



Master Thesis

The contribution of dedicated acquisition departments on developing acquisition specific capabilities through prior experiences.

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MASTER THESIS

The contribution of dedicated acquisition departments
on developing acquisition specific capabilities through
prior experiences

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PREFACE

The completion of this thesis report marks the end of a hectic but incredibly great two-year period. If I have to go and list all the great experiences and life-altering educational achievements here, I would need a number of pages closely resembling the length of this entire research report. Not once in the past two years have I had a negative thought about having to attend classes two- or three nights a week. The three-hour sessions were intense, but they were always uplifting and motivated me to go on and make something of myself.

None of the educational experiences would have been possible without the great teachers and professors who offered their time and expertise to teach us young professionals the ropes of doing business in today's ever dynamic environment. I will say however that, without discrediting the teaching staff at RSM, I have learned most of my lessons from my fellow students, each from different walks of life, different professions and at different stages of their careers. The bonds formed and the underlying respect we had for one another are among the things I value most about this executive education experience.

This thesis report would have never been completed if it weren't for the respondents who graciously agreed to participate in the study. I owe each of them a ton of gratitude for providing me with the insights needed to finish this report.

Behind every great player is an even greater coach. Therefore, special recognition is reserved here for my thesis coach, Raymond van Wijk and my co-reader René Olie. Without your guidance and support, this research would have never been finished and I owe big thanks to the both of you! I also want to thank Juup Essers for his support during the first stage of this project as my co-reader.

At last a word of thanks to my dear family and friends; I have been absent for periods of time over the past two years for which I can't apologize because I had a valid reason, but I want to thank you from the bottom of my heart for sticking by me! A special thanks to my dear Ilse. You in particular provided me with the courage and conviction to carry on in my final hours of need, finishing this report. I could not have done it without you!

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EXECUTIVE SUMMARY

In the existing literature, a lot has been said about the relation between organizational acquisition experience and post-acquisition learning (Laamanen & Keil, 2008) (Hayward, 2002) (Vermeulen & Barkema, 2001) (Haleblian & Finkelstein, 1999) (Zollo & Singh, 2004) (Meschi & Metais, 2006). This learning results in the development of acquisition specific capabilities (Fowler & Schmidt, 1989). However, according to Nadolska & Barkema (2013) the development of acquisition specific capabilities all depends on how well organizations learn. And in its turn, how well organizations learn is highly influenced by how firm's organize their M&A activities. Although significant literature has linked organizational learning to alliance capability and the development of a 'dedicated alliance function' (Kale & Singh, 2007) (Dyer, Kale, & Singh, 2001) exists, no considerable effort has been made to apply this already existing theory to mergers and acquisitions.

This study is a first attempt to bridge the gap in the (limited) existing acquisition literature by adding the structural element of an acquisition department into the mix. This study focuses on the already existing relationship between experience and capability development and adds a dedicated acquisition department to the mix to find out what positive effect (if any) this department may have on the development of acquisition specific capabilities through organizational learning. Organizational learning is what occurs in the process between acquisition experience and the development of capabilities.

Empirical evidence shows that the majority of the companies do not apply a formal structure of articulation and codification of knowledge with the aim to secure key learning's for future acquisitions. This differs from the existing literature. Although described as potentially helpful, the process of codifying data and transferring it into new acquisitions is not found to be an absolute necessity among acquisition managers and experts. They find that the informal route of knowledge sharing works just as well and is even preferred among some of the respondents. This is a direct opposite finding of a study done by Zollo & Winter (2002) in which they discuss the importance of organizational deliberate learning and the evolution of dynamic capabilities.

Kale & Singh (2007) apply the theory of articulation and codification of collective knowledge (Zollo & Winter, 2002) to dedicated functions and by doing this, they proved that firms who

are actively structuring their alliance activity in a dedicated function are developing superior alliance capabilities which ultimately yields better alliance performance. If this were true for dedicated acquisition departments, the empirical evidence in this study would present these findings, but that is not the case. In fact, acquisition managers and experts who identify being a part of such a dedicated department, mostly do not credit their successes to the department. They sometimes indicate an organizational necessity for structuring their M&A activities that way, but never with the intent to formally articulate and codify key findings to contribute to the development of acquisition specific capabilities.

Although the empirical evidence contradicts existing literature and prior research expectations on two major points, definitive statements cannot be made as the sample-size is not significant enough to make such concluding statements. Further research is recommended to test pre-defined hypotheses to find if research results presented in this study will hold.

1 ■ INTRODUCTION TO THE RESEARCH

Firms have been adopting the strategy of Mergers and Acquisitions (M&As) for decades now and the technological developments and the concept of globalization both have vastly contributed to its popularity (Shimizu, 2004). There is a tendency these days where we see more and more M&As being executed by companies for the simple reason of cost reduction and/or gaining access to new markets, resources and knowledge (Dyer, Kale, & Singh, 2004). Although the average failure rate for acquisitions is said to be between 70% and 90% (Christensen, Alton, Rising, & Waldeck, 2011), it has been argued in previous studies that firms with previous acquisition experience are typically performing better than firms without such experience (Haleblian & Finkelstein, 1999). While tremendous efforts have gone into conceptualizing- and theorizing acquisition experience and its effect on acquisition performance, the number of empirical studies executed to validate these theories have been slim. Researchers do not seem to have been able to pinpoint exactly how previous experience contributes to organizational learning and acquisition performance.

Laamanen and Keil (2008) argue that acquisitions are a numbers game where serial acquirers learn from their experience simply because they do it often. In a similar study, Vermeulen and Barkema (2001) suggest that firms can only learn from acquisitions if such acquisitions are related to their core business. Other scholars focus on the similarity of acquisitions related to the type of organization (Amburgey & Miner, 1992) and the geographical similarity (Yang, 2006). A much earlier study by Simonin (1997) centers around the supposition that a firm's experience must be transformed into know-how first, before it can ever improve performance. This study argues that in order to transform acquisition experience into know-how, a capability is needed to do so. The organizational learning literature has explicitly discussed the development of a learning system or infrastructure that is affected by learning processes. (Vera & Crossan, 2003). This study centers on the development of acquisition capabilities with the intent to empirically validate the relation between previous acquisition experience and post-acquisition learning.

Different types of organizational learning resulting from prior acquisition experience is generalizing beyond acquisitions and is crossing over to alliances as well. In their study, Vanhaverbeke, Duyster and Noordhaven (2002) found that prior alliance experience increased the probability of one partner acquiring the other, stressing the influence of experience, in general, on acquisition behavior. Other studies have theorized the new capabilities companies develop through their collaborative efforts with regards to strategic alliances and how organizations learn from their partners (Mowery, 2002) and (Inkpen, 2002). Dyer, Kale & Singh (2001) introduced the concept of dedicated alliance functions to the world of scientific management. Besides taking care of the integration process and systems coordination, a dedicated function acts as a focal point for learning and for leveraging lessons and feedback from prior- and ongoing alliances. It systematically establishes a series of routine processes to articulate, document, codify and share alliance know-how about the key phases of the alliance life cycle (Dyer, Kale, & Singh, 2001). The aforementioned study also states that businesses that are working with such an alliance function are able to achieve 25% higher results than businesses that have not been able to incorporate such a function.

With the rate of M&A failures on the rise, the costs of these failures are immense: leaving the possibility for partners to engage in opportunistic behavior. Given these high stakes, it is important to examine whether firms learn from the success and failure of collaborations and apply these lessons to new collaborations (Simonin, 1997). Minding the importance of an alliance function, this study argues that the creation of acquisition departments will facilitate in the development of acquisition capabilities of the firm. These special teams are to act as a storage facility of knowledge and institutional processes and can help executives manage specific acquisition- and alliance- related tasks (Dyer, Kale, & Singh, 2004). The difference between dedicated alliance functions and dedicated acquisition departments lies in the difference between alliances and acquisitions itself. Alliance functions are managing inter-firm cooperation resulting in combined innovative activities, whereas acquisition departments are focused on managing the integration of two, once separate companies, into one. (Hagendoorn & Duysters, 2002). The difference in the learning capability is the ability to share resources and technologies vs. acquiring and integrating new resources and technologies.

In a study done by Amiryany *et al.* (2012), prior acquisition experience is connected with post-acquisition learning. They argue that focusing on post-acquisition knowledge sharing will give firms new and better insights into the success of acquisitions than studying acquisition performance has ever done. They introduce the concept of acquisition reconfiguration capability, which is consisting out of acquisition-specific tools and functions as a mediator between prior experience and post-acquisition knowledge sharing. This study will argue that the acquisition specific tools and functions and the acquisition capability are one and the same and that they are heavily influenced by the existence of a dedicated acquisition department, much similar to the alliance function described by Dyer, Kale, and Singh (2001). This study makes a case for the acquisition department to be a moderator of the acquisition capability which is the transfer of prior acquisition experience into post-acquisition learning and the development of acquisition specific capabilities (Simonin, 1997). Because the research of Amiryany (2012) is limited to a conceptual model and lacks empirical validation of any of its propositions, it raises an opportunity to study the possible effect of a dedicated acquisition department and how this affects the relation between prior acquisition experience and the development of acquisition specific capabilities.

1.1 Research Objective

1.1.1 Problem definition

In the existing literature, a lot has been said about the relation between organizational acquisition experience and post-acquisition learning (Laamanen & Keil, 2008) (Hayward, 2002) (Vermeulen & Barkema, 2001) (Haleblian & Finkelstein, 1999) (Zollo & Singh, 2004) (Meschi & Metais, 2006). This learning results in the development of acquisition specific capabilities (Fowler & Schmidt, 1989). However, according to Nadolska & Barkema (2013) the development of acquisition specific capabilities all depends on how well organizations learn. And in its turn, how well organizations learn is highly influenced by how firm's organize their M&A activities. Although significant literature has linked organizational learning to alliance capability and the development of a 'dedicated alliance function' (Kale & Singh, 2007) (Dyer, Kale, & Singh, 2001) exists, no considerable effort has been made to apply this already existing theory to mergers and acquisitions.

This study tries to add to the already (limited) existing acquisition literature by adding the structural element of an acquisition department into the mix. This thesis gives focus to the already existing relationship between experience and capability development and adds a dedicated acquisition department to the mix to find out what positive effect (if any) this department may have on the development of acquisition specific capabilities through organizational learning. Organizational learning is what occurs in the process between acquisition experience and the development of capabilities.

1.1.2. Research question

This study tries to understand how companies develop acquisition specific capabilities and what the relation between this development and experience- and organizational learning is, supported by the existence of an acquisition department. When formulating a research question, the following has been developed:

How do organizations develop acquisition specific capabilities from their previous experience and what role does an acquisition department have?

Within this research question, four constructs are defined and identified as: 1) acquisition specific capabilities, 2) prior acquisition experience, 3) post-acquisition learning, and finally 4) a dedicated acquisition department. The concept of acquisition specific capabilities is defined as the dependent variable, and this study is trying to find how each of the other constructs relates to the development of these capabilities, and in particular how adding a dedicated acquisition department will influence the results.

To gain more insights in each of the four constructs, and how three of them relate to the dependent variable of acquisition specific capabilities, sub-questions are defined to give structure to this study:

1. How do firms transform prior acquisition experiences into acquisition specific capabilities?
2. How is post-acquisition learning stimulated in a firm
3. How does knowledge transfer and routinization contribute to the development of acquisition specific capabilities?

4. Is there any evidentiary support that suggests the use of dedicated acquisition departments influences the development of acquisition specific capabilities?

1.1.3 Research goal

The aim of this research is to make a first attempt to close the gap in the existing literature related to the implementation of a dedicated acquisition department and how such a department relates to the development of acquisition specific capabilities. Furthermore, this research tries to locate those processes that are directly linked to the development of acquisition specific capabilities resulting from prior experience and post-acquisition learning as existing literature only briefly touches on this and only refers to the development of dynamic capabilities related to prior experience and organizational learning.

By combining concepts and focusing only on mergers & acquisitions, the researcher tries to deliver both insightful contributions to the literature, as well as provide practical implications for companies actively involved in mergers & acquisitions.

1.2 Contribution and relevance

This study is relevant given the importance of successful implementation of M&A strategy given the current failure rate of 70-90% of all mergers and acquisitions. The number of M&As is only expected to grow significantly in the future and yet the holy grail of doing acquisitions is yet to be described. The researcher is not suggesting to find this 'holy grail' with this study but is making the important first step in bringing all constructs together to find commonalities and patterns that haven't been paid attention to before. As stated before, this study is focused on bridging that gap in the existing literature where the concept of dedicated acquisition departments is mostly overlooked.

