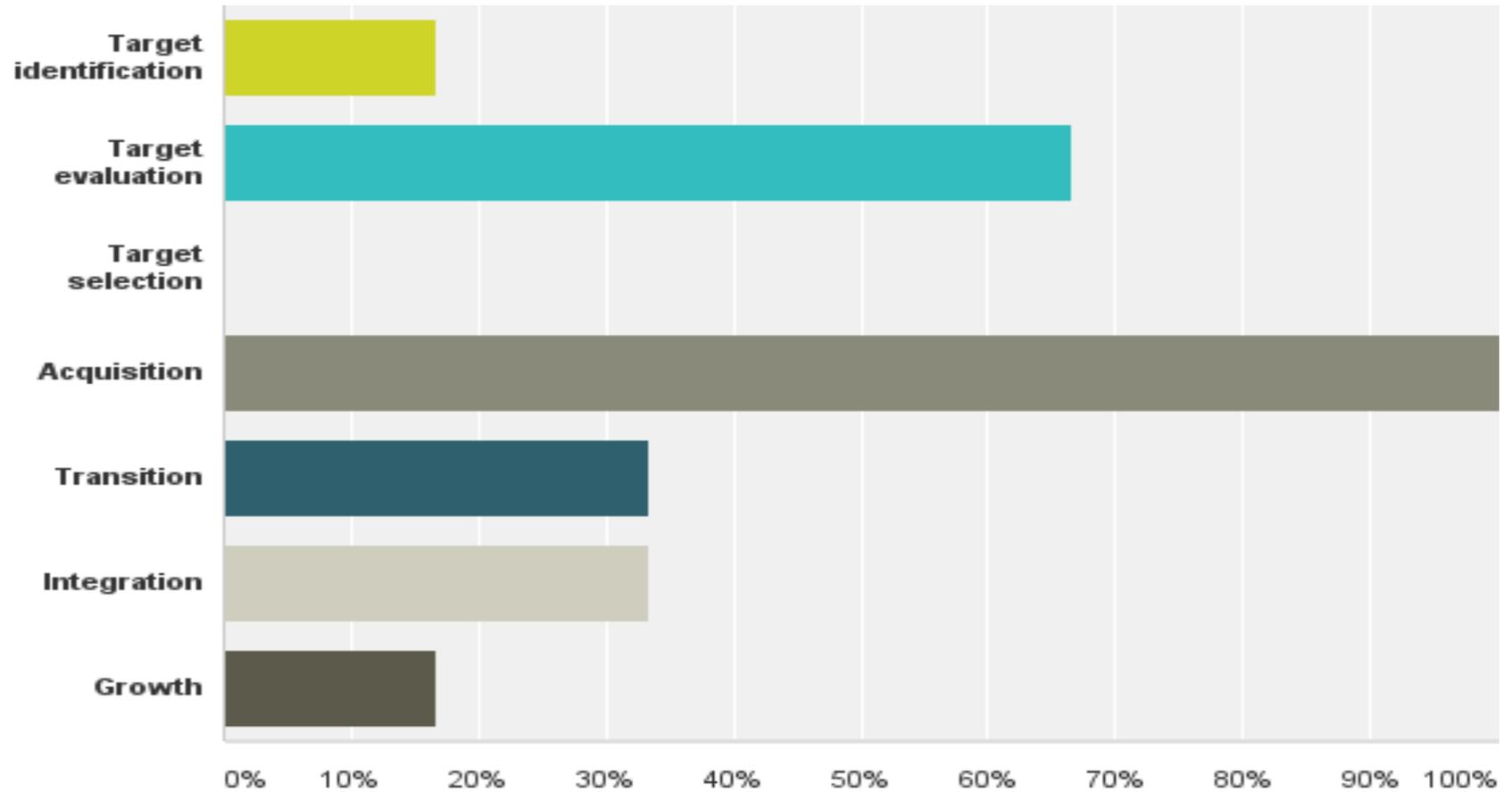
• IK

Q15: Do you typically engage outside consultants as part of the due diligence process?

