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TOWARDS A GOVERNANCE PERSPECTIVE TO MERGERS AND ACQUISITIONS

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ABSTRACT

The aim of the present study is to conceptually integrate insights from governance theories of the firm to the research area of mergers and acquisitions (M&A). The primary governance theories of the firm are understood to consist of the neoclassical view of the firm, the nexus of contracts perspective, agency theory, early incomplete contracting theory, transaction cost economics and property rights theory.

This study uses a bipartite research agenda, consisting of conceptual and bibliometric methodologies to investigate two aspects of conceptual integration. Firstly, the role of the governance theories in the *de facto* structuring of the M&A discourse, with a focus on disciplinary research orientations, underlying theories and key antecedents to performing M&A research, is investigated. Secondly, the contribution of the governance theories to M&A in the form of interlinkages between the two discourses is analyzed. It is shown that the governance theories assume significant roles that vary vis-à-vis their importance and function within the M&A discourse.

Based on various types of identified interlinkages between governance theoretical thinking and the M&A discourse, a novel, holistic governance perspective to M&A is presented. This perspective, consisting of an academically oriented exploratory mapping of the research field as well as a set of suggestions on how to apply governance theory into M&A decision-making, is intended to stimulate further integrative research in the area of M&A. Simultaneously, it demonstrates the usefulness of a general governance perspective to management research and highlights the need to consider governance not as an administrative exercise, but as an area of strategic decision-making.

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Espoo, December 2002

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LIST OF ABBREVIATIONS

M&A = Mergers and acquisitions

TOF = Theory of the firm

GTOF = Governance theory of the firm

KBV = Knowledge-based view

RBV = Resource-based view

CBV = Capability-based view

OEA = Organization of economic activity

TCE = Transaction cost economics

AT = Agency theory

PR = Property rights

NoC = The nexus of contracts perspective, a.k.a. the complete contracting tradition

IC = The incomplete contracting tradition

IPR = Intellectual property rights

EVA = Economic value added

IO = Industrial organization

IE = Institutional economics

OE = Organizational economics

IOE = Institutional and organizational economics

1 INTRODUCTION

1.1 Motivation for the study

In the 1990s, discussion of corporate strategy was dominated by the so-called competence paradigms, e.g. the resource-based and knowledge-based views as well as core competence and distinctive capability thinking (Sanchez and Heene 1997). It is not surprising that this discussion has also penetrated the study of mergers and acquisitions (M&A). After all, M&A is one of the key issues in corporate strategy. As the understanding of the nature of M&A processes has improved, the focus of strategic M&A research has increasingly shifted to value creation through corporate renewal based on the development of firm competences (Haspeslagh and Jemison 1991, Jemison and Sitkin 1986**,** Hitt et al. 1993**,** Shanley and Corea 1992). At the same time, however, the existence of two primary strategic management research paradigms, the governance and competence perspectives, both of which can be argued to be based on distinctive theories of the firm, has been acknowledged (Williamson 1999, Madhok 2002, Foss 1999, Langlois and Foss 1999, Hoskisson et al. 1999, Lockett and Thompson 2001, Hodgson 1998). Unlike the competence perspective, the significance of the governance perspective to the study of M&A has not been explicitly recognized.

In real life, M&A deals with both worlds. The role of competence in motivating, justifying and performing M&A as well as making them succeed is undeniable. Simultaneously, there are a number of issues in M&A that deal with how economic activity is governed within the boundaries of the involved firms. Intuitively, at least two categories of 'M&A related governance' exist. Firstly, M&A is intimately involved with the governance of different stakeholder groups, e.g. the owners, managers, employees and directors of the company. Corporate governance issues are intimately related to many real-life M&A. The preservation of property rights and shareholder value is also a governance issue. The incentives, information and risk preferences of various actors and actor groups need to be understood to establish a full picture of M&A. Additionally, many of the psychological and behavioral aspects of M&A decision-making, e.g. understanding the limits of human cognition, managers' empire-building ambitions and the problematic role of investment bankers, are essential issues that deal with stakeholder group governance in the context of M&A.

Secondly, there are also a number of issues in M&A that deal with the more administrative governance of the M&A transaction and the involved firms. Such issues include the legal dialogue around contracting e.g. the new corporate entity, determining the exact boundaries of the firm according to financial indicators through investment and divestment decisions, establishing new reward, control, monitoring and reporting mechanisms and financial restructuring of the firm. On the grassroot level, there is the huge administrative task of reorganizing the functioning of everyday life and getting to know new colleagues after an

M&A project. In conclusion, it seems rather self-evident that there is a governance aspect to M&A as much as there is a competence aspect.

