

Developing a Research Question

Example - Why are Indian successful/ unsuccessful in Cross Border Acquisitions?

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Introduction

Despite numerous studies stating that 50% of the M&A fail to achieve their stated objectives, Indian conglomerates have been using M&A as their key globalization strategy. It seems M&A is used largely to acquire technologies and competencies to compete and succeed in both domestic and international arena [1]. For example, Hindalco has used various M&A such as that with Novelis, to boost its revenue from USD 500 million to USD 15 billion in seven years and has become world's largest aluminum producer. Tata Steel's takeover of Corus to make it a second largest steel producer in the world is a second example to the point. Despite the herculean effort required in executing these transactions and the corresponding vision, stock market doesn't seem to react favorably to M&A news. Tata Steel and Hindalco share prices fell 10.7% and 13% respectively post the acquisition announcements [2]. The obvious question that arises is **why are Indian firm M&A seemingly unsuccessful?** To comprehend and try to answer these questions, it is imperative that we first understand the reigning paradigms in Strategic Management.

Paradigms

In his book, "The structure of scientific revolution", Kuhn defines a paradigm as a mutually shared world view with which a community of researchers works. A paradigm encompasses mutually shared assumptions, technical methods and common "lingo" that researchers deploy to grow and expand their respective discipline. A paradigm predefines type and set of problems that have reasonable chance of obtaining successful solution and therefore may be undertaken by researchers who share the paradigm. This according to Kuhn is the "puzzle solving" process by which the "normal science" grows. While pursuing this normal growth, a discipline may encounter a set of problems that may not be solved by the reigning paradigm and these problems become seed for development of new paradigm that may one day overthrow the old paradigm. Thus according to Kuhn, science sometimes experiences, these paradigm shifts that break the normal incremental puzzle solving growth and result in a new almost explosive growth of the scientific discipline [3,4,5].

Kuhn admits that this structure of scientific revolution proposed by him applies to physical sciences and suggests that he is not sure if at all, any of the social sciences have acquired paradigms. According to him "the road to a firm research consensus is extraordinarily arduous".

This, "evolution like" theory of growth of science propagated by Kuhn was in stark contrast to the logic of scientific growth proposed few decades earlier by Popper in his book *Logic of Scientific Discovery*. According to Popper, the process of formulation of scientific theory is in realm of psychology and is very difficult to capture, he proposes a process of "falsification" once the theory and its corresponding/ resulting hypothesis are available. To him the process of induction can never lend a theory correct, for example observing many white swans cannot let us conclude that there are NO black swans. Instead sighting of a single black swan lets us reject the proposition that all swans are white. This obvious asymmetry makes him conclude that science progresses by proving the existing theories wrong, this he calls "falsification" and this process according to him results in new theories and makes science grow [6,7].

Kuhn himself is aware of this contrast between his puzzle solving growth view of science and a falsification based view of Popper. It appears that the growth of day – to – day science perhaps does not interest Popper and he seems to focus on those periods of "paradigm shifts" where the process of falsification is the key to evolution of new paradigm. Growth of "normal" science by process of falsification seems too onerous for the researchers, especially for the social scientists pursuing social science where explaining a phenomenon in midst of variable chaos is itself a challenge. This renders the falsification of an existing theory quite difficult.

Hence answering the proposed research question first requires ascertaining paradigms that may be reigning in field of strategic management and it wouldn't be surprising if the field has many paradigms that are simultaneously pursued by different groups of researchers.

Theories in Social Sciences

Strategic Management is surely a derivative of social sciences and works of both Kuhn and Popper refer to physical science theories and address the theory development in social sciences only cursorily. Abraham Kaplan in his work "The conduct of Inquiry" ponders over the theory development in social sciences. Kaplan and Popper both agree that the process of theory building is "intuitive" albeit with cognitive style that can be characterized as logical, this style Kaplan defines as "logic in use" but the expression or representation of the new theory (publication) is based on, for example by hypothesis and testing, and is called the "Reconstructed Logic". Both Popper's falsification principle and Kuhn's paradigm shifts are applied on such mass of reconstructed logic – a maze of logically coherent theories under a reigning paradigm. Kaplan feels that much of research in social science is like drunkards search – a drunkard searches the key under the light because there is light there. But this type of search (under the light) represents the essence of growth of science where only those puzzles are chosen that can be solved using the reigning paradigm – pretty much like – a drunkard searching for only that key that he is reasonably certain and hopes to find under the light of the paradigm [7]. It is this reasonable confidence that motivates his search under the light – the rest of the keys (puzzles) he conveniently ignores because there is simply no paradigm to light the area (Note I disagree with Kaplan here).