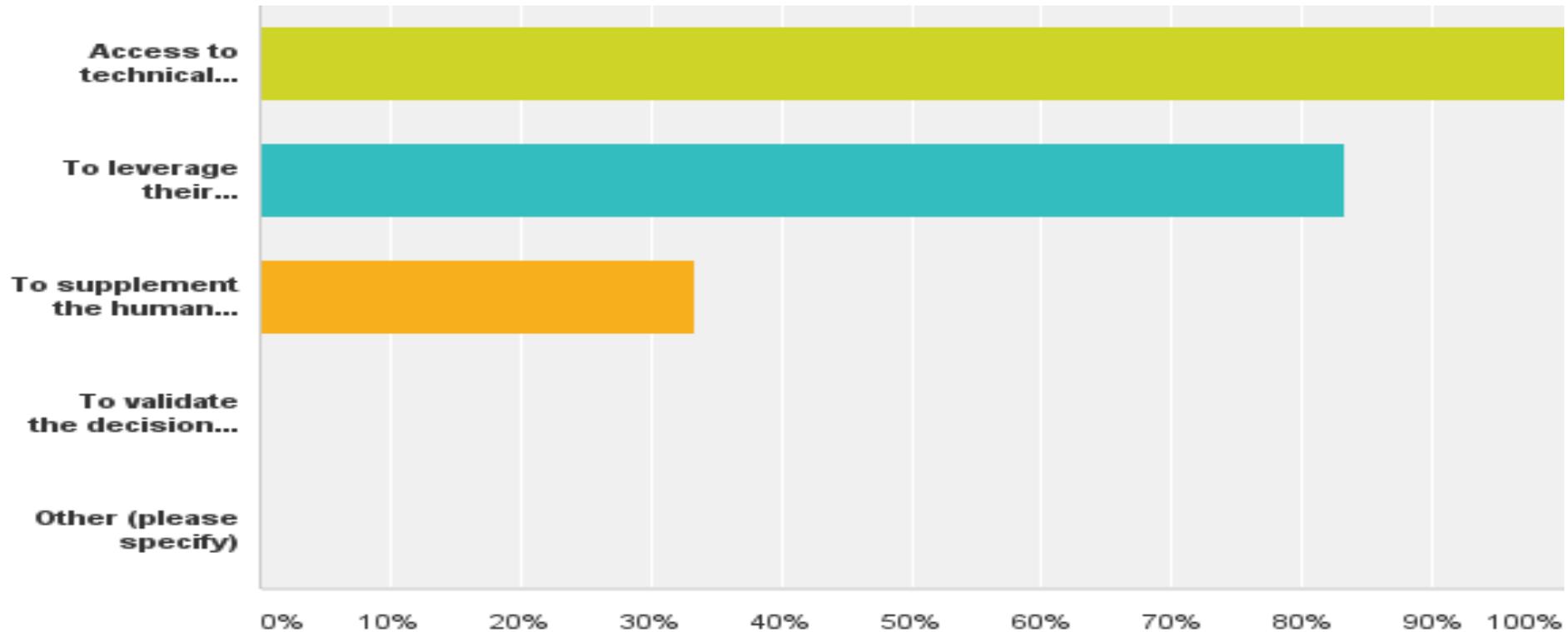


• RDI

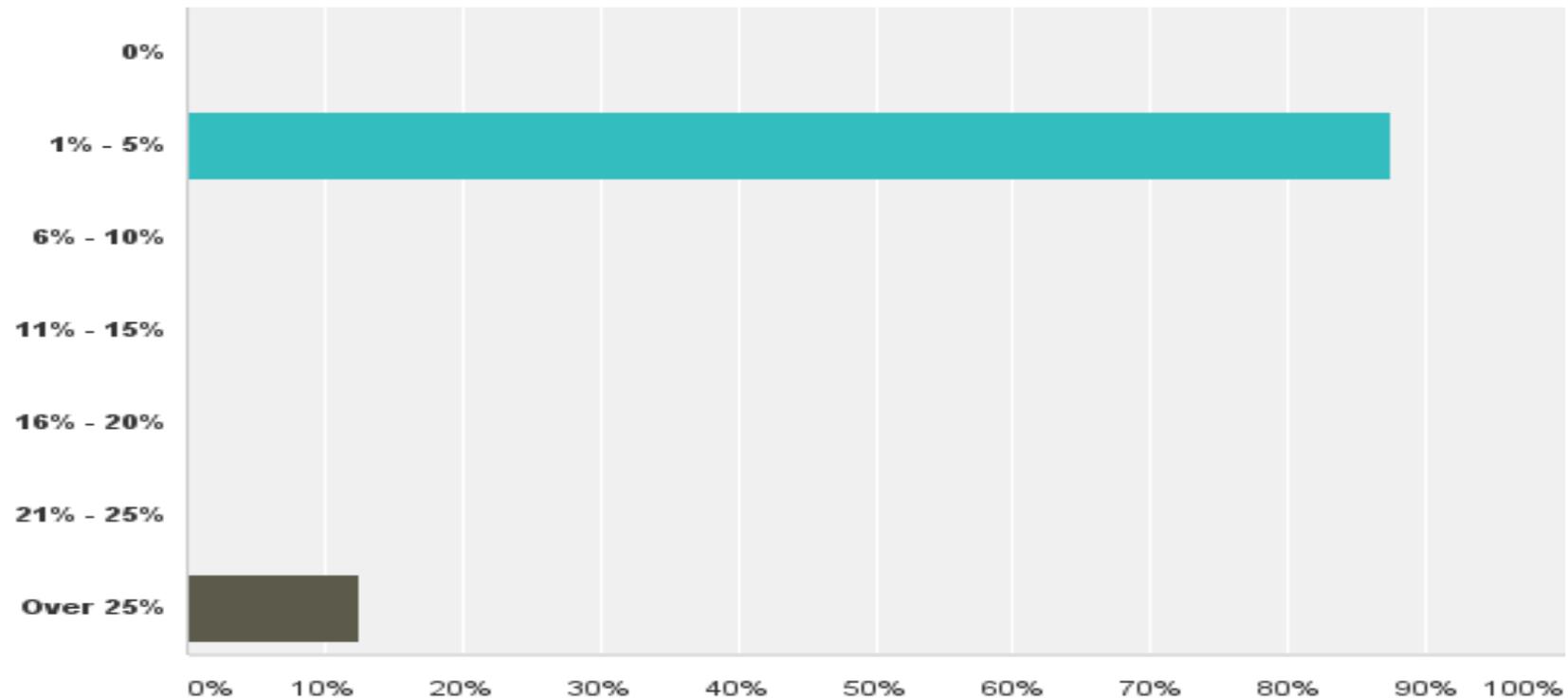
Q16: If your response to the question above was yes, please indicate the stage(s) below where external consultants were used?