However, a theoretical perspective to M&A that would concentrate on the insights of the governance theories and integrate them under one common heading is missing. Building one could possibly develop strategic thinking in M&A in both the academic and professional communities. On the one hand, it could possibly encourage more research governance-based M&A research and thus develop M&A thinking. On the other hand, it might be able to interweave the many complex messages of a wide academic field into a single cognitive framework straightforward enough for managers to adopt in their dialogue. All things considered, it seems that there is substantial motivation to engage in fundamental theoretical M&A research from a governance perspective.

1.1.1 M&A as a research area

M&A is a peculiar social scientific phenomenon in that it "cuts across numerous disciplinary boundaries" (Marchildon 1991, p. xi). Academically, M&A has been scrutinized from the viewpoint of a multitude of disciplines, e.g. finance, economics, law, business, strategy, organization theory, human resource management and sociology. M&A is, however, also an interesting real-life phenomenon, proof of which is the wealth of attention it receives from managers, politicians, legislators and the media. M&A is also an important driver of change of the way economic life is organized and business is conducted, or more formally, 'the organization of economic activity'[1].

Definitions

The interdisciplinary nature of the M&A discourse is reflected in the versatile definitions provided in the literature. Some definitions emphasize the organizational context of M&A:

> "The term 'merger' has two meanings in the context of combining organisations. Merger can refer to any form of

[1] The organization of economic activity is a fundamental issue, in which the theories of the firm are assumed to be interested at the level of the organization. The origin of the concept relates to Ronald Coase's (1937) ideas about the institutional structure of production, which was originally a rather simple set of determinants but has since then been conceptualized to be determined by a plethora of issues. In the study of the institutional structure of production or the organization of economic activity, two major streams exist. The *governance perspective* (see especially Williamson 1996, 1999) emphasizes a diverse set of *contracting and transacting characteristics*, e.g. asset specificity, appropriation, ownership, incentives, information, authority, self-interest and so on. The competence perspective (including various organizational routine, resource, knowledge and capability emphases, see e.g. Nelson and Winter 1982, Barney 1991, Peteraf 1993, Teece, Pisano and Shuen 1997, Ghoshal and Moran 1996, Kogut and Zander 1996, Conner 1991) focuses on the firm's ability as an institutional mechanism to organize economic activity in a way that markets cannot, yielding an opportunity for sustainable superior-to-market performance.

> combination of organizations, initiated by different kinds of contracts. The more specific meaning that separates mergers from acquisitions is that a merger is a combination of organizations which are similar in size and which create an organization where neither party can be seen as the acquirerer." (Vaara 2000, p. 82)

Other definitions highlight the importance of corporate identity:

> "Consolidation implies the combining of two or more firms submerging .. into a new corporate identity, while acquisition involves .. a company which retains its corporate identity" (Marchildon 1991, p. xi)

> "Merger – the absorption of one firm by another. A combination of two or more companies in which the resulting firm maintains the identity of the acquiring company" (Scott 1997)

Dictionary definitions work on a very general level and highlight the difficulty of drawing boundaries between mergers, acquisitions and takeovers:

> "[A merger is a] fusion of two companies or, sometimes, an acquisition or a takeover of one company by the other" (Reuters 1982: *Glossary of International Economic and Financial Terms*.)

Some definitions stress the disappearing of the former corporate entities more than the birth of a new one:

> A merger occurs when "two or more enterprises cease to be distinct or there are arrangements in progress or being contemplated that will lead to enterprises ceasing to be distinct" (Competition Bureau, Government of Canada, 2001)

In recent management literature, the negotiation aspect is emphasized:

> "The word merger refers to negotiations between friendly parties who arrive at a mutually agreeable decision to combine their companies .. In general, mergers reflect various forms of combining companies through some mutuality in negotiations" (Weston et al. 2001, p. 6)

Some definitions stress the complementarity and learning rationales of the mergers:

> A merger happens when two firms combine their practices in order that each gains a new area of expertise (Holtzman 1994)

Elsewhere, traditional economics literature has at times put it rather simply:

> "[A merger:] Firms combine the factors of production in different proportions" (Jervis 1971, p. 1)

While recent, arguably academically sound definitions give more emphasis to the M&A process:

> The expression M&A has been established to represent both joint agreement between the management of two firms to merge that is submitted to the shareholders for approval (including consolidation where the separate firms are dissolved into a new joint corporate identity) and acquisition of one firm by another through tender offer (i.e., publicly announced takeover bid) (Larsson 1990, cf. Jensen 1985)

In financial literature, capital structure has often been seen as the key:

> "A merger .. is an amalgamation or fusion of two or more firms into a new firm with a different capital structure" (Reid 1968, p. 22)

In legal dialogue, the European Union's definition[2] of "concentration", implying the common features of both mergers, acquisitions and other arrangements leading to the agglomeration of economic entities, is often employed. According to it, a merger occurs when:

a) Two or more previously independent undertakings merge
b) One or more persons already controlling at least one undertaking, or one or more undertakings, acquire, whether by purchase of securities or assets, by contract or by any other means, direct or indirect control of the whole or parts of one of more other undertakings.
c) The creation of a joint venture performing on a lasting basis all the functions of an autonomous economic entity.