For "Logic in use" theory to Kaplan is a way of making sense of a disturbing situation. Only in the "reconstructed logic the theories become a devise for interpreting and unifying the existing laws and modifying the laws to fit the available data. A theory would require its own laws and concepts; the old concepts are reconstituted and the laws given new meaning. Of the two theories mentioned by Kaplan – concatenated theories – wherein the laws enter into a network of relationships and – Hierarchical

theories – wherein the laws are deduced from a small set of basic principles – it is likely that the strategic management theories will be concatenated theories and not hierarchical theories which the micro-economic theories mostly are. Hierarchical theories are improved by changing some of the underlying postulates and concatenated theories are improved by extending patterns or showing a pattern to be part of a much larger pattern [7].

Validation for Kaplan of social theories is not as simple as “falsification” process as stated by Popper. Norms of validation are based on three philosophical conceptions of truth – Norms of correspondence, Norms of coherence and Pragmatic norms. Norms of correspondence according Kaplan are satisfied if predictions made by theory are fulfilled and it “fits the facts”. Norms of coherence imply that the new theory fit the theories already established but this tantamount to saying that reigning paradigms will continue forever. Use of Occam's razor of not multiplying the variables beyond necessity or “simplicity” or “esthetic” also has little bearing on the social theories. Kaplan says that the pragmatic norm – the effectiveness with which it performs its function is probably the right test of validity of a social science theory.

Thus Kaplan's argument remains that inquiry in various sciences are not subject to “common” logic or methodology but are autonomous or independent and this he calls “autonomy of inquiry”.

This view seems to be quite radical especially for the field of strategic management. That the strategic management theories can be validated by their effectiveness and that strategic management inquiry is autonomous from the logic and methodology used in physical sciences.

In my judgment the Kuhn's puzzle solving approach for growth of knowledge under a reigning paradigm and emergence of new paradigm by test of falsification as suggested by Popper is more appropriate model for development of the theories strategic management field.

Good and Bad Theories

How can we associate a value judgment to the theories? Staw and Sutton claim that parts such as references, data, list of variables and constructs, diagrams and hypotheses do not form a “sum of parts” which is theory [8]. According to them a “Good” theory is one that is successful in providing that “why”. A good theory should systematically understand the deeper reasons for the occurrence of a phenomenon. This is something easier said than done. The geocentric theory did for many centuries explain the occurrence of various phenomena and satisfactorily fulfilled the norms of coherence and pragmatism. Weick unlike Stew and Sutton does not readily distinguish between “good” and “bad” theories and goes on to accept the importance of “Theorizing” – the importance of the intermittent forms that are communicated and cross germinate the development of a “Good” theory [9].

Bacharach unlike others is definitive and not equivocal about what a theory is and what its criteria for evaluation are. He has laid down a perfect road map of how a “reconstructed logic” should look like. “Logic in Use” is a researcher's personal domain but a “good” theory born out of the “reconstructed logic” should have the form defined by Bacharach – a form that pretty much looks like the present day structural equation models -A pot-puree of constructs and variables joined by propositions and hypothesis to be accepted or rejected by coefficients in a structural equation model [10].

Bacharach does intermittently refer to the Kaplanian tautologies such as “the proper concepts are needed to formulate a good theory but we need a good theory to arrive at the proper concepts” but these are lost in the academic rigor of his views that gel well with Nunnally's Psychometric methodology. Popper's general “falsifiability” gets depicted as “construct validity” making the mapping on to psychometric theory complete.

So what would constitute a “Good” theory in strategic management? Probably the question is redundant in the field of strategic management. What good are the “Good” theories validated by large data set using statistical techniques such as multiple regressions and structural equation models if theoretical explanations are not acceptable or mundane or irrelevant to a simple and intuitive “logic in use” of a strategist in the organization.