1.3 Research structure

Chapter one of this research introduces the necessity of this research and outlines the main- and sub questions of this research. In Chapter two, the main constructs derived from each of the main- and sub questions, are further examined against existing academic literature with the goal to find arguments for each of the main- and sub questions. Chapter three outlines the research method, followed in this particular study. It focuses on qualitative vs. quantitative, sample selection and data collection method used. Chapter 4 holds the

empirical data of this study. Chapter 5 is largely discussion based, followed by conclusions and recommendations for further research. At the end of the study, bibliographies, as well as study-relevant appendices, are enclosed.

2. THEORETICAL BACKGROUND

Within this chapter, a theoretical framework of this study is created. After supporting each proposed variable with existing literature, the relation between all concepts is put together to develop the conceptual model of this research.

2.1 Acquisition Specific Capabilities

Many scholars involved in mapping the complex 'world' of M&As have found that experienced acquirers who develop Acquisition Specific Capabilities are generally more 'successful' than others (Fowler & Schmidt, 1989). The word successful in previous sentence is quoted since the definition(s) of this so-called success have proven difficult to determine. The development of dynamic capabilities has been mentioned by a number of scholars including (Teece, 2007) and (Capron & Anand, 2007) as something that enhances the development of acquisition specific capabilities. Also, a relatively large number of scholars agree that some form of knowledge transfer needs to take place in order to develop into an acquisition capability (Haleblian & Finkelstein, 1999) (Zollo & Winter, 2002) (Epstein, 2004).

2.1.1 Dynamic capabilities

Teece *et al.* (1997) explain the concept of 'dynamic capabilities' as two aspects of a firm's ability to generate knowledge. The term "Dynamic" is explained as the renewing capacity of firms regarding their competences in order to deal with dynamically-competitive environments. "Capabilities" refers to the key role of strategic management in properly adapting, integrating, and reconfiguring internal and external competences to react on dynamically-competitive environments. Capron & Anand (2007) define dynamic capabilities as "the capacity of an organization to purposefully create, extend, or modify its resource base". One important type of dynamic capabilities which enhances firm's potential for growth is an acquisition-based dynamic capability (Capron & Anand, 2007). Acquisition-based dynamic capability is "the capacity of the firm to purposefully create, extend, or

modify the firm's augmented resource base, which includes the resources of partners" (Capron & Anand, 2007). This capability includes the ability to identify targets, negotiate deals, and manages the integration and is comprised by the knowledge, skills, systems, structures, and processes that an organization can use when engaged in knowledge acquisitions (Laamanen & Keil, 2008). In their research, Capron & Anand (2007) suggest that acquisition-based capabilities consists of three main capabilities which are; *selection, identification, and reconfiguration*.

Table 2.1.1 Acquisition Based Dynamic Capabilities

Selection	<i>Capacity to recognize when an acquisition would be the most suitable strategic move for gaining new resources</i>
Identification	<i>Capacity to find and negotiate with, the most suitable targets</i>
Reconfiguration	<i>The capacity to reshape resources within the target and acquiring firms</i>

Source: (Capron & Anand, 2007)

Considering which mechanisms, practices, and tools firms apply for sharing knowledge in the post-acquisition phase in order to integrate, could help to comprehend what the building blocks of an acquisition capability are. However, identifying the building blocks of such dynamic capabilities will be innately incomplete or their implementation must be difficult because otherwise firms' dynamic capabilities would not create the expected competitive advantage that they do (Teece, 2007). Thus, dynamic capabilities create competitive advantage for firms because they are not easy to imitate. However, even though dynamic capabilities are idiosyncratic and path-dependent in emergence, they also have certain commonalities across firms, since there are more and less effective ways of dealing with certain generic organizational challenges (Eisenhardt & Martin, 2000). Before being able to detect such best-practices, however, a better understanding of organizational knowledge and knowledge management is needed in order to be able to understand the knowledge sharing processes and the way that these processes

could affected the development of acquisition capabilities. The next section focuses on these aspects.

2.1.2 Knowledge transfer

The knowledge transferring process differs from other business processes in the sense that this process has a number of specific 'features' that make up an acquisition capability. Understanding which of these features firms use to transfer knowledge in the post-acquisition phase helps us understand what the specific building blocks of an acquisition specific capability are.

Verbalizing and codifying knowledge are key ingredients for proper knowledge management and fuel the development of acquisition capabilities (Easterby-Smith & Prieto, 2008). As such, codification of knowledge and experience in order to manage post-acquisition integration could potentially be viewed as stepping stones of acquisition specific mechanisms and functions, incorporated in a dedicated acquisition team. Zollo and Winter (2002) and Inkpen *et al* (2000) describe the importance of these acquisitions teams in the form of integration managers and M&A teams. This concept will be discussed further down this chapter. Referring back to the potential stepping stones of acquisition specific mechanisms, this, for example, can be achieved through the creation of standard mechanisms and procedures which will enhance post-acquisition knowledge learning and integration. Codifying experience into technology and creating formal procedures enables the application of experience and enhances the creation of routines which in its turn will help develop acquisition capabilities (Eisenhardt & Martin, 2000) (Laamanen & Keil, 2008). Zollo and Singh (2004) state that the acquirer can learn to manage post-acquisition integration through experience accumulation and codification of explicit knowledge in manuals, systems, and other tools. Such activities aimed at knowledge codification and articulation may become superior mechanisms in order to accumulate expertise when tasks' frequency and homogeneity are reduced (Zollo & Winter, 2002). This means that acquiring a firm may not be a daily task of the organization, but this does not necessarily mean that no learning benefits will occur in the codification process. This is because codification efforts force employees to draw explicit conclusions

regarding their experience (Zollo & Winter, 2002). Knowledge can also be shared by using *direction* and *routines* (Grant D. , 1996). Direction refers to the conversion of tacit knowledge in explicit knowledge by using policies, guidelines, formulas and expert-based systems. One could argue that prior acquisition experience is transformed into specific (dynamic) capabilities needed to manage acquisitions effectively (Hayward, 2002)

2.2 Prior acquisition experience

Acquisition experience is somewhat of an underdeveloped concept in the existing literature. The few studies that do exist focus on acquisition experience related to acquisition performance. Laamanen and Keil (2008) suggest that experience only becomes a factor for serial acquirers. Hayward (2002) openly doubts acquisition experience enhances performance since every acquisition is heterogeneous in nature, irregular and yields different outcomes every time. Others state that experience only manifests when acquisitions are related to a firm's own business (Vermeulen & Barkema, 2001). Halebian and Finkelstein (1999) support the latter statement and add that acquisition experience has an inverted U-shaped effect on acquisition performance, which is only positive when firms acquire organizations that are similar to their prior acquisitions. It can be argued that having acquisition experience is to be seen as a primary instrument to have the skill set needed to manage acquisitions in the right way (Hayward, 2002), however the literature does not provide a concluding answer on this. To the best of our knowledge, no previous study has paid attention to the learning-driven relation between prior acquisition experience and the development of acquisition capabilities. Aforementioned research studies (Laamanen & Keil, 2008), (Halebian & Finkelstein, 1999), (Hayward, 2002), (Zollo & Singh, 2004), (Meschi & Metais, 2006) have only analyzed the effect of acquisition experience on acquisition performance. This was done through studying financial returns such as return on assets and shareholder value. Amiryany *et al.* (2012) have opened the door to study the effect of acquisition experience on knowledge sharing, however their hypotheses were never validated through an empirical study. Nadolska and Barkema (2013) have tried to bridge the gap of how firms learn from their previous acquisition experience with their research study focused on the question: 'do organizations benefit from past acquisition experience or do

they mis-transfer lessons from them?’ Even though this study is again heavily focused on the transfer of knowledge (as many other studies are), they ask some important questions related to prior experience and have been able to validate these questions through a true empirical study. They argue that the key in organizational learning from acquisitions is to be found in the composition of top management teams (TMTs). They also argue that *success* and *frequency* of an acquisition are two indicators of TMT effectiveness in transferring skills and capabilities from one acquisition to the next, or as they put it: “the ability to manage acquisition programs” (Nadolska & Barkema, 2013). Their study shows a close resemblance to what this study is trying to accomplish, and validates the existing relation between prior experience and the development of acquisition specific capabilities through organizational learning. In this study, it is expected to find that acquisition experience enables organizations (or acquisition departments) to develop acquisition capabilities in the form of skills and processes to effectively manage acquisition programs and increase their efficiency in making acquisitions. In addition, this study separates itself from previous studies with the added dimension of a dedicated acquisition department as a moderating variable to positively influence the learning-relationship between previous acquisition experience and the development of acquisition specific capabilities. In the next section, the concept of a dedicated acquisition department is discussed further.

2.3 Dedicated Acquisition Department

The process of transferring and integrating knowledge in the post-acquisition stage could be seen as the building blocks of an acquisition department since it is the job of such a department to enable the actual integration of the acquired knowledge (Amiryany, Huysman, de Man, & Cloudt, 2012). As described in paragraph 2.1, it is believed that acquisition performance is improved by employing organizational capabilities. These capabilities can be built through codification of past experience and the creation of mechanisms and procedures to share this knowledge (Amiryany, Huysman, de Man, & Cloudt, 2012). The tools mentioned and the process of sharing and integrating post-acquisition knowledge are typically created and used by specific functions of the organization, aimed to better manage acquisitions, such as an integration manager or an M&A team (e.g. Zollo & Winter, 2002; Inkpen *et al.*, 2000). The importance of such teams

has already been noticed in the context of alliances. For example (Heimeriks, 2008) mentions that having systems in place such as alliance managers, alliance specialists, and alliance departments could be fundamental to the alliance management process. This paper argues that acquisition departments parallel to these alliance functions influences which specific mechanisms and functions are contributing to the development of acquisition specific capabilities and, eventually, to post-acquisition learning (Capron & Anand, 2007). Although many researchers touch upon the topic of dedicated acquisition teams (Zollo & Singh, 2004), and the importance of (centrally) organized teams to manage acquisitions, a definitive look on how these teams actually contribute to the process of developing acquisition specific capabilities and processing knowledge arising out of these capabilities currently does not exist within the available acquisition literature. In their research on how top management teams learn for acquisitions, Nadolska and Barkema (2013) introduce the topic of Top Management Teams (TMTs) related with doing acquisitions. Although very insightful, the research is mainly focused on how these teams learn rather than how they contribute to the development of acquisition specific capabilities.

2.4 Post-Acquisition Learning (PAL)

Post-acquisition learning is a concept that has been studied by scholars multiple times. Many studies have focused on converting knowledge gained by so-called 'knowledge acquisitions' to tangible and tactical information that is useful for the company to build a sustainable, competitive advantage (Collins & Smith, 2006). The intricacy of knowledge management is highlighted in a study by Bresman *et.al* (2010) where they argue that simply acquiring the right firm does not guarantee that valuable knowledge sharing will occur. In their research, Nadolska and Barkema (2013) openly argue that a lot of poor acquisition performance can be blamed on the mis-transfer of accumulated knowledge through acquisitions. They state that learning's from prior acquisitions are simply mis-interpreted or transferred incorrectly into the new acquisitions. Their research proves that, although this is true, the amount of these mis-transfers is largely dependent on the composition of the Top Management Teams. Diverse TMTs, as their research shows, are less likely to incorrectly generalize from past acquisition experiences, and so are less likely to mis-transfer lessons and acquisition processes to new acquisitions (Nadolska & Barkema, 2013). Another difficulty hindering the Post-acquisition learning process is the fact that most knowledge acquired during the

acquisition process is extremely tacit, idiosyncratic in nature and not easily transferable. Since knowledge is the most strategically-important resource among organizational members, the integration of an individual's specialized (read: tacit) knowledge becomes the essence of a firm's capability (Grant D. , 1996). This tacit knowledge needs to be 'converted' into an explicit form, in order to codify and transform it into systematic language so all members of the acquisition team are able to use this knowledge for future acquisitions (Nonaka, 1994).

For the purposes of this research, it is important to understand how post-acquisition learning works since this paper argues that the application of proper post-acquisition learning etiquettes will influence the development of acquisition specific capabilities. This is in line with Zollo & Singh (2004) who state that through experience accumulation and codification of explicit knowledge in manuals, systems, and other tools, the acquirer can learn and adapt for future acquisitions. The process of this is centered in the post-acquisition learning phase. In addition, this paper argues that a dedicated acquisition department is needed in order to properly manage this codification of tacit knowledge and incorporate key-learning's from previous acquisitions into future acquisition planning.