As can be seen in the definitions, the phrase 'mergers and acquisitions', or M&A, is a reference to two categories of merger activity: mergers by consolidation and mergers by acquisition. Scholarly literature generally holds the term 'merger' to include both

[2] Council Regulation (EEC) No 4064/89 of 21 December 1989 on the control of concentrations between undertakings, published in the Official Journal. Only the published text is authentic: Official Journal C 385, 31.12.1994, p. 12.

consolidation and acquisition activity, but this study uses the term M&A (mergers and acquisitions) to encompass both fields. In essence, M&A can, and has been, treated as a single phenomenon in management, economics, business history, industrial organization, law, econometrics and finance alike (Marchildon 1991).

In this study, mergers and acquisitions, or M&A, is treated as a single business phenomenon. This is not to omit the differences between e.g. mergers, acquisitions and takeovers. Rather, the analysis concentrates on the effect M&A, as a whole, has on the organization of economic activity. With respect to the organization of economic activity, the different 'modes' of M&A are perceived to be similar, the essential issues being the extension in firm boundaries, the death and birth of a new organizational entities and a change in the internal organization logic of firms.

Research in M&A

The M&A discourse, consists of the academic insights into the phenomenon of mergers and acquisitions (M&A). The other research area scrutinized in this study is governance theoretical research, which, at the level of the firm, can be perceived to consist of the various governance theories of the firm. In the research process related to this study, these two research areas have been investigated conceptually in order to build a solid understanding of the two. The conceptual analyses of the M&A and governance discourses are affixed to this study as Appendices 1 and 2 respectively. There are four reasons for this. Firstly, some of the issues within the conceptual analyses are very much repetitive to readers familiar with either or both. It is perceived unnecessary to include them as a part of the core study, since they would occupy a disproportionately large fraction of the space in this document compared to their intellectual input. Secondly, having said this, it would not seem a logical exercise to cut the conceptual analyses simply in order to fit them in the main section of the study. Performing a thorough conceptual analysis is vital for the theory-building exercises in this study and thus their content should attempt to be somewhat exhaustive. Thirdly, as appendices, the conceptual analyses are available to readers as separate passages, which improves their usability in acquiring a general overview of either field. Finally, including them as Appendices also reflects the true chronological research process performed for this study. The research process started with separate research efforts that concentrated on performing the conceptual analyses, which were consequently used in the more acute formulation of the rest of the research project.

Research on M&A received increased attention and grew in popularity during the last two decades of the 20th century. There are generally two sets of reasons for increasing academic attention on M&A. Firstly, a number of interesting M&A 'sub-phenomena' have taken place in the business world during the last few decades. These sub-phenomena include a) merger

waves, b) the increasing role of corporate governance struggles in M&A, c) sustained demerger activity, d) the prevalence of difficulty and disagreement in measuring the success of M&A, e) the counterintuitive unsuccessfulness of M&A, f) attitudes and behavior of M&A professional service providers and h) the non-prescribeability of post-merger processes. Particularly empirical management research has taken an interest in studying these M&A sub-phenomena, some to a greater extent than others. Many if not all of these sub-phenomena are relevant, interesting topics of both academic and managerial discussion.

Secondly, social scientific research streams that are interlinked, overlapping and parallel to M&A research have developed remarkably during the past few decades. These relate and are strongly reflected to the various disciplinary orientations from which M&A has been researched during the last few decades. Some particularly advanced management research areas, e.g. corporate finance, capital markets, strategy, organization theory, corporate culture and human resource management can be said to have spurred research in M&A.

Some of the advances in these fields are naturally related to the M&A sub-phenomena and they are subsequently analyzed in their context below. More importantly, however, some of the advances in these orientations are particularly reflected in the types of motivations and justification presented for the existence of M&A. M&A is typically a phenomenon-oriented research topic, which can be approached from basically any research angle. Naturally, the prominent and advancing theoretical approaches are thus most likely to present new viewpoints to M&A and reveal the most interesting research findings.