Strategic Management Paradigms

It seems that since formal (academic) inception of the field three distinct paradigms have emerged and are still coexisting explaining the phenomena that lend to puzzle solving under each of them. Though each individual paradigm has come in vogue and gone, there is no clear winner as yet. Hoskisson, Hitt, Wan and Yu have summarized these seasons of individual paradigms as swings of pendulum in research in strategic management [11]. The inception of the field was marked by the dominance of Resource Based View (RBV) – largely an internal view of the organization. The paradigm that became popular later was the Industrial organization (IO) economics – largely an external view that emphasized that the structure of the industry dictated the conduct of the firm and that in turn led to the performance. Organization economics – an application of transaction cost theory and agency theory to the firm directed the research post IO Economics. Recently again, the RBV has regained the popularity and directs the puzzle solving albeit with all the learning's gained during the journey.

RBV (First Phase):

The practical questions that confronted the field were towards the development of new organizational structures, choice of business to pursue and function and responsibilities of general management. It was construed that generalizations to filter laws – leave aside theory building, was not possible hence best practices were researched by case studies. This inductive approach though did not lend itself to systematic growth in the field.

IO Economics:

Rumelt et al. suggest that the use of IO economics in strategic management was motivated by need to explain puzzles such as problem of persistent profit [13]. Porter catalogued a series of phenomena such as entry barriers that could explain such puzzles. Porter's structure conduct performance framework and concept of strategic groups led the way in the transition to IO Economics paradigm [12]. It was IO Economics that changed the field of strategic management from inductive case study based art to a statistical analysis based deductive science that tested and validated hypothesis to arrive at generalized laws.

Organizational Economics:

The IO economics considered a firm as a black box – Organizational economics made the field venture into that black box. Theories of transaction cost economics and agency theories were used to address

puzzles such as hybrid forms of organization (JVs etc), international strategy, innovation, corporate governance, diversification etc. Thus the pendulum swung from industry structure variables to managerial motives, asymmetric information, contract enforcements etc.

RBV (In Vogue):

The problem with the IO Economics paradigm was that it assumed that all firms in an industry are same except for such obvious variables such as size. Even if there were some heterogeneity in the resources between the firms, this heterogeneity was assumed to be short lived as the resources were highly mobile. Thus though IO paradigm could explain the average profitability in an industry, it could not explain the difference in performance of various companies in a given industry. The central premise of the RBV paradigm addresses this question as to how firms achieve sustainable competitive advantage [13].

The modern RBV of the firm assumes that firms within an industry or strategic groups are heterogeneous and the resources are the strengths that firms use to conceive and execute their strategies. A firm achieves a sustained competitive advantage when it can implement a value creating strategy that cannot be simultaneously executed or duplicated by any of its current or potential competitor. The basic tenet is that the phenomenon described by Porter such as mobility barriers can only exist if the firms were to control heterogeneous and immobile resources. Additional factor that is supposed to lead to sustained competitive advantage is the causal ambiguity as to how these heterogeneous and immobile resources combine to create this advantage. Because of this causal ambiguity it is difficult for the competitors to acquire the right mix of the similar resources to duplicate the strategy. For e.g. several firms may possess or acquire the same physical technology but cannot fully exploit it due to lack of socially complex firm resources such as culture. There is surely causal ambiguity as to how to acquire a mix of resources (visible tangible resources) to create a complex firm resource such as culture (intangible resource) to assimilate the technology.

Wernerfelt suggest that the RBV provides the basis for addressing some key issues such as [15]:

- On which of the resources should the diversification be based and what resources to be developed thereafter?
- Markets for diversification
- Acquisition target selection

Mergers and Acquisition according to him provides an opportunity to trade normally immobile resources in bundles and thus post analysis of the fitment of the target firm's resources with those of its own, a firm can use M&A to craft strategy that results in a sustainable competitive advantage.