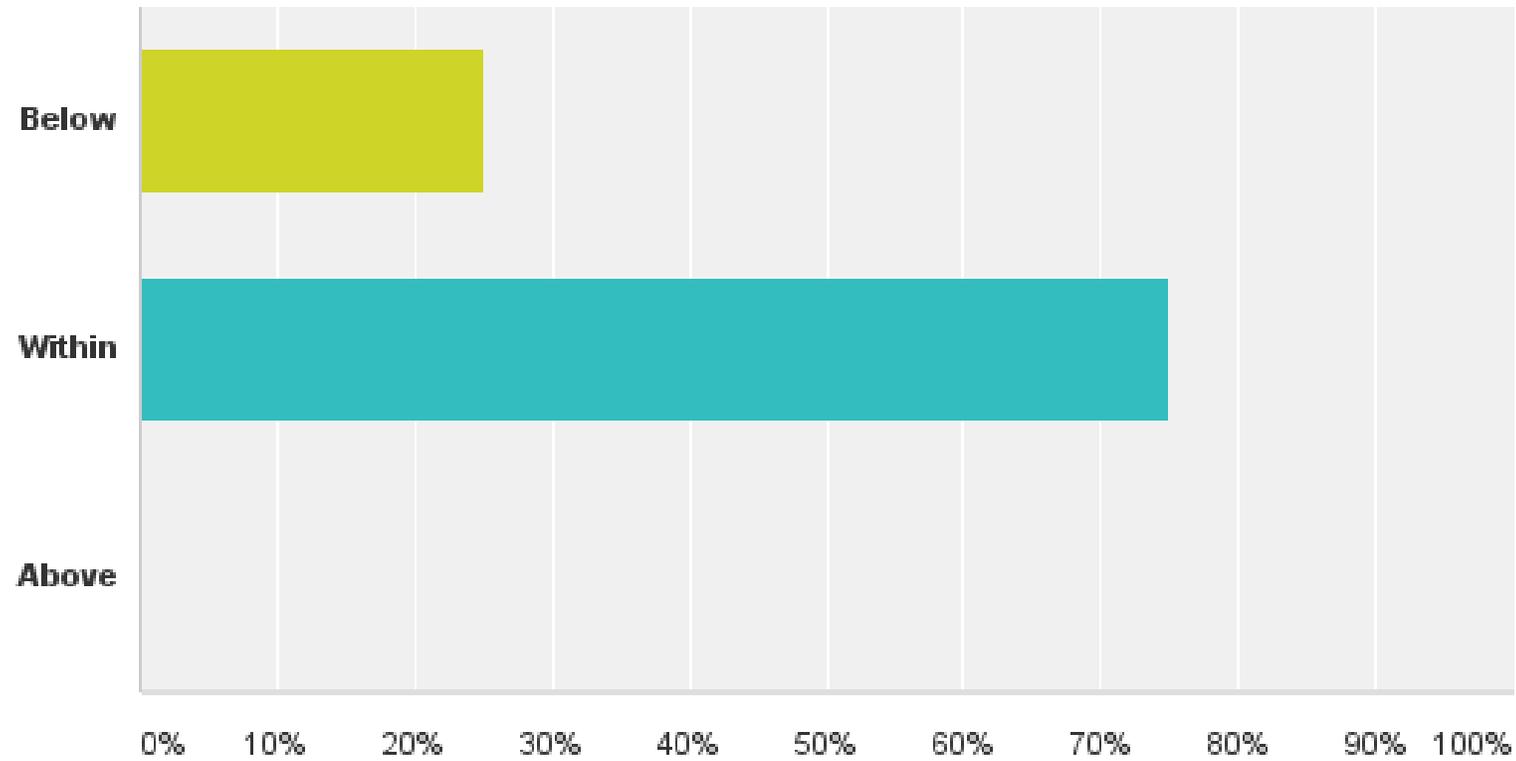
Q17: If outside consulting firms are used, which of the following may be your main reason(s) for using them?



Q18: About what percentage of the total spend on your last M&A programme was Due diligence costs?



Q19: Was the level of investment stated above on Due diligence below, within or above your organization's appetite?