2.5 Research model

The literature confirms that the development of acquisition specific capabilities is dependent on prior experiences from the acquirer. Prior experiences follow a learning curve, identified as the post-acquisition learning process that ultimately results in the development of acquisition specific capabilities. The literature researched in this chapter also suggests that the development of capabilities is enhanced when knowledge and key learning's are articulated among peers and codified through a formal process. This codification process is aimed to fully grasp the most important learning's and minimize the risk of losing important- and key knowledge that could benefit the firm when engaging in future mergers and acquisitions. The research also suggests that in order to properly implement this codification process in the learning stage of the firm, they should adopt a dedicated acquisition department (or a formal function as stated in the literature as no official studies have been done on dedicated acquisition departments). These departments are more likely to give

much needed structure to the preservation and maintenance of key learning's and acquired knowledge.

A schematic overview of literature findings is displayed in table 2.5. In the overview, each of the three independent constructs are linked to the dependent construct of acquisition specific capabilities, but also how they relate to each other. This way, a clear overview is given what the expected influence of each of the independent constructs is on the dependent variable

Table 2.5: Schematic overview of constructs

Constructs	Acquisition Specific Capabilities	Prior Aquisition Experience	Post Acquisition Learning	Dedicated Acquisition Department
Prior Aquisition Experience	Expected is that experience will be more of a factor when firms acquire closely related to their own business. It is expected that acquisition experience enables organizations to develop skills to improve their efficiency in making future acquisitions		Experience will likely have a limited effect on learning since every acquisition is heterogeneous, irregular and yields different outcomes each time, so it will be hard to take learnings to next acquisitions	It is expected that if experience is articulated and put through a formal codification process, and this process is brought under in a dedicated acquisition department, greater results are expected
Post Acquisition Learning	It is expected that knowledge is the essence of a firm's capability and that many efforts will be taken to preserve this knowledge. Literature suggests that many companies are not aware of the tacit nature of most knowledge and needs to be made aware through codification of this knowledge.	It is expected that through experience accumulation and codification of explicit knowledge in manuals, systems and other tools, the acquirer can learn to adapt for future acquisitions		If an M&A team exists, it is expected that although learning happens within the team, the nature of the knowledge will remain tacit and not accessible to other members of the organization.
Dedicated Acquisition Department	This concept is underdeveloped in existing literature. The researcher expects that firms who place all of their M&A activities in a single, dedicated team will show greater skill in the development of acquisition specific capabilities	Prior experience is expected to be a under-utilized tool among the members of a dedicated acquisition department. The experience is most likely stored as tacit knowledge and in need of going through a codification process to become explicit and accessible to all members	Since it is the job of a dedicated acquisition department to enable- and manage integration of knowledge (among other things), the process of transferring and integrating knowledge could best be placed withing a dedicated acquisition department.	

3 ■ RESEARCH DESIGN

Given the limited theory available on dedicated acquisition departments and their influence on the development of acquisition specific capabilities and post-acquisition learning, an inductive approach was used to carry out this research. Inductive studies are constructive for building theoretical insights when the study focuses on parts that existing research does not address completely. Multiple cases are effective because they enable collection of comparable data, and so are likely to generate more accurate, easy to generalize theory than single cases (Eisenhardt & Graebner, 2007) (Yin, 1994)

3.1 Qualitative research

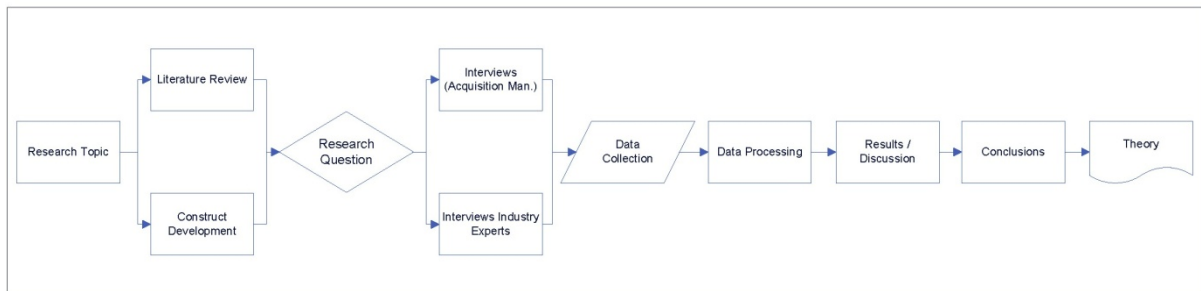
Determining the correct approach to answer the main research question comes down to the choice for either qualitative or quantitative research approach. A qualitative study provides the opportunity to examine how certain concepts are interpreted and how meaning is given to each of these concepts by acquisition managers and industry experts. Given the fact that the majority of research on acquisitions has predominantly been quantitative in nature, limiting the researchers to get a deeper understanding of the topic (Haleblian J. D., 2009); the qualitative approach was chosen to carry out this research. Because semi-structured interviews are used in this study, it was possible to include non-quantified data, such as personal experience and other views in this study (Denzin & Lincoln, 2005). The inductive approach provided an emerging theory where unforeseen outcomes came to light which helped to shape the overall theory of this research.

The focus of the study is on the existence of a dedicated acquisition function within a corporation. Since building a theory that is accurate, interesting and repeatable was the objective of this research (Eisenhardt & Graebner, 2007), theoretical sampling was chosen as opposed to random sampling as we were not testing or validating any theories (Eisenhardt & Graebner, 2007). It was imperative that chosen firms were actively dealing (or have dealt with) mergers & acquisitions at least more than once in the past annum. A total of 6 cases in

six different companies in a variety of different industries were chosen to complete the sample. In doing so, the researcher tried to increase the internal validity of the research results by increasing the variety across respondents (Siggelkow, 2007).

A number of steps were followed to get to the desired results. Figure 3.1 gives a visual representation of the structure of this research.

Figure 3.1. Structure of research



3.3 Sample

This study is centered on the firms' merger and acquisition activity and their individual and collective experiences these activities bring forth. The objective of the study was to try and deepen the overall understanding of how post-acquisition learning processes, embedded in an acquisition department, derived from prior experience, contribute to the development of acquisition specific capabilities. To do this, a selection of acquisition managers and experts was made by means of theoretical sampling.

3.3.1 Acquisition Managers

In order to satisfy a desired level of diversification in this research, six acquisition managers have been interviewed. This number made it possible to meet certain criteria that were needed to collect the right set of responses. The first requirement was related to the number of mergers & acquisitions in which the acquisition managers had been involved in. To secure adequate responses to every question, the minimum number of past acquisitions was set at two in the past three years. The second selection criterion revolved around the existence of an acquisition department. It was important to have companies in the mix that did structure their M&A activity in a dedicated department as well as companies that did not formally structure their activities in that way. Eventually, four companies were selected with

some form of an acquisition department, and two companies were selected that did not identify with such a department. Finally, the companies selected for this research needed to be listed at either the New York Stock Exchange (NYSE), the London Stock Exchange (LSE), or the Amsterdam Exchange (AEX). The reason for this was that secondary data could have been collected since listed companies needed to publicize statements related to their (financial) performance.

It is important to mention that, even though random companies have been scouted, all participants eventually have emerged from within the researcher's network, which could stimulate a stratified sampling.

3.3.2 Expert interviews

In addition to the interviews with acquisition managers, in-depth expert interviews were conducted. For these interviews, 4 experts in the field of acquisition development were selected. These interviews are based off a selected sample of 4 consultancy firms, selected based on their expertise and experience within the acquisition development and guidance landscape. The interviews served two purposes. On the one hand, they allowed for a verification of findings from interviews with acquisition managers. On the other hand, the interviews were aimed at validating and extending the argumentations for expected and unexpected results and the reasons why the study's findings were appropriate.

An overview of respondent characteristics is displayed in Table 3.2

Table 3.2. Respondent Characteristics

Acquisition Managers	Age	Type of firm	Position	Education	Work experience
Acquisition Manager 1	47	Translation Services	VP Corporate Business Development	MBA	20+ years
Acquisition Manager 2	42	Translation Services	Division President	MSc, BA	20+ years
Acquisition Manager 3	36	Law Firm	Senior Partner	LLB	15+ years
Acquisition Manager 4	48	Specialty Chemicals	VP & Chief Growth Officer	MBA	25+ years
Acquisition Manager 5	54	Oil&Gas	VP Corporate Development	MBA	30+ years
Acquisition Manager 6	32	Construction Services	Business Development Manager	MScBA, MScFIN	5+ years
Acquisition Experts	Age	Type of firm	Position	Education	Work experience
Acquisition Expert 1	32	Investment Firm	Senior Acquisition Consultant	MBA	10+ years
Acquisition Expert 3	52	Consultancy	Director, Downstream Consulting	MSc, BA - PhD	30+ years
Acquisition Expert 3	53	Accountancy Firm	Relation manager / Acquisition advisor	AA	30+ years
Acquisition Expert 4	33	Accountancy Firm	Accountant	MSc, AA	15+ years

By the selection of respondents, the researcher has tried to find a mixed pool of respondents, covering a range of individuals, companies operating in a number of different industries, and varying in size and experience. In reality, acquisition managers mostly tend to fit similar profiles as is outlined in table 3.2. All of them have at least 15+ years of corporate experience and could all be seen as seasoned business people. Each of the respondents has an academic background, mostly in business administration or finance management (acquisition experts). The age of the respondents averages around 40 years old, which basically tells us that acquisition managers- and experts are mid- to top career individuals. For the purposes of the proper examination of the research results, it is important to keep this background information and respondent characteristics in mind.

3.4 Data Collection

To raise the internal reliability of this research, interviews were conducted through the 'semi-structured' method, ensuring a unified data collection (Denzin & Lincoln, 2005). A pilot interview was conducted prior to the main interviews to test interview questions and leave room for improvement prior to official data collection. Although insightful and helpful for the development of final research questions, the actual data resulting from this pilot interview was quite poor and has therefore not been included in the official data set.

All respondents have been reassured up front about the protection of their (confidential) data. Company and personal data was not transferred into the research data and company- and interviewee names have been neutralized, in order to ensure the anonymity of each respondent. An additional advantage that came with this method was that a certain level of bias and socially desirable answers were minimized. The interviews were structured around the use of the dedicated acquisition function, their processes and value-adding contributions to recent M&As. As the research in itself was meant to be emerging and theory building, it was imperative to leave room for such emerging theories which were not directly covering initial questions. Therefore an informal structure of interviews was used to each of the 10 conducted interviews. (Bryman & Bell, 2011) These emerging theories helped with the development of this study's propositions in chapter 5.

The researcher has refrained from voicing his opinion in any way during the interviews, and has taken an objective and observing role. Social interaction with the respondents can be one of the pitfalls of semi-structured interviews, so no 'on-the-spot' evaluation of responses has occurred to secure the highest form of objectivity possible. A sample of interview questions can be found in Appendix A & B.

3.5 Data Analysis

Each of the conducted interviews has been recorded after consent of the interviewee. After recording, the first three interviews have been completely transcribed to secure a level of reliability. Qualitative research knows certain limitations when it comes to securing the external reliability of the data, and a lot of pressure is on the interpretation of the researcher. By transcribing a number of interviews, and keeping all audio recordings on file, the researcher hoped to minimize this effect.

Contributing to the validity of this study, the researcher has administered respondent validation by providing each of the interviewees with a summary of their findings. This was done to eliminate misinterpretations and/or wrongful interpretations by having each interviewee approve the account of their specific interview results (Bryman & Bell, 2011).

Because the interviews were semi-structured in nature, the researcher was able to build a framework to interlink several findings with the different constructs of the study. This created a schematically constructed overview which allowed the researcher to summarize all conducted interviews in one concise summary. Subsequently, all relevant citations, comments and findings were marked and codified so that the level of relevance and reduction of redundant information could be assessed.

Since this study is focused not on the performance of the acquisition, but on the development of acquisition specific capabilities, secondary sources such as annual reports and financial statements were not consulted.

With the above mentioned analysis outline, conclusions were drawn and processed into the development of propositions and the discussion. Because of the emerging nature, pattern

recognition among constructs occurred and provided proof of relationships, presenting us with the opportunity to validate our propositions. (Bryman & Bell, 2011)

4. ■ EMPIRICAL RESULTS

The results of the semi-structured interviews are shared in this chapter. In the interviews (a sample of the interview format can be found in appendix A & B), the researcher has followed a certain structure where he talks about prior acquisition experience first, then moves on to organizational learning's from these acquisitions, after which the interview questions focus on the development of acquisition specific capabilities. The interview is concluded with questions related to the management- and structure of acquisitions and the acquisition department is discussed in detail. The same structure will be applied in this chapter of empirical findings, starting with prior acquisition experience.

