AN INTEGRATIVE APPROACH TO EXPLAINING THE ACQUISITION DECISION

By

John S Marsh, II.

An Abstract of a Thesis Submitted to the Graduate

Faculty of Rensselaer Polytechnic Institute

in Partial Fulfillment of the

Requirements for the Degree of

DOCTOR OF PHILOSOPHY

Major Subject: MANAGEMENT

The original of the complete thesis is on file in the Rensselaer Polytechnic Institute Library

Examining Committee:

Phillip H. Phan, Thesis Adviser & Committee Co-Chair

Andrew C. Corbett, Committee Co-Chair

Kenneth L. Simons, Member

Bill B. Francis, Member

Rensselaer Polytechnic Institute
Troy, New York

July 2009
(For Graduation August 2009)

ABSTRACT

Despite an overwhelming amount of research, the phenomenon of acquisitions is still not well understood. Acquisitions are very complex phenomenon. Since the overall decision is so complex, researchers typically only study a single aspect of the phenomenon. The traditional approach has been to frame acquisitions in the lens of a single theory chosen to best explain the particular aspect of study. However, this approach has led to a plethora of theories and difficulties in synthesizing our understanding of the acquisition phenomenon. In particular a recent meta-analysis found cross-study comparison almost impossible due to the inconsistency in variables chosen and theoretical perspectives used (King, Dalton, Daily, and Covin, 2004). Another recent attempt tried to synthesize the multiple perspectives by using a multi-theoretic approach (Villalonga & McGahan, 2005). However, they found evidence of significant overlap and possible interactions among these theoretical perspectives. Many other researchers have identified a number of these possible interactions (e.g., Schmidt & Fowler, 1990; Seth, 1990; Hitt & Tyler, 1991; Lane, Cannella, & Lubatkin, 1998; Coff, 2002; Haleblian, Kim, & Rajagopalan, 2006), however all of these interactions have been introduced in an ad-hoc manner. Without any theoretical basis, Villalonga and McGahan were unable to identify or describe these new interactions or overlaps.

This study attempts to address these problems and offer a way of synthesizing acquisition research by theoretically developing an integrative model of the acquisition decision. Specifically, this study recognizes that the four most popular theories used to explain acquisitions (transaction-cost economics, the resource-based view, the behavioral theory of the firm, and agency theory) describe two different levels of analysis.

Specifically, transaction-cost economics and the resource-based view both describe firm-level acquisition motives while the behavioral theory of the firm and agency theory describe manager-level acquisition motives. Using the theoretical roots of these theories, this study uniquely deduces that there must be an interaction between these two levels of analysis.

Using this model, this study also uniquely identifies theoretical overlap between transaction-cost economics and the resource-based view. Specifically, the resource-based view is an aspect of transaction-cost economics in which the costs of transaction are especially high. Using this relationship, this study also recognizes that certain manager-level characteristics will more strongly influence certain firm-level acquisition motives. This study also finds mixed empirical evidence that supports this view but also suggests that as a result of treating these two theories independently some traits of the resource-based view have been misappropriated to transaction-cost economics and vice versa.

More importantly, this study also strongly contributes to acquisition research by developing a number of novel empirical techniques relevant to this area of study. First, this study uses a unique dependent variable: the acquisition decision. Prior research has either used post-acquisition performance or the choice of acquisitions or a relational form of governance, like alliances. Neither of these dependent variables directly measures the determinants of acquisitions and therefore only offer approximations of the determinants of acquisitions.

In addition to the unique variable of interest, this study also uses a unique random-sampling approach to model the acquisition decision. This approach avoids both the computational difficulty and error correlation that result from the large number of

possible firm-firm combinations that could result in an acquisition. This study finds that these interactions significantly improve the fit of the model of the acquisition decision but are of questionable significance. Additional analysis suggests that many of these interactions may be context-specific or dependent on other factors not included in my model.

This study also introduces an adaptation of the two-sample t-test that can be used to test the relative strengths of interaction effects in logistic regression models. Using this novel empirical technique, I find some evidence that incentive-alignment more strongly moderates higher transaction-cost firm-level acquisition motives and that monitoring more strongly moderates lower transaction-cost firm-level acquisition motives. However, my evidence is inconsistent and offers speculation that some resources may be commonly misattributed as transaction costs. I also find evidence that shareholders monitor technologically or externally focused acquisitions especially intently. This study also finds evidence that the variable acquisition experience more closely mirrors the predictions of the resource-based view and not the behavioral theory of the firm despite being frequently used by both.

These results are cautiously interpreted as evidence that this paper has identified at least one nature of the inter-relationships between the acquisition theories. More importantly, however, these results are examples of the unique insights possible made possible by the approach developed here and how this approach can be used to synthesize currently divergent acquisition literature together into a theoretically-grounded comprehensive model of the acquisition decision.

Thus, this study addresses the concerns raised in recent research, identifies and characterizes examples of both theoretical and empirical overlap in the existing theories, unifies two of our most widely cited theories, introduces novel empirical approaches and techniques, finds promising insights into more complex relationships than had been previously conjectured, and offers future researchers a theoretically grounded, scalable, broad foundation upon which to build future acquisition models.