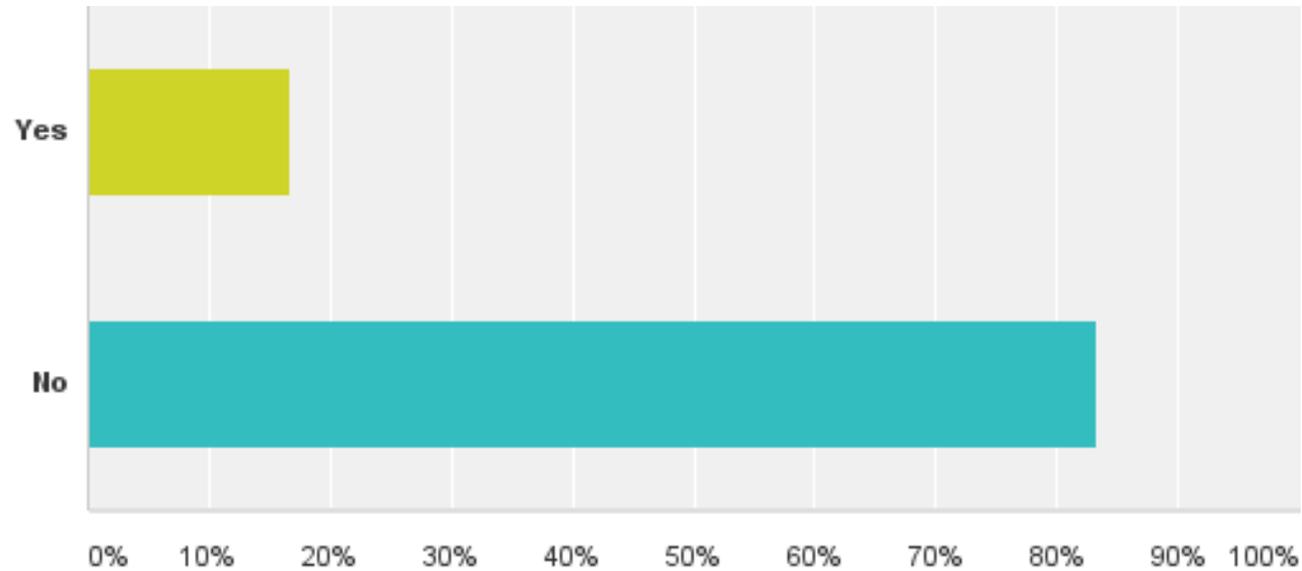


Q20: To what extent are cross functional teams generally used within your organization?

Answer Choices	Responses	
Used only for projects that might impact multiple departments	50.00%	4
Used only for projects that require significant capital investment	12.50%	1
Used only when mandated by senior management	12.50%	1
Used for all projects and initiatives	12.50%	1
Used as part of the everyday process of problem solving	12.50%	1
<b>Total</b>		<b>8</b>

- CC

Q28: Are there unique challenges faced by your firm in this market that you believe would not be encountered if you were operating in a developed market?



## Phase 2 – A Case Study Approach

- We are now engaged in the coding process for 11 in-depth semi structured interviews focussed on gaining greater insight into the performance Drivers.
- NVIVO is being used to code and will be used to support content analysis.

# Coding Architecture

<p><b>R&amp;D Intensity</b> (Bolderos, 2003), (Cassiman and Veugelers, 1997), (Cohen &amp; Levinthal, 1990)</p>	<p><b>Absorptive Capacity</b> (Krishnan et al, 2004) (Cassiman and Veugelers, 1997), (Cohen &amp; Levinthal, 1990), (Jansen, Bosch &amp; Volberda, 2005)</p>
<p>Due Deligence (+/-)</p>	<p>Prior Knowledge (Cohen &amp; Levinthal, 1990)</p>
<p>Networks (+/-)(Lin et al., (2009)</p>	<p>Structured communication process(+/-)</p>
<p>Learning Experiences (+/-) (Haleblian &amp; Kim, 2006)</p>	<p>Integration Plan</p>
<p>New Infrastructure - Investments</p>	<p>Established Targets</p>
<p>Product Innovation - Investments</p>	<p>Monitoring System</p>
<p>Service Innovation - Investments</p>	<p>Management</p>
<p>Process Innovation - Investments</p>	