4.1 Prior Acquisition Experience

On average, all companies included in this study have been involved in at least five acquisitions over the past five years, and some acquisition managers have been around acquisitions for a long time and handled dozens of acquisitions in their career.

4.1.1 Types of acquisitions and experience

Within the existing academic literature related to acquisition experience and its benefits to an organization, it is argued that acquisition experience only has a positive effect on acquisition performance and future acquisitions if firms acquire organizations that are similar to their previous acquisitions (Haleblian & Finkelstein, 1999). In general, managers indicated that the types of acquisitions in their firms are mostly similar to one another, which helps with the development of routines which comes from experience.

Based on researched literature, two main types of acquisitions were identified; 1) knowledge based, and 2) market based. During the interview conducting stage, it became evident that acquisition managers and leadership teams talk about acquisitions of scope- and scale. This is what one of the acquisition managers said about it:

“We call that scale or scope. Are you trying to create economies of scale, or are you trying to extend products, markets, customers, geographies... that’s scope and so it has elements of both market- and knowledge acquisitions”

Many of the acquisition managers agreed with this in their own way and found it hard to identify with either knowledge- or market acquisitions as they saw elements of both types in the acquisitions that they had done, and so they were missing a third option that said ‘both’. There is a slight majority in the companies interviewed who classify their acquisitions as scope-expanding and it brought up the consideration of ‘build vs. buy’ that almost all of the companies are faced with. One manager explained:

“We need to look at acquisitions of just one way of deploying capital. It all comes back to ‘organic’ growth vs. ‘acquisitive’ growth. Depending on what your strategy is, and where you are relative to your competitive set, do you need to spend more resources against organic growth or acquisitive growth?”

Another manager complemented that particular statement by saying:

“What happens too much these days is that people start substituting acquisitions for organic growth”

Most managers agree that autonomous growth (organic) is the preferred method in most cases, however sometimes they are faced with unprecedented market behavior that requires them to acquire for growth as one manager goes on to explain:

“Autonomous growth is usually the preferred method because you save on costs of buying other companies, but in our challenging environment where we feel the net closing in on us, we had no choice but to opt for buying growth”

Experts in the field of mergers and acquisitions were also asked about their experiences with consulting and supporting (large) acquisition projects. The data set of acquisition experts is split right in the middle, with two consultants working as acquisition mediators for large corporations, and two accountants who act as financial advisors in acquisition processes. Although one would assume that the type of acquisitions these experts are involved in vary immensely, and so the results would

not affect this study, it is striking to notice that all four experts are predominantly involved in market expansion type of acquisitions, or buying growth if you will.

4.1.2 Knowledge benefits and experience

All but one of the companies studied show that the knowledge benefits resulting from the acquisition experience has been incremental to the success of future acquisitions. Given the experience they share among themselves, they show that each acquisition activity helped them shape the acquisition process for generations to come. One manager admitted to reading- and following a book when handling his first major acquisition, since he didn't have the experience needed. Now, 6 years later, he doesn't need a book anymore, but still is keen on keeping the 'ghost of acquisitions' past' alive:

"I would say that we have a treasure chest full of valuable and irreplaceable experiences gained through our transaction activity, and although some elements come natural to us now, it never hurts to look back at past acquisitions and see how far we've come as an organization"

Others credit their current existence to acquisitions by saying that they wouldn't have survived as a company if it weren't for the acquisitions that they have done.

It is interesting to see how most acquisition managers admit to having evolved both personally and on an organizational level by building knowledge from their acquisition experience. Some companies make it their business to make sure that learning's from each acquisition are documented and embedded into their organization. Another manager admitted to having reached the 'adult phase' in the acquisition life cycle by saying:

"I would even say so far the companies that we've been acquiring have been maybe five percent or less of our company size. But now, because of our practice and having done this a number of times, we're now more open to the idea of acquiring companies that are twenty, thirty or maybe even forty percent of our size, so we've become more confident and more efficient in the way that you do it."

When the same question was asked to the acquisition experts, about how their experiences helped them perform better with subsequent projects, they all stated that the variety of the activities that they carry out makes it a unique learning experience, and the skill-set developed is much broader than if they would work for one company alone. Their experience crosses boundaries, cultures, nationalities, different markets and industries. That said, it makes it more difficult for them to use the experience in other projects because a lot of experience is industry or acquisition specific, and again, given the variety of the projects, they tend to find little overlap between projects

Another interesting observation is the negative side-effect from doing similar acquisitions over and over, and doing them well. This was indicated both by acquisition managers and experts. By doing similar acquisitions, the skill-set that you develop as an acquisition manager, or acquisition team, becomes very focused on that specific type of acquisition and could possibly limit the company as a whole in detecting- and following up on other type of opportunities. Not everyone in the set of respondents feels this way, some companies openly admitted to being fine with doing the same types of acquisitions anyway, but one company stated that their focus on acquiring growth had cost them the ability to expand the scope of their offered services and break into new geographies. The acquisition manager in questions said:

“Because of our need and focus on growth, we’ve had to miss opportunities that would’ve been a great addition but the only skill we had developed and were devoted to, was acquiring growth”

It became clear that not one of the companies in the sample had the illusion of having mastered the ‘perfect’ way of doing an acquisition or carrying out a merger. However all managers interviewed agreed that knowledge, gained through the acquisition process, brought them and the company at least one step closer to finding out one day, as one manager put it:

“I would say that each transaction brings us one step closer to mastering the acquisition process. However I do believe that the human element

will always play a huge role in the successful execution of any type of transaction”

4.2 Post-acquisition Learning

In the interviews, the respondents were asked how they learn from doing acquisitions and if they could provide with a few examples. This proved to be a difficult part of the interview as one is not always aware of how they learn. Table 4.2 shows the summarized responses of both acquisition managers and experts, to give a quick overview of how post-acquisition learning is (or is not) organized. These findings are then presented one by one.

Table 4.2 Post-acquisition Learning results

		Post Acquisition Learning		
Acquisition Managers	Type of firm	Learning through review boards	Does integration play a role?	Are codification systems in place?
Acquisition Manager 1	Translation Services	No	Yes, but more on logistical integration level	No, great idea but never got around to it
Acquisition Manager 2	Translation Services	No	Yes, but more on logistical integration level	No
Acquisition Manager 3	Law Firm	No	Yes, but limited to service staff	No, Partners keep their speciality and lack of interest from other partners prevents sharing
Acquisition Manager 4	Specialty Chemicals	No	Yes, integration is key	Yes, in case the existing team no longer exists, we have manuals in place to help successors
Acquisition Manager 5	Oil&Gas	No	Yes, integration is key	Yes, because the M&A team rotates seats every three years, all knowledge needs to be written down to help the next person
Acquisition Manager 6	Construction Services	No	Yes, integration is key	No, we talk about it all the time but it was never implemented
Acquisition Experts	Type of firm	Learning through review boards	Does integration play a role?	Are codification systems in place?
Acquisition Expert 1	Investment Firm	No	No	Yes, to train new hires
Acquisition Expert 2	Consultancy	No	No	No
Acquisition Expert 3	Accountancy Firm	Yes	No	Yes, but for auditory purposes
Acquisition Expert 4	Accountancy Firm	Yes	No	Yes, but for auditory purposes

One thing that appeared to be a common occurrence among all respondents is the ability to learn to deal with a changing organization post-merger, or post integration. In one particular

example, a respondent mentioned that they merged with a number of firms over the course of three years, and that the organization as a whole changed names a number of times, cultures were added and new structures were imposed on both new people entering the organization and existing staff. So experience taught him to look at every merger as a new company that needed to be formed, rather than a parent company vs. an acquired party. Every merger and every acquisition seems to be accompanied with its own set of unique challenges that you can draw learning's from.

Most respondents took the question in a different direction and applied it to how they, both as a team and as individual acquisition managers, learned to identify opportunities for future projects. Three managers mentioned that they learned how to judge opportunities brought to them by business team leaders, before they even started the acquisition route. So in a way, evaluating opportunities prior to discussing them with either a board or management team, had become a thing they learned since there were so many (if not too many) opportunities brought to them. We will see more of these results in a later paragraph where the results of developing acquisition specific capabilities are shared.

Two acquisition managers stated that they had learned a lot from looking at other companies in similar industries and learn from their mistakes. This poses an interesting perspective as normally firms look at their own acquisition processes and the mistakes they may have made as opposed to looking at the 'competition' and trying to out-do them as a strategy of learning. One manager mentioned that he saw a lot of smaller players in his industry go on to acquire large-scale companies in an attempt to rush to the desired company size and market position. These 'megadeals' and 'super mergers' tend to be watched microscopically by industry experts and financial watchdogs since the projected outcomes are expected to be very low as these smaller companies have neither the capability nor the experience to handle such an acquisition. Looking at these trends enabled this acquisition manager to set out a more conservative strategy that would minimize the risks involved. He said:

"We've stayed true to our intended path of buying smaller companies to add to our necklace 'bead-by-bead' if you will. Partly because we couldn't afford to buy large companies, but also we wanted to gain the experience before we went and gambled everything away on one big merger"

Another aspect of the learning curve for some of the acquisition managers was the ability to anticipate how employees of both the acquired company and their own company would respond to an acquisition. Especially if what is being acquired is knowledge or a certain skill-set, it is important be well-aware upfront about the possible ramifications if employees are against a merger or acquisition. One manager said:

“Mainly what we’re buying is knowledge, and so if we’re acquiring a company and all the employees are not happy, or subsequently leave the company, then we’ve really bought nothing”

When discussing post-acquisition learning with acquisition experts, a split emerges between the consultant experts and the financial advisors. Consultants place more focus on talking among other (senior) consultants about the experiences they have had, discussing possible alternate scenarios that would have given a different result in a given situation. The consultants then go back to their own offices and formulate key learning’s based on their own experience and the feedback from other consultants, but they keep these learning’s mostly to themselves as a personal development plan. The financial advisors that were interviewed, however, indicated that in order to stay sharp and on top of things related to the next project, they attract schooling, take refresher courses to keep the experience and expertise to the highest level possible. One accountant stated:

“There’s a guy I know who’s is developing a course at a renowned university that deals with the valuation of companies, and we’re considering to partake in the course”

The aspect of education is not something that was found among the answers of the consultants, nor the acquisition managers. We’ve seen the example of the one company in which the acquisition manager consulted a number of books, but official education is not something that was found in the data set.

Both of the financial advisors made similar statements about experience by saying you learn by doing, and it is not necessarily something that one person can teach another person, since every acquisition project is so different, there will always be elements of surprise that can’t be anticipated or foreseen by writing down experiences for other team members to read about. One advisor stated:

“There’s always going to be a human element to doing acquisitions and you are either cut out for it or you are not.”

The main thing to take away from this particular response set is that none of the respondents was able to give a clear answer as to what companies or teams were doing to make sure that learning was stimulated or at least occurred. Literature shows post-merger review boards are just one of many examples that companies can use, however in this response set, this happens to not be the case in any instance.

4.2.1 Integration and post-acquisition learning

In all companies that were interviewed, integration plays a role in the post-acquisition learning process. The results of integration efforts have a large impact on how future acquisitions and mergers are handled in each organization. A difference is made by acquisition managers between logistical integration and company integration. Logistical integration refers to HR activities, IT integration, back office activities, financial integration etc. Company integration deals with the merging of cultures, dealing with duplicate positions, who to keep and who to remove from employment, and to establish a new front upon which the brand can build further. One manager identified learning related to (logistical) integration as:

“We’ve become better at developing sort of templates, for example of how we transfer the client and vendor information, and other things like that”

Another respondent mentioned that speed of integration is an important learning from previous acquisitions as it is important to their company to be viewed as one, unified company by their industry peers, as opposed to a mixture of smaller, autonomous companies operating under a common name.

Another goes on by saying that it’s not just the ‘new’ people that need to be integrated into the existing company, but also existing staff as well. Sometimes organizations change dramatically when a new merger or acquisition occurs, and oftentimes the ‘old’ organization no longer exists, making it necessary for all parties involved to integrate into the new organization.

Integration proved to be less relevant to the acquisition experts. For the consultants, it was simply due to the fact that they are only brought in to broker the deal and manage the acquisition process of selection, deal-closing and then be done with the project, on to the next. For the financial advisors, they are asked sometimes to assist with the financial integration of a merger or acquisition, but both of them claim that this is something that a company should think about beforehand, prior to selecting the right target partner. Also, since every post-acquisition integration is so intensely company specific, it hasn't happened yet that similar situations were spotted in the projects that they have done.