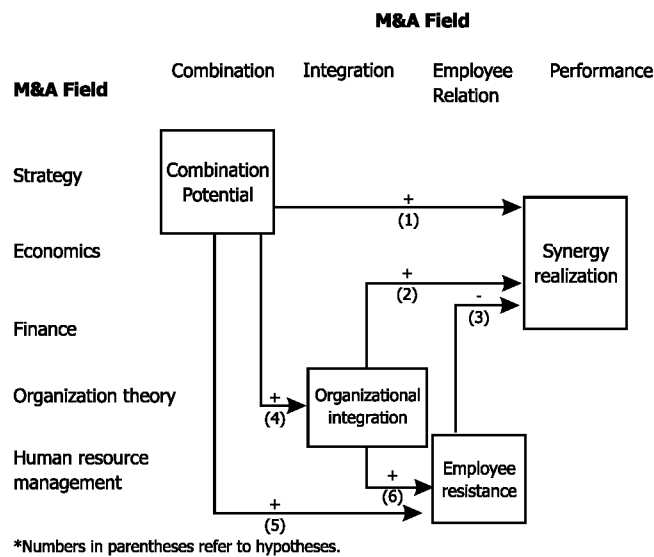
Theories Explaining M&A Phenomena

Despite the noble aim of acquiring the heterogeneous and immovable resources to achieve sustainable competitive advantage most M&A's turn out to be financial failures and the quest for the sustainable competitive advantage remains elusive. Marks et al. opine that one of the causes of failure is the manager's self-interest, a behavior explained by the agency theory in Organizational economics [16].

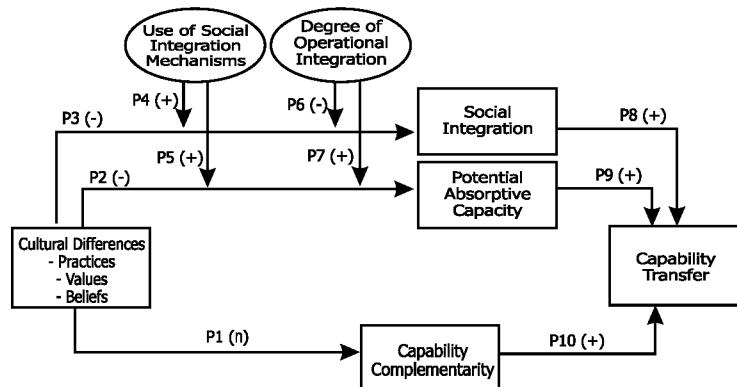
Chen et al. suggest that developing economy multinationals acquire high intellectual property firms in

advanced economies to escape the weak innovation systems in the home country [17]. Thus they imply the acquisition of immovable heterogeneous resource as main motive for M&A. These high intellectual property targets according to Chen et al. give the developing economy multinationals technological comparative advantage in the home country. The M&As by the advanced economy multinational do not seem to be as successful.

Opong proposes, based on his research of M&A involving Ghana firms that the key to M&A success is the integration of the workforce by carefully planned relationship development activities by the management [18]. Larsson et al. consider usage of accounting or market return data as not an appropriate benchmark for analyzing the success of M&A and propose a use of case study approach as they consider "organizational integration" as the single most important factor in explaining the success of M&A [20]. They define the success of M&A as captured by synergy realization which in turn is dependent on combination potential and organization integration and cultural factors (figure below - directly from the reference [20]).



Björkman et al. propose that the cultural differences tend to affect the transfer of resources and corresponding capability due to its impact on factors such as social integration, "absorptive capacity" etc. The model proposed by them is given below (directly from reference [19]).



The small literature survey conducted reveals that barring obvious Organizational economics based agency theory type explanation for the failure of M&A (failures due to managers going on “ego trip” are too obvious and would be rather exceptions and not a rule); the RBV based failure to integrate the acquired immobile and heterogeneous resources largely due to causally ambiguous social and cultural factors appears to be a more palatable explanation for the failure of Indian firm (Developing economy multinationals) M&As. The Indian firms though may be more successful in their M&A than advanced economy multinationals.

Thus the present research around the causal explanation of the failure of Indian M&As should largely be a puzzle solving approach based on case methodology and surveys and building structural equation models based on these surveys to isolate and understand the underlying constructs that may throw light on the causal ambiguity surrounding the impact of socially complex factors on the success of M&As.

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