# Coding Architecture

<b>Coordination Capabilities</b> (Agarwal, Anand, & Bercovitz, 2012) (Jansen, Bosch & Volberda, 2005)	<b>Internal Knowledge</b> (Prabhu, Chandy, & Ellis, 2005) (Cassiman & Veugelers, 1997)
<b>Cross Functional Teams</b> (Jansen, Van Den Bosch, & Volberda, 2005)	<b>Prior M&amp;A Experience</b>
<b>Team Socialisation</b> (Jansen, Van Den Bosch, & Volberda, 2005)	<b>Retention of Acquired top Management</b> (Ellis et al, 2011)
<b>Team Collaboration</b> (Jansen, Van Den Bosch, & Volberda, 2005)	<b>Dissimilar Product Offering</b> (Ellis et al, 2011)

# Coding Architecture

<b>Coordination Capabilities</b> (Agarwal, Anand, & Bercovitz, 2012) (Jansen, Bosch & Volberda, 2005)	<b>Internal Knowledge</b> (Prabhu, Chandy, & Ellis, 2005) (Cassiman & Veugelers, 1997)	<b>Complementarity</b> Cooper and John (1988) (Gubbi S. R., Aulakh, Ray, Sarkar, & Chittoor, 2010)
Cross Functional Teams (Jansen, Van Den Bosch, & Volberda, 2005)	Prior M&A Experience	Skill Sets and Assets (Teece, Pisano, & Shuen, 1997)
Team Socialisation (Jansen, Van Den Bosch, & Volberda, 2005)	Retention of Acquired top Management (Ellis et al, 2011)	Matching Capabilities of Other Firm (Gubbi S. R., Aulakh, Ray, Sarkar, & Chittoor, 2010)
Team Collaboration (Jansen, Van Den Bosch, & Volberda, 2005)	Dissimilar Product Offering (Ellis et al, 2011)	Internal R&D & External Know-How Cassiman and Veugeler (1997)
		Partners with Special Skills, assets or markets. (Cassiman & Veugelers, 1997)
		Culture

# Highlights from Coding Process

Absorptive Capacity					
	Name		Sources	References	
	Established targets		2	10	●
+	Integration Plan		3	14	●
	Leadership		1	1	
+	Management		3	7	
	Monitoring Systems		2	9	●
	Prior Knowledge		4	5	●
	Structured Communication Process		3	12	●

●	Anticipated
●	Emerging

Reference 3 - 0.36% Coverage

On day one, you must know in advance what you want to accomplish. You must know exactly what controls and measures for understanding and having that business report to you must be in place.

# Highlights from Coding Process

	Anticipated
	Emerging

RD Intensity				
Name	Sources	References		
Due Diligence		4	25	
Due Diligence Gaps		3	23	
Governance		3	6	
Integration		3	4	
Negotiating Team Compositi		2	3	
Target Evaluation		3	4	
Target Identification		2	2	
Target Selection		0	0	
Transition Stage		0	0	
Market Knowledge		1	2	
Self Assessment		1	5	

Reference 1 - 0.43% Coverage

There was one thing that I think was not... what I would have changed if I did it again. The due diligence was not done by going into the building and looking into the books directly.

Reference 1 - 0.52% Coverage

I came up here for a week to ten days every month and went out into the field, came in here sat down with them. Walked through the plant. I mean because of my experience in our own plant in Trinidad, I know what to do and what to look for.

# Highlights from Coding Process

	Anticipated
	Emerging

## Internal Knowledge

	Name		Sources	References	
	Prior Experience		2	5	
	Retention of Acquired Top Mana		4	6	
	Talent Acquisition		1	1	

### Reference 1 - 0.66% Coverage

my perspective has always been that you don't fire everybody on day one. You wait to see who is good, who is bad, who is needed and who is not. It takes some time. Because finance drove those transactions, they are strictly just looking for the numbers right.

### Reference 5 - 0.32% Coverage

Wiping the employment slate clean after the deal was a mistake and you need to be clear on what to do after the transaction.

# Closing

- It is still early in the coding process and I expect that additional themes may emerge and existing ones adjusted as the process unfolds.
- Gaining regional qualitative insight however should prove invaluable in supporting the establishment of a cognitive model that improves firm decision making.