4.2.2 Codification and post-acquisition learning

A large number of companies have indicated that the M&A teams change members frequently, and sometimes a team doesn't even exist in a formalized matter. It is expected (based on existing literature) that some form of codification of knowledge occurs to pass on key learning's to the next generation of acquisition managers but this is not found in most of the respondent companies. Most, if not all, recognize the importance of such a process, and some even go so far to state that efforts have been made, but remain unsuccessful to this point. A few quotes to illustrate the finding:

"When we first started doing acquisitions, I think we all thought about the idea to write it all down and have like a handbook, and the truth is we never really did that"

"This is something we talked about to a great deal, but we haven't been able to implement it successfully thus far"

"I'm afraid we do not do it"

Just examples of acquisition managers admitting that they do not make any effort to codify acquired acquisition specific knowledge to pass on to others. They all admitted that a lot of the experiences gained by doing acquisitions is stored in a very tacit way, and can only be found within the team or with that specific acquisition manager. As mentioned in an earlier chapter, one manager even admitted to having to resort to published books and manuals since his predecessors left him with nothing to work with. Others stated that they did share best practices, but only in an informal way by

means of conversations, but never in the form of formalized, documented procedures. When asked about post-acquisition reviews, most of the respondents said that these reviews mostly are limited to the question if the projected outcomes were reached by the acquisition teams, if the integration was successful etc.

Two acquisition managers did claim to codify important learning's after each acquisition. One of them mentioned the short period of time in which acquisition managers stay a member of the M&A team. Because of that, formal procedures are in place to monitor team performance and key learning's well documented for future generations of acquisition managers. He also went on by saying that they tried to standardize procedures as much as possible to make transition to new acquisition managers easier. Another manager also admits to sharing best practices and key learning's but goes on to say that in his mind, it's not the manual but the people that make or break the acquisition. Opposite to previously mentioned acquisition manager, his team has been around for over a decade and he believes that the experience and the board's decision to keep the 'deal-team' the same for so long, has had a tremendous and positive impact on the success of future acquisitions. His vision is further explained by saying that because of their long tenure in the same team, they're not 'just a deal-team' but are intrinsically involved in the development of the company structure and are hence able to look at every detail and every aspect of corporate development, which made them get smarter in the process. He concludes by saying:

"We did do the codification in case we all get miraculously wiped out, so that manual would help the next group, but in my mind, it's the people and the consistency of a team that makes the acquisition, not the manual"

For the acquisition experts, again a split between the consultants and the financial advisors can be seen. Both consultants stated that they use manuals, transcripts, real-life cases and other examples to train new hires to prepare them for their first project, but also that most of the knowledge is with the people, and everyone is free to talk to any other consultant trying to get an expert opinion. Another, very

interesting detail is what one consultant said with regard to the retention and sharing of knowledge:

“In the consultancy business, it is also important to build your own skill-set to create a need for your particular expertise and knowledge. If all this knowledge is forcibly shared with everyone, and document, what would they need me for?”

In other words, keep some of the information to yourself since it gives you as a consultant a competitive advantage which could lead to you being brought into projects based on that expertise. This revelation is somewhat baffling since the literature suggests that the more information and expertise, the better the company becomes at carrying out successful transactions. The statement made by the consultant seems to contradict this. For the accountants, it is extremely important to document everything, but not necessarily for the purposes of documenting key learning's, but more because they need to keep records for auditory purposes.

4.3 Acquisition specific capabilities

The development of acquisition specific capabilities is at the core of this research. In the interviews, most of the time was spent on this topic. Based on existing literature, the researcher has identified dynamic capabilities and knowledge transfer as the main contributors of acquisition specific capabilities. Table 4.3 gives a glance of how the acquisition managers have responded to questions related to this topic and shows key findings. These findings are worked out in further detail below.

Table 4.3. Acquisition specific capabilities

		Acquisition Specific Capabilities				
		Dynamic Capabilities			Knowledge Transfer	
Acquisition Managers	Type of firm	Selection (Identify Targets)	Identification (Negotiate Deals)	Reconfiguration (Manage Integration)	Verbalizing and Codifying knowledge	Direction and routines
Acquisition Manager 1	Translation Services	- Build vs. Buy - Establishing core values	- Focus on skill rather than attractive pricing	- Communicate internal values	- No	- No
Acquisition Manager 2	Translation Services	- Focus on smaller companies - Develop family of brands	- (Done externally)	- improve speed of integration	- No	- Not formalized but a culture book has been developed.
Acquisition Manager 3	Law Firm	- Identify client needs first - Scale vs. Scope	- Learning to outsource - Conduct thorough analysis	- integrate existing people into the new organization also	- Not formalized - records of previous deals are kept	- Due diligence and logistical integration processes are formalized
Acquisition Manager 4	Specialty Chemicals	- Learning about company - Aware of non-public information	- Organic vs. Acquisitive - Acquire based on capability	- retaining talent	- No	- Processes are standardized
Acquisition Manager 5	Oil&Gas	- Scale vs. Scope - Knowing when to walk away	- (Done externally)	- Agility - Perceptive of change	- Detailed dossiers of each acquisition are kept	- Recurring transactions are standardized to speed up process and keep consistency
Acquisition Manager 6	Construction Services	- Look beyond board excitement for hidden challenges	- Done by separate team in the organization	- Safeguarding competitive advantage by retaining right people	- No	- No
Acquisition Experts	Type of firm	Selection (Identify Targets)	Identification (Negotiate Deals)	Reconfiguration (Manage Integration)	Verbalizing and Codifying knowledge	Direction and routines
Acquisition Expert 1	Investment Firm	- Not involved in	- Heavily involved, expertise	- Not involved	- Yes, to train employees	- Not formalized
Acquisition Expert 2	Consultancy	- Not involved in	- Heavily involved - Best 'bang for their buck'	- Advise on, but not involved in	- No	- No
Acquisition Expert 3	Accountancy Firm	- Only minorly involved	- Due diligence, Negotiating the deal and ability to walk away from deal	- Involved since the client is linked to us with other services as well	- Yes, for auditory purposes	- Certain aspects such as due diligence is formalized
Acquisition Expert 4	Accountancy Firm	- Only minorly involved	- Due diligence, Negotiating the deal and ability to walk away from deal	- Client should think of this before us negotiating the deal	- Yes, for auditory purposes	- Certain aspects such as due diligence is formalized

4.3.1 Dynamic Capabilities and acquisitions: Selection

Most acquisition managers state that the target identification is mostly a top-down process. Especially in larger firms, it is shown that opportunities are identified by either the CEO or the board of directors. They then either appoint an M&A team (if such a team is not in place) or ask existing acquisition managers to work out a decent proposal to see if a fit between the firms can be realized. Looking at the responses, four acquisition managers indicate that the first question they need to ask is whether the required skill or market position needs to be bought, or if there's a reasonable way it can be built within the organization. Through experience, they all claim that they've gotten a lot better at doing that simply by repeating the exercise frequently. One manager states:

"We've become better at identifying not good deals per se, based on price point alone, but I think because of our experience it's sort of enhanced our ability to focus more on skill-set in the identification process, and less on attractive pricing"

Another argument is made regarding the availability of information about the target company. According to one manager, a lot of the information needed to make an informed decision is not public and therefore needs to be addressed. A lot of companies go into an acquisition thinking they know it all, and they end up paying a premium for a company without knowing what the company did to make them an attractive candidate.

One acquisition manager mentions that oftentimes, the board or the CEO of the company are too blinded by their quest for growth, or their enthusiasm, that they fail to see the hidden challenges that could manifest during or after the acquisition period. That is why a team of acquisition managers need to make sure that sound selection criteria are followed and checked prior to engaging in any type of negotiation. Experience has taught them to do just that. He says:

"This is definitely an example of an acquired skill through experience. In the beginning, everyone is excited and possessed with acquisition fever, so there needs to be a 'devil's advocate' to argue both sides of the deal."

When having done a multitude of acquisitions, firms become more and more aware of the needs that fit the company best. “This could result in the end of looking for large-scale acquisition opportunities and a shift of focus towards smaller companies who have specific- and in-depth knowledge of local markets” as one manager explains. Another goes on by saying that through acquisitions, they learned to refer clients to other firms should they have any specific needs. In the past, they would have jumped at the opportunity to acquire the required skill or service that particular customer was asking for, but now they have become better at staying true to their core business and stay away from anything that distracts from that.

Both consultants and financial advisors state that they are not heavily involved in the selection of target companies for the projects that they work on. All claim that the company that hires them already has a set idea about the potential partner(s) and they are brought in specifically to broker the deal. Where the two groups differ is that consultants may advise companies with regards to certain flaws that are uncovered, they do not advise against the acquisition nor do they walk away from the project. The consensus is:

“We are there to perform a job. The job is to close the deal. We will advise them of potential risks involved, but mostly, finding flaws means we are going to get the best bang for their buck, because that’s what we’re here to do.”

The financial advisors have a different view on this. They are oftentimes involved not only in the acquisition phase of their client, but provide them with a wealth of other services as well, so governing the acquisition process may just be one of the things they do for that company, among a lot of other activities and services provided. That makes them care more about the well-being of the company. Also, they do not get to be ‘done’ with the client after the transaction is complete, because they have other business arrangements with them as well. So they see themselves more as full service providers rather than ‘the muscle that closes the deal’.

4.3.2 Dynamic Capabilities and acquisitions: Identification

In the identification process, the negotiation of deals is discussed. Three acquisition managers have indicated that this process happens outside of the M&A team either

by a separate team or is outsourced all together. Financial experts are brought in to value the transaction as typically a premium is paid for acquisitions, especially if the company is not up for sale. And so, the board and acquisition managers may see the value in the form of a competitive advantage, a financial expert needs to look at the financial side of things to figure out if the deal is worth pursuing. These financial teams are typically formed outside of the M&A team as negotiating the deal is a very specific skill that requires a lot more than just business insight. Rather than developing the skill, companies opt for outsourcing the activity. One manager goes on to explain why outsourcing seems to be right for them:

“We use two outside services, investment bankers and lawyers. We use two of each and alternate between the two. Albeit an expensive hire, it allows us not to have to carry the expense of having a large acquisition department and have them sit idly by during off-season”

Where acquisition managers claim to not be heavily involved in the deal making part of the acquisition, this is exactly where the acquisition experts come in and do their thing. This is where the due-diligence process is handled, the company to be acquired is valued, price is determined and the deal gets closed. For the consultants, this is where their expertise lies and why they're brought on to a certain project. The financial advisors state that although they do it often, not once case is the same and that they are only able to standardize the due-diligence process at best, but all other processes related to the art of the deal are different each time, and pricing strategies and deal discussions are formed along the way.

4.3.3 Dynamic capabilities and acquisitions: Reconfiguration

The capability of managing integration, or reconfiguring the organization post-merger, shows mixed results in this dataset. Roughly half of the respondents indicate that the actual integration is done entirely outside the scope of the M&A team. In most cases, upon the integration stage, a business team is appointed to carry the responsibility of integrating the acquired party. A distinction is made by managers between the logistical and people elements of integration. Some managers go on by saying that the entire integration process is not reviewed by the M&A team since this

mostly affects the individual business teams. HR business partners and team managers are entrusted with the task of reconfiguring the organization by retaining the right people and discontinuing employment for people on duplicate positions. In larger companies, different acquisitions affect different business units, and therefore integration capabilities may be developed on a lesser scale than one would imagine. This is what one manager had to say about that:

“I would assume business teams get better at integrating as they do it more often, but they occur at different units of the organization so repeat practices may not occur as often as one would suggest”

Some of the capabilities, mentioned by managers who do oversee the integration process, are agility, more perceptiveness to change, and the retention of the right people in the right positions. One manager noted that with every acquisition, there is an enormity of know-how and capability that you acquire as well. People are at the core of this know-how and therefore the information tends to be extremely tacit and embedded into that person. It is of vital importance to give way to this person to make sure he or she can share the information in a way that he or she is accustomed to. All too often, the acquiring company is quick to offload their culture and way of doing things onto the new people, leaving them confused and sometimes retaliate against the new company. Or sometimes the acquiring company believes to already have an idea of this particular know-how and how it came about. This is how he put it:

“Retaining the talent to fully benefit from the acquisition is highly important in order not to screw up the acquisition. Do not mess up the business by your own incoming bias.”

For acquisition experts, they are rarely asked to be a part of the process during the reconfiguration stage. Therefore, they are not able to pinpoint exact learnings and developed capabilities resulting from managing the integration. The financial experts are oftentimes dealing with fiscal integration when two companies merge or one company is acquired and dissolved into the acquiring company, but their involvement is limited. For the consultants, they are less-involved as well. One consultant explained:

“Managing the integration or reconfiguring the new organization as a result of the merger is mostly a people thing. We are brought on to construct a deal, and what I have seen is that organizations that are serious about integration always resort to hiring an HR business partner to manage that part of the process.”

In short, the development of acquisition specific capabilities is not really dependent on the reconfiguration capability within the expert’s sample, given that none of them are really involved in it. As one of the experts stated that HR business partners are used, these could also be considered to be experts or consultants, however they were not part of the sample interviewed.

4.3.4 Knowledge Transfer and acquisition specific capabilities:

Codification of knowledge

From reviewing the results of the interviews, it is evident that the development of acquisition specific capabilities is not widely supported by codification and verbalization of knowledge and experience. Only a mere two respondents claim to put considerable efforts in preserving knowledge by means of codification, and transform this into manuals or blueprints for future acquisitions to come. Interesting to mention here is that both of these managers work for Fortune 500 companies. All managers indicating not to put formalized efforts into codification and preservation of acquisition knowledge have however stated that they see the importance of doing so, they just never got around to do it and there seems to be a lack of pressure from the top of the organization to pursue this further.

From the two companies that do put considerable efforts towards codification of knowledge, one really stands out in terms of the formality and focus this task is carried out. With this company, the management- and leadership teams both are very keen on preserving this information, since they structure the acquisition departments based on the rotating seat principle. For them, doing acquisitions means you are part of a team that sticks around for about three years, before moving on to higher positions or finding opportunities outside of their organization. So since the seats within the acquisition team are occupied with new talent every so often, it is extremely important to make sure that all knowledge and wisdom collected over a

decade of transactions, is kept very much with the company, and not with the individual team member. The acquisition manager in this particular company went on by saying:

“We include dossiers of each acquisition and what we do is we ask the involved acquisition managers to write-up a detailed reflection on the M&A process, so others may learn.”

For acquisition experts, codification of knowledge with the intent to develop acquisition specific capabilities is a concept that received mixed reviews with the four experts interviewed in this study. Both consultants explained that a certain level of codification occurs in order to document and keep records of done deals and also to train new hires or junior consultants on case related materials. As mentioned before, consultants also feel that codification could possibly hurt the need for their expertise as sharing all insights of a specific project could possibly make their services redundant the next time around, so we see that the consultants are striving to find the right balance between sharing and building a skill-set that is specific to only them. The financial consultants are more diligent when it comes to codification. As their involvement lies mostly in the delivery of financial services, they need to keep records of every deal for auditory purposes, and so they keep detailed records of every deal, safely stored for when audits are conducted. When asked if these records are also used in the development of acquisition capabilities, they admitted keeping this mostly informal, and that official reports are not often used for learning purposes.

4.3.5 Knowledge transfer and acquisition capabilities:

Direction and Routines

Although managers admit to a limited effort towards knowledge preservation, they do admit to some form of routinization in the M&A process. Four managers indicate this happens mostly in the more procedural stage of the transaction, for example with the due diligence process. To quote one manager:

“In the due diligence process, we find that this is mostly a standard process and we do have guidelines for these procedures”

Other managers implicate the process of routinization with the integration stage where company culture, beliefs, and operating principles are embedded into the new organization, however most managers credit the frequency of doing acquisitions for the development of direction and routines. Due diligence procedures, as mentioned before, tend to be standardized in most companies but, because most managers indicate that the due diligence process is mostly handled by a team outside of the acquisition department; they all feel that the formalization of these due-diligence routines are outside the scope of their work. This is in line with the responses collected from acquisition experts, who are the embodiment of these 'outside teams'. All experts state that the due-diligence process starts with a basic checklist which can be extended when new information comes in.

One manager of a large multinational company stated that the M&A team did in fact put considerable efforts in the development of routines and practices to help streamline acquisitions and integration processes wherever necessary. He went on to explain that, especially in the case where multiple acquisitions are carried out on a regular basis, across all business units, it brings a certain peace and quiet to standardize as much of the activities as possible. This is not in the least to keep employees, who went through previous mergers, happy when they witness consistent activities being carried out with regard to the integration of a new company. An added bonus is that these employees are able to help newcomers, having gone through a similar process themselves. Here's what this manager said about this:

"It is very important to us that the integration teams use the same outlined procedures that we've done in prior acquisitions. There are set review-steps in place to make sure our work is consistent with previous acquisitions."

4.4 Dedicated Acquisition Department

The final part of the interview structure is focused on the management of acquisitions within firms. Respondents were asked how acquisitions are managed, what the scope and responsibilities are within the M&A team (if such a team even exists), who had the ultimate

decision making power and finally if they felt the company had benefitted (or they believe could potentially benefit) from having a department in place that handled the entire acquisition process. In table 4.3, a condensed summary of responses given are outlined.

Table 4.4. Dedicated Acquisition Department

		Dedicated acquisition department				
Acquisition Managers	Type of firm	Dedicated department?	Scope of work M&A team	How are managers named?	Approval of target acquisitions	Benefitted from department?
Acquisition Manager 1	Translation Services	- No	- review opportunities - Negotiate the deal	- Appointed by CEO	- CEO	- No, better to have different departments involved than to have one large department
Acquisition Manager 2	Translation Services	- Yes	- Identify Targets - Negotiate the deal	- Appointed by CEO	- CEO	- No, decentralized execution more beneficial
Acquisition Manager 3	Law Firm	- No	- Vote on target acquisitions - Appoint legal teams	- Named by partners	- Partners	- n/a
Acquisition Manager 4	Specialty Chemicals	- Yes	- Identify Targets - Negotiate the deal - Appoint outside services - Review acquisition services	- Appointed by Board of directors	- M&A team together with board of directors	- Yes, keeping a consistent team for over a decade has helped the organization
Acquisition Manager 5	Oil&Gas	- Yes	- Oversee all related M&A activity within the company	- Appointed by Board of directors	- Board of directors	- Yes, centralizing M&A activity shapes organizational structure
Acquisition Manager 6	Construction Services	- Yes	- Investigate potential firms - Negotiate deals - Appoint integration teams	- Appointed by Board of directors	- Board of directors	- No, structure of company does not allow for one team to manage all.
Acquisition Experts	Type of firm	Dedicated department?	Scope of work M&A team	How are managers named?	Approval of target acquisitions	Benefitted from department?
Acquisition Expert 1	Investment Firm	- Majority no	- N/a	- n/a	- CEO or Board	- n/a
Acquisition Expert 2	Consultancy	- Majority yes	- Identify Targets - Appoint outside services - Review acquisition services	- Rotating seat, or selected based on qualifications	- CEO or Board	- Yes, activities should be centralized and a team must be dedicated
Acquisition Expert 3	Accountancy Firm	- No (Mostly small business)	- n/a	- N/a	- Owner (Small businesses)	- n/a
Acquisition Expert 4	Accountancy Firm	- No (Mostly small business)	- n/a	- N/a	- Owner (Small businesses)	- n/a

It is interesting to observe that most of the managers interviewed are part of an M&A team, however they do not believe that all activities should be performed by this team, as business integration and involvement is critical to virtually all managers interviewed. When asked how acquisitions are managed, all but two claim to be a member of a dedicated team, involved in major aspect of the acquisition process. Although the scope of their tasks and responsibilities within that team varies from one team to the next, there are some

overlapping activities among all four of them. They are all involved in target selection, negotiating the deal, and appointing integration teams. Of the two firms that did not identify with a dedicated acquisition team, one of them felt strongly about intentionally not structuring their M&A activities in that way. Here's what he had to say:

"It is something that we specifically and intentionally do not have. I believe that for the company to be good at acquisitions, then the marketing department needs to be involved, the financial department- needs to be involved, the Human resources department needs to be involved etc. as opposed to there's just one department that rules everything that happens."

When asked to give their individual opinion on whether or not a dedicated acquisition department that would cover all aspects of M&A activities would be beneficial to their organization, the acquisition managers were unanimous in saying that they believed that their current structure worked for them and that they did not feel the need to change that. Apart from the one that intentionally had not structured their department this way, others went on to say that they believed their organization wasn't either large enough, or the frequency of acquisitions wasn't strong enough to justify such a department. In fact, managers make a case of using external resources to supplement their M&A activities because even though these outside services are expensive to attract, they only need to pay them when needed, which allows companies to better manage their costs. Also, the issue of capability was brought up by some acquisition managers as a reason not to have everything in house. As mergers and acquisitions are oftentimes not core activities of a company, in-house lawyer and financial experts aren't always capable to handle these types of transactions. Others simply do not see the need for a formalized department as one partner in a law firm goes to explain:

"So many procedures and steps of the acquisition process are known to us due to the nature of our business, so I do not see the need to formalize them in a dedicated function. Plus any partner has the ability to consult another partner if needed, so I do not see it as a great loss that we do not have it (the acquisition department that is)."

For acquisition experts, the questioning was aimed to find out whether a dedicated acquisition department would help the company develop acquisition specific capabilities or not, according to their expert opinion. Three out of four experts stated that they did not see the necessity of such a department, either because if a company did have such a department, they would not be brought on to deal with the acquisition (consultant 1) or simply because they always dealt with smaller companies that were not sized well enough to support such a dedicated department structure. One expert (consultant 2) did claim to see benefits from having the acquisitions handled through one department. He said:

“Having the M&A activities handled by one team on a central level in the organization keeps organizations focused on well-determined goals and keeps actions consistent with earlier acquisitions. If you want acquisitions done right, it has no business being handled on a de-centralized level”

With this statement, he clearly goes against some of the acquisition managers who claim that, in order to embed the acquired company in the organizational structure the right way, business managers need to be involved. These business managers tend to be found on more de-central levels of the organizational chart. A possible explanation for this discrepancy in findings could be that this particular consultant is mainly concerned with acquisitions in large-scale multinational companies who are serial acquirers and benefit from executing acquisitions swiftly and promptly. Another explanation may be that the mere definition of such a department is interpreted differently by both response groups.

Finally, some acquisition managers are weary of restricting all knowledge in one large acquisition department. This seems to be an interesting finding as it seems to call for the sharing of knowledge on a broader scale; something that, when asked in previous questions, most managers had to admit they did not do...

5. CONCLUSIONS AND DISCUSSION

5.1 Conclusions

Through means of an academic, qualitative research, this study has sought to answer the main research question of this research study:

How do organizations develop acquisition specific capabilities from their previous acquisition experience, and what role does an acquisition department have?

Empirical evidence suggests that, among the researched companies, review boards are not used to stimulate post-acquisition learning. Although post-acquisition learning is recognized by all respondents as an important way to improve on future transaction performance, and all have suggested that codification and verbalization of knowledge is something they probably should do, none have expressed the need to formalize key learning's by means of review boards or any other type of formalized activity, and more importantly, they do not feel as though the absence of these review boards hinders them in executing subsequent transactions. Literature suggests differently, where Collins and Smith (2006) suggest that the transfer of knowledge to tangible and tactical information is useful for the company to build a sustainable, competitive advantage. Nadolska and Barkema (2013) went on to prove with their research that a lot of poor acquisition performances are due to the mis-transfer of knowledge that was brought in from previous transactions, and also on the lack of structure in Top Management Teams, where these review boards are typically found in an organization.

In the academic literature, Eisenhardt and Martin (2000) suggest that even though the acquisition capabilities are largely path-dependent and idiosyncratic in nature, there are certain commonalities to be found among them because certain organizational challenges (such as transactions) are generic in nature. This is somewhat supported by the empirical data in this research. Selection capabilities all seem to revolve around build vs. buy, scale vs. scope, and managing expectations of CEO or Board of Directors. Also, even though the

reconfiguration capability shows more variety, common themes can be found here also such as the importance of integration speed, cultural awareness, and talent retention.

Finally, the theory that the development of acquisition specific capabilities is enhanced by structuring all acquisition activities in one single department, on a central level in the organization, is not supported by the empirical results. This does not prove the theory wrong as all managers but one indicated that many activities were outsourced outside of these teams, leaving to little empirical evidence to make concluding statements about this part of the research.

5.2 Discussion

5.2.1 Prior acquisition experience

As is suggested in the literature, success and frequency of acquisitions are important factors in transferring skills and capabilities from one acquisition to the next (Nadolska & Barkema, 2013). This is confirmed in empirical evidence where both acquisition managers and experts are admitting that acquisition is very much a 'learning by doing' game. Aside from the already existing validation of acquisition experience on acquisition performance (Hayward, 2002) and the importance of similarity and frequency of these acquisitions (Laamanen & Keil, 2008), empirical data also suggests that the acquisition experience has helped companies to better shape the strategic direction of the company because they learn more about their own company and its direction with each acquisition. Acquisition experience sometimes even results in the decision not to acquire and opt to build a capability or market from the ground up.

In their study, Vermeulen and Barkema (2001) also suggest that benefits are only to be gained when companies not only acquire often, but also conduct the same type of acquisition over and over. Other studies confirm this claim (Haleblian J. D., 2009) (Zollo & Singh, 2004). This statement however is not a hundred percent support by empirical data in this particular study. Although respondents do not argue to the fact that when conducting the same type of transactions over and over, you become better at it each time, they do state that it can impose limitations to the development of acquisition capabilities and have a negative effect on organizational development.

This is believed to be due to the fact that executing similar acquisitions over and over could possibly limit companies in detecting- and following up on other type of opportunities because the skills to do other types of acquisitions have not been developed. This leads to the following proposition:

P₁: Performing similar acquisition activities limits the development of broader acquisition capabilities and thus the organization's ability to strategize on a broader scale.

5.2.2 Post-acquisition learning

Grant (1996) believes that knowledge is the most strategically-important resource among organizational members, and states that knowledge is at the essence of a firm's capability. Collins and Smith (2006) suggest that the transfer of knowledge to tangible and tactical information is useful for the company to build a sustainable, competitive advantage. This knowledge usually occurs in tacit form, and is often found with the members of the acquisition team. This knowledge needs to be converted to an explicit form, in order to codify and transform it into a systematic language so all members of the acquisition team are able to use this knowledge for future acquisitions (Nonaka, 1994). Empirical evidence shows that the majority of the companies do not apply this structure, or at least not in a formal way and they therefore differ in opinion from the existing literature. Although described as potentially helpful, the process of codifying data and transferring it into new acquisitions is not found to be an absolute necessity among acquisition managers and experts. They find that the informal route of knowledge sharing works just as well and is even preferred among some of the respondents. This is a direct opposite finding of a study done by Zollo & Winter (2002) in which they discuss the important of organizational deliberate learning and the evolution of dynamic capabilities. Earlier in this paper, we have compared the development of dynamic capabilities as described in the existing literature to the development of acquisition capabilities, centered in this research. Zollo & Winter claim in one of their propositions:

"Dynamic capabilities emerge from the coevolution of tacit experience accumulation processes with explicit knowledge articulation and codification activities (Zollo & Winter, 2002)"

Taking a second opinion from another study, Kale & Singh (2007) talk in their study about building firm capabilities through learning applied to the 'alliance learning processes. Assuming similar conclusions can be drawn related to acquisitions as opposed to alliances, they go on to say:

“We conceptualize it (alliance learning process) as a process that involves articulation, codification, sharing, and internalization of alliance management know-how within firms (Kale & Singh, 2007)”

Both claims from Zollo & Winter as well as Kale & Sing are directly opposed by empirical evidence in this study. This leads to the following proposition:

P₂: Post-acquisition knowledge sharing in the form of informal communications produces similar results as if this process was formalized in a codification process.

5.2.3 Acquisition specific capabilities

Capron & Anand (2007) define an acquisition based dynamic capability as the capacity of the firm to purposefully create, extend, or modify its (acquired) resource base. As such, they identify 'selection', 'identification', and 'reconfiguration' as the main components of the overall acquisition capability.

Selection:

Respondents agree and identify with all three of the capabilities found by Capron & Anand (2007). Managers claim to have gotten better at selecting the right partners and create criteria for partner selection based on prior experiences. A common ground among all respondents is the managing of board expectations related to potential partners by defining clear criteria and expose hidden challenges that are specific to that particular partner. This leads to the following proposition:

P₃: Managing (board) expectations by acquisition managers allows companies to create sound selection criteria and focus more on required skill(s) rather than attractive pricing.

Identification:

Respondents have indicated that the art of closing a deal related to the acquisition is mostly handled outside of the firm, or outside the scope of the M&A team. This contradicts a study by Inkpen *et al.* (2000) which state the importance of such capabilities to be kept within the acquisition team. A point is made by respondents that someone from outside the organization, whether it is an investment banker or another form of financial advisor, is better able to look at a deal objectively, is not driven by the desire to 'have to have' that company, and is more equipped to come up with the right price. This prevents companies from having to pay a large premium due to their eagerness of wanting to buy. This leads to the following proposition:

P₄: To get the best possible price, negotiations are best done, or governed, by financial experts outside of the organization

Codification and Routinization

According to Easterby Smith & Prieto (2008), verbalizing and codifying knowledge are key ingredients that fuel the development of acquisition capabilities. Referring back to paragraph 5.2.2, other scholars have also proven the importance of formalized codification and routinization processes with the aim to better develop dynamic capabilities (Kale & Singh, Building firm capabilities through learning: the role of the alliance learning process in alliance capability and firm-level alliance success., 2007) (Zollo & Winter, 2002) (Zollo & Singh, 2004). Creating formal procedures enables the application of experience and enhances the creation of routines, which in its turn will help develop acquisition capabilities (Eisenhardt & Martin, 2000) (Laamanen & Keil, 2008). The empirical results show that this is not found often in organizations that have been interviewed. Most managers have indicated that some level of codification exists but is not formalized in any shape or form. Interestingly enough, the two companies that apply a rotating seat principle for members of the M&A team are keen on, and have been successful in the implantation of written guidelines and manuals to keep the knowledge within the department. This leads to the following proposition:

P₅: Applying a rotating seat principle for the selection of members within an acquisition department stimulates the development and implementation of formal codification- and routinization processes.

5.2.4 Dedicated acquisition department

The concept of a dedicated acquisition department is in current academic literature only existent in the context of alliances. It was Kale *et al.* (2002) who found that organizations that had a dedicated alliance function, which was responsible for overseeing and coordinating a firm's alliance activity, showed a positive relationship to a significantly more successful alliance. Their work was based on previous studies (Anand & Khanna, 2000) (Simonin, 1997) (Barkema, Sheker, Vermeulen, & Bell, 1997) who suggested that firms with more alliance experience would typically demonstrate better performing alliances. In this study, the researcher has assumed the characteristics for such an alliance function to be similar to a dedicated acquisition department. In a later study, Kale & Singh (2007) apply the theory of articulation and codification of collective knowledge (Zollo & Winter, 2002) to these dedicated functions and by doing this, they proved that firms who are actively structuring their alliance activity in a dedicated function are developing superior alliance capabilities which ultimately yields better alliance performance. If this were true for dedicated acquisition departments, the empirical evidence in this study would present these findings, but that seems not to be the case. In fact, acquisition managers and experts who identify being a part of such a dedicated department, mostly do not credit their successes to the department. They sometimes indicate an organizational necessity for structuring their M&A activities that way, but never with the intent to formally articulate and codify key findings to contribute to the development of acquisition specific capabilities. This leads to the following and final proposition of this study:

P₆: "Firm's accommodating their M&A activities within a dedicated acquisition department show similar progress in the development of acquisition specific capabilities than firms choosing for a structure that does not have one department covering all aspects of the M&A process."

5.3 Reflection and key learning's

In the preceding discussion, two of the four constructs of this research study stand out as far as insightfulness of its outcomes. First, there is the concept of articulation and codification of knowledge and the development of routines related to acquisition specific capabilities. Prior to this study, it was expected based on extensive literature research that the importance of this concept would prevail from the empirical data, however the opposite has proven to be the case. Interviewed companies have all indicated that they see the importance of what Zollo & Winter (2002) tried to prove related to the development of dynamic capabilities resulting from a formalized codification process and the subsequent transferring of knowledge into usable routines, however all but a few stated that no considerable efforts are taken to implement this and, more importantly, they do not seem to think it is hurting the desired outcome.

The second and closely related outcome is that existence of a dedicated acquisition department (in which the codification process would ideally take place) is not always found in the interviewed companies (which was to be expected) but the importance of such a department is not always seen by companies and interviewed acquisition managers and experts. Most notably, companies that do structure their activities in such a department, do not credit their M&A successes to this department. One could ask the question whether the researcher was right to assume alliance functions and dedicated acquisition departments would behave similar and therefore alliance capability theories could easily be applied to acquisitions. The argument could be made that alliances differ from acquisitions in the sense that they are dependent on two organizations to harmoniously- autonomously co-exist whereas with acquisitions the acquired company mostly always is dissolved in the larger, dominant acquirer company, and therefore would never be able to show similar patterns. However valid that argument may be, no definitive conclusions can be made based on the existing data set.

Would this information have been evident prior to conducting this study, the researcher would have made bigger efforts to zero in on the differences in performance of companies that structure their M&A activities differently. With the current data set, observations can be stated but no definitive conclusions can be drawn since the data is not rich enough to support such claims. It would have been an interesting find, and a great contribution to

research if somehow we could have proven that among both constructs, both approaches could have proven successful, proving there is a significant degree of equifinality, or in other words, the road to developing acquisition specific capabilities knows many routes. This would argue that both codification and routinization, as well as employing a dedicated acquisition department can be seen as 'causes' of the development of acquisition specific capabilities, but a mere 'possible road' to achieve the same result.

5.4 Limitations

As with every study conducted in the academic field, limitations are always accompanying research results and the conclusions made based upon those results. Also this study is not immune to these limitations. The first and biggest limitation is the limited number of respondents that were interviewed. This, coupled with the qualitative nature of this study which has its own set of limitations such as the subjectivity of the unit of analysis, and the fact that qualitative studies tend to only be based on pre-defined assumption of the researcher, makes that only a small level of generalization can be applied to the research results. The researcher has attempted to take away part of this limitation by finding as broad of a variety of respondents as possible, but due to the low number, this variety is not nearly a total reflection of the entire population of acquisition managers and experts.

Also, because of the open format of the semi-structured interviews, it proved to sometimes be nearly impossible to ask the exact same questions to all respondents because sometimes based on previous answers during the interview, the next question could be irrelevant to that specific case, or had been made redundant by previous answers. This leaves a great deal of the data-analysis exposed to the subjectivity and interpretation of the researcher.

None of the findings have been verified by secondary or tertiary sources. This makes the conclusions and recommendations made in this study subject to interpretation of the researcher and may not one hundred percent reflect the actual situation. Also, the implication could not be checked, since the researcher has not found a way of telling if certain prior experiences and post-acquisition learning developments had in fact contributed to better- and more flawless acquisition processes. The word of the respondent together

with a comparison of answers of all responses together were used to come to these conclusions and heavily depend on this particular data set.

5.5 Recommendations for future research

This research is a first attempt to put the existence of and M&A team together with the development of acquisition specific capabilities. Although insightful, the study has failed to prove the relationship between the two. A recommendation would be to extend and build on this model, and find more companies that have structured all of their M&A activities in one department. These would typically be found in large-scale organizations such as Fortune 500 and top-listed companies across the globe. They would need to be serial acquirers since this research has shown that frequency of acquisitions is an important determinant whether or not transaction activities are structured in one dedicated department.

As is written in the limitations chapter, this research has been unable to verify acquisition performance to validate its findings. It would be recommended to include this step in the research- and data collection method.

Finally, one of the outcomes of the research is that divestitures are named in the same breath as mergers and acquisitions by virtually all respondents. It could prove to be insightful to include the capabilities involved in divestitures in the questions, and rephrase the term acquisitions and acquisition department as ‘transactions’ and ‘transaction department’.

5.6 Management implications

A few practical implications can be shared here that have emerged from the interviews conducted with acquisition managers and acquisition experts, which could prove helpful to managers and organizations dealing with mergers, acquisitions, and divestitures.

- Take the time and effort to build a codification and knowledge retention process. All acquisition managers have indicated that this is something they should probably do, but have never gotten around to. Building this process will allow for the development of a wealth of knowledge and expertise, all kept in a single place, available for all

parties involved in the process. New team members will benefit from the existence of these manuals so they are able to study past acquisition history and ask questions for verification purposes to other, more senior members. Most likely, these questions would never be asked without such a process in place and valuable insights may be forgotten or simply lost along the way

- Managing the acquisition process can be lengthy and planning is important. A few steps, collected from responses from some of the acquisition managers and experts could help structure this process:
 1. **Plan for ownership:** It is important to know what your plan is, even before you get the board involved in the decision making process. Examples are knowing when logistics need to be in place and how integration is proposed. This will allow you to ‘hit the ground running’
 2. **Integrate quickly where it matters:** Know which of the acquired skills, knowledge and culture you wish to adopt, define what to divest, and always keep focusing on maintaining the core.
 3. **Put culture high on the leadership agenda:** The cultural elements are usually the ones (based on empirical evidence) that are going to kill the successful implementation of the acquisition. It is important not to force yourself and your corporate culture onto the new company, but it is important to know what your culture is and that of the acquired party, to find common ground and identify desired cultural elements to adopt.
 4. **Maintain power:** It is important to ‘keep feeding the goose that lays the golden egg’. The golden egg being that what you acquired. Know what you acquire, know why you have acquired it, and have a plan in place to maintain it.

5.7 Academic implications

Where this study fell short in some parts due to limited or inconclusive data sample, the study did show that little is known about the behavioral patterns of a dedicated acquisition department and the people that occupy such departments. There seems to be a mismatch between what popular literature suggests vs. actual, real-life scenarios. Further research is needed to test if claims made in this study hold ground. However, the claims in itself provide

insightful information with regards to how the literature expects the development of acquisition specific capabilities to take place versus the practical implementation. The empirical evidence in this study suggests that knowledge sharing does not necessarily need to take place in a formal setting, and that informal sharing of best practices yields similar results. Also, contrary to what literature suggests regarding how alliance functions should operate, acquisition functions seem to follow a different pattern leaving room for academics to further investigate on this topic.

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APPENDICES

Appendix A: Sample interview topics Acquisition Managers

Appendix B: Sample interview topics Acquisition Experts

Appendix A: Sample interview topics acquisition managers

Respondent Information	
Name	
Age	
Education	

Prior Acquisition Experience	
# of acquisitions per annum / past five years	
Type of acquisitions - Knowledge Based - Market expansion etc..	
Benefitted from knowledge or mis-transfer observed?	

Post Acquisition Learning	
How are learning opportunities identified?	
Does Integration play a role?	
Are codifying systems in place to 'neutralize' extremely tacit knowledge?	
If not, how is learning stimulated?	

Acquisition Specific Capabilities	
Dynamic Capabilities	
Identify Targets (selection)	
Negotiate Deals (Identification)	
Manage Integration (Reconfiguration)	
Knowledge Transfer	
Verbalizing and codifying knowledge	
Direction and Routines	

Dedicated Acquisition Department	
How are acquisitions managed?	
Who approves target acquisitions?	
How are price proposals arranged	
Who ultimately approves due-dilligence teams?	
How are acquisition managers named?	
Would you feel your company would benefit from a dedicated acquisition department to streamline and manage all acquisitions?	

Appendix B: Sample interview topics acquisition experts

Respondent Information	
Name	
Age	
Education	

Prior Acquisition Experience	
# of acquisitions per annum / past five years	
Type of acquisitions involved in - Knowledge Based - Market expansion etc..	
How PAE has contributed to future acquisitions. Both expert and the firm	

Post Acquisition Learning	
How are learning opportunities identified? Are they shared with firms?	
Is integration part of the learning process for experts?	
Are codifying systems in place to 'neutralize' extremely tacit knowledge?	
If not, how is learning stimulated?	

Acquisition Specific Capabilities	
Dynamic Capabilities	
Identify Targets (selection)	
Negotiate Deals (Identification)	
Manage Integration (Reconfiguration)	
Knowledge Transfer	
Verbalizing and codifying knowledge	
Direction and Routines	

Dedicated Acquisition Department	
How are acquisitions managed?	
Who approves target acquisitions?	
How are price proposals arranged	
Who ultimately approves due-dilligence teams?	
Would you feel a firm would benefit from a dedicated acquisition department to streamline and manage all acquisitions?	

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Table 2.1.1 Acquisition Based Dynamic Capabilities

Selection	<i>Capacity to recognize when an acquisition would be the most suitable strategic move for gaining new resources</i>
Identification	<i>Capacity to find and negotiate with, the most suitable targets</i>
Reconfiguration	<i>The capacity to reshape resources within the target and acquiring firms</i>

Table 2.5 Schematic Overview of Constructs

Constructs	Acquisition Specific Capabilities	Prior Aquisition Experience	Post Acquisition Learning	Dedicated Acquisition Department
Prior Aquisition Experience	Expected is that experience will be more of a factor when firms acquire closely related to their own business. It is expected that acquisition experience enables organizations to develop skills to improve their efficiency in making future acquisitions		Experience will likely have a limited effect on learning since every acquisition is heterogeneous, irregular and yields different outcomes each time, so it will be hard to take learnings to next acquisitions	It is expected that if experience is articulated and put through a formal codification process, and this process is brought under in a dedicated acquisition department, greater results are expected
Post Acquisition Learning	It is expected that knowledge is the essence of a firm's capability and that many efforts will be taken to preserve this knowledge. Literature suggests that many companies are not aware of the tacit nature of most knowledge and needs to be made aware through codification of this knowledge.	It is expected that through experience accumulation and codification of explicit knowledge in manuals, systems and other tools, the acquirer can learn to adapt for future acquisitions		If an M&A team exists, it is expected that although learning happens within the team, the nature of the knowledge will remain tacit and not accessible to other members of the organization.
Dedicated Acquisition Department	This concept is underdeveloped in existing literature. The researcher expects that firms who place all of their M&A activities in a single, dedicated team will show greater skill in the development of acquisition specific capabilities	Prior experience is expected to be a under-utilized tool among the members of a dedicated acquisition department. The experience is most likely stored as tacit knowledge and in need of going through a codification process to become explicit and accessible to all members	Since it is the job of a dedicated acquisition department to enable- and manage integration of knowledge (among other things), the process of transferring and integrating knowledge could best be placed withing a dedicated acquisition department.	

Table 3.2 Respondent Characteristics

Name	Acquisition Managers	Age	Type of firm	Position	Education	Work experience
M.S	Acquisition Manager 1	47	Translation Services	VP Corporate Business Development	MBA	20+ years
M.H.	Acquisition Manager 2	42	Translation Services	Division President	MSc, BA	20+ years
K.P	Acquisition Manager 3	36	Law Firm	Senior Partner	LLB	15+ years
W.H.S	Acquisition Manager 4	48	Specialty Chemicals	VP & Chief Growth Officer	MBA	25+ years
R.M	Acquisition Manager 5	54	Oil&Gas	VP Corporate Development	MBA	30+ years
P v.d E	Acquisition Manager 6	32	Construction Services	Business Development Manager	MScBA, MScFIN	5+ years
Name	Acquisition Experts	Age	Type of firm	Position	Education	Work experience
S.M.H	Acquisition Expert 1	32	Investment Firm	Senior Acquisition Consultant	MBA	10+ years
S.S	Acquisition Expert 3	52	Consultancy	Director, Downstream Consulting	MSc, BA - PhD	30+ years
C.V.	Acquisition Expert 3	53	Accountancy Firm	Relation manager / Acquisition advisor	AA	30+ years
T.K	Acquisition Expert 4	33	Accountancy Firm	Accountant	MSc, AA	15+ years

Table 4.2 Post Acquisition Learning Results

		Post Acquisition Learning		
Acquisition Managers	Type of firm	Learning through review boards	Does integration play a role?	Are codification systems in place?
Acquisition Manager 1	Translation Services	No	Yes, bot more on logistical integration level	No, great idea but never got around to it
Acquisition Manager 2	Translation Services	No	Yes, bot more on logistical integration level	No
Acquisition Manager 3	Law Firm	No	Yes, but limited to service staff	No, Partners keep their speciality and lack of interest from other partners prevents sharing
Acquisition Manager 4	Specialty Chemicals	No	Yes, integration is key	Yes, in case the exisiting team no longer exists, we have manuals in place to help successors
Acquisition Manager 5	Oil&Gas	No	Yes, integration is key	Yes, because the M&A team rotates seats every three years, all knowledge needs to be written down to help the next person
Acquisition Manager 6	Construction Services	No	Yes, integration is key	No, we talk about it all the time but it was never implemented
Acquisition Experts	Type of firm	Learning through review boards	Does integration play a role?	Are codification systems in place?
Acquisition Expert 1	Investment Firm	No	No	Yes, to train new hires
Acquisition Expert 2	Consultancy	No	No	No
Acquisition Expert 3	Accountancy Firm	Yes	No	Yes, but for auditory purposes
Acquisition Expert 4	Accountancy Firm	Yes	No	Yes, but for auditory purposes

Table 4.3. Acquisition Specific Capabilities Results

		Acquisition Specific Capabilities				
		Dynamic Capabilities			Knowledge Transfer	
Acquisition Managers	Type of firm	Selection (Identify Targets)	Identification (Negotiate Deals)	Reconfiguration (Manage Integration)	Verbalizing and Codifying knowledge	Direction and routines
Acquisition Manager 1	Translation Services	- Build vs. Buy - Establishing core values	- Focus on skill rather than attractive pricing	- Communicate internal values	- No	- No
Acquisition Manager 2	Translation Services	- Focus on smaller companies - Develop family of brands	- (Done externally)	- improve speed of integration	- No	- Not formalized but a culture book has been developed.
Acquisition Manager 3	Law Firm	- Identify client needs first - Scale vs. Scope	- Learning to outsource - Conduct thorough analysis	- integrate existing people into the new organization also	- Not formalized - records of previous deals are kept	- Due diligence and logistical integration processes are formalized
Acquisition Manager 4	Specialty Chemicals	- Learning about company - Aware of non-public information	- Organic vs. Acquisitive - Acquire based on capability	- retaining talent	- No	- Processes are standardized
Acquisition Manager 5	Oil&Gas	- Scale vs. Scope - Knowing when to walk away	- (Done externally)	- Agility - Perceptive of change	- Detailed dossiers of each acquisition are kept	- Recurring transactions are standardized to speed up process and keep consistency
Acquisition Manager 6	Construction Services	- Look beyond board excitement for hidden challenges	- Done by separate team in the organization	- Safeguarding competitive advantage by retaining right people	- No	- No
Acquisition Experts	Type of firm	Selection (Identify Targets)	Identification (Negotiate Deals)	Reconfiguration (Manage Integration)	Verbalizing and Codifying knowledge	Direction and routines
Acquisition Expert 1	Investment Firm	- Not involved in	- Heavily involved, expertise	- Not involved	- Yes, to train employees	- Not formalized
Acquisition Expert 2	Consultancy	- Not involved in	- Heavily involved - Best 'bang for their buck'	- Advise on, but not involved in	- No	- No
Acquisition Expert 3	Accountancy Firm	- Only minorly involved	- Due diligence, Negotiating the deal and ability to walk away from deal	- Involved since the client is linked to us with other services as well	- Yes, for auditory purposes	- Certain aspects such as due diligence is formalized
Acquisition Expert 4	Accountancy Firm	- Only minorly involved	- Due diligence, Negotiating the deal and ability to walk away from deal	- Client should think of this before us negotiating the deal	- Yes, for auditory purposes	- Certain aspects such as due diligence is formalized

Table 4.4. Dedicated Acquisition Department Results

Dedicated acquisition department						
Acquisition Managers	Type of firm	Dedicated department?	Scope of work M&A team	How are managers named?	Approval of target acquisitions	Benefitted from department?
Acquisition Manager 1	Translation Services	- No	- review opportunities - Negotiate the deal	- Appointed by CEO	- CEO	- No, better to have different departments involved than to have one large department
Acquisition Manager 2	Translation Services	- Yes	- Identify Targets - Negotiate the deal	- Appointed by CEO	- CEO	- No, decentralized execution more beneficial
Acquisition Manager 3	Law Firm	- No	- Vote on target acquisitions - Appoint legal teams	- Named by partners	- Partners	- n/a
Acquisition Manager 4	Specialty Chemicals	- Yes	- Identify Targets - Negotiate the deal - Appoint outside services - Review acquisition services	- Appointed by Board of directors	- M&A team together with board of directors	- Yes, keeping a consistent team for over a decade has helped the organization
Acquisition Manager 5	Oil&Gas	- Yes	- Oversee all related M&A activity within the company	- Appointed by Board of directors	- Board of directors	- Yes, centralizing M&A activity shapes organizational structure
Acquisition Manager 6	Construction Services	- Yes	- Investigate potential firms - Negotiate deals - Appoint integration teams	- Appointed by Board of directors	- Board of directors	- No, structure of company does not allow for one team to manage all.
Acquisition Experts	Type of firm	Dedicated department?	Scope of work M&A team	How are managers named?	Approval of target acquisitions	Benefitted from department?
Acquisition Expert 1	Investment Firm	- Majority no	- N/a	- n/a	- CEO or Board	- n/a
Acquisition Expert 2	Consultancy	- Majority yes	- Identify Targets - Appoint outside services - Review acquisition services	- Rotating seat, or selected based on qualifications	- CEO or Board	- Yes, activities should be centralized and a team must be dedicated
Acquisition Expert 3	Accountancy Firm	- No (Mostly small business)	- n/a	- N/a	- Owner (Small businesses)	- n/a
Acquisition Expert 4	Accountancy Firm	- No (Mostly small business)	- n/a	- N/a	- Owner (Small businesses)	- n/a

EXPERIENCE is a hard teacher, because it gives the **TEST**
first, the **LESSON** afterwards

- Tony Robbins

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