M&A research has conventionally been seen to be organized in more or less well demarcated research streams or schools of thought. There are a number of merited, yet qualitative, reviews of the M&A literature (see e.g. Haspeslagh and Jemison 1991, Larsson and Finkelstein 1999, Cording et al. 2002, Weston et al. 2001, Gammelgaard 1999, Kim 1998 Bengtsson 1992 and Auerbach 1988). Table 1 presents some of the more recent categorizations of the M&A research streams.

Table 1: M&A research streams as identified in recent overviews of M&A literature

Cording et al. 2002	Larsson and Finkelstein 1999	Weston et al. 2001	Haspeslagh and Jemison 1991
Overpayment	Strategic management	Process	Capital markets
Agency problems	Economics	Strategy	Strategy
CEO hubris	Finance	Finance	Organizational behavior
Top management complementarity	Organizational research	Agency problems	Process
Experience	Human resource management	Hubris	
Employee distress		Redistribution	
Conflicting cultures			
Process			

There are some common denominators in the way M&A research has been categorized. Most of the overviews, including the ones in Table 1, agree over the significant positions of a) strategic management, b) finance-oriented, c) economics, d) process and e) culture/HRM research. Particularly Haspeslagh and Jemison's (1991) categorization into the 'capital markets school', the 'process school', the 'strategic school' and the 'organizational behavior school' has been popular.

The different schools of thought have employed rather different methodologies in their scrutiny of M&A. Particularly what Haspeslagh and Jemison (1991) peg the capital markets school, and arguably also economics and finance-oriented M&A research in general, are highly appreciative of quantitative, event study and non-linear regression methodologies (Brown and Warner 1985, White 1980). In essence, they measure the changes in share prices that take place over a short time interval around the announcement of the deal to determine the share price, and consequently shareholder wealth, effect of the M&A in question. Albeit much criticized (see e.g. Stallworthy and Kharbanda 1988, Acharya 1988, 1993, Eckbo, Maksimovic and Williams 1990), the use of event study methodology has been justified by economics assumptions (e.g. the efficient market hypothesis) and remains popular.

Also research in the strategic school of M&A research has relied heavily on empirical and statistical methodologies based on data from the stock markets and financial statements. Most notably, researchers concentrating on the performance effects of acquisitions, starting with Kitching's seminal studies (Kitching 1967, 1974), have attempted to find statistically significant correlations between various characteristics of the involved firms and their share

price performance and/or profitability. Strategic research concentrating more on the improvement of acquisition success has been keener on case studies (e.g. Jones and Pollitt 1999, Cliffe 1999, Campling and Michelson 1999), success stories, narratives (Vaara 2002) and other qualitative methodologies, and the linkage to the research and findings of the strategic acquisition performance research seems surprisingly weak (cf. Haspeslagh and Jemison 1991, p. 303). The process school, which is essentially strategic M&A research that goes deeper into the steps and dynamics of the M&A process, shares the interest in case study methodology (e.g. Bastien and Van de Ven 1986). The process school and the organizational behavior oriented M&A research incorporate, in addition to case studies (e.g. Difonzo and Bordia 1998, LeRoy and Ramanantsoa 1997), also survey-type research yielding both qualitative and quantitative results.

In general, M&A research is characterized both methodologically and vis-à-vis its research strategies and approaches by its rather strong economics tradition emerging from e.g. the fact that influential early M&A researchers (e.g. Kitching) were trained economists. Arguably, the economics tradition still shows in a) the polarized debate concentrating on looking for either a 'yes' or a 'no' answer to the question whether acquisitions create value, b) the way M&A research is concentrated on the analysis of discrete structural alternatives (to merge or not to merge, or alternatively, to merge or to acquire), c) the large amount of statistical and quantitative research and d) the lack of pure conceptual research. The trend, however, seems to be in favor of increasing methodological variety, as e.g. economics-flavored case studies have increased significantly over the past few years (see e.g. Bruner 1999, Vita and Sacher 2001, Weiss 1994).

1.1.2 Problematization

This study belongs to an overall research effort interested in the organization of economic activity in contemporary societies. This type of research is characterized by the appreciation of the need for multiple disciplinary perspectives to single management research phenomena, investigation at different levels of analysis (e.g. individual, firm, inter-organizational, industry and global) as well as a general appreciation of conceptual research aiming at building frameworks and mental models that operate as cognitive frameworks for academics and professionals (cf. Meind, Stubbart and Porac 1996).

Much of the firm-level analysis of the organization of economic activity has taken place in what have become known as the theories of the firm (TOFs), which essentially concentrate on the implications contracting has on the essential questions of the existence, boundaries and internal organization of the firm (Foss 2000). Theories of the firm can generally be divided into governance and competence perspectives (Williamson 1999, Foss 2000). Governance perspectives emphasize the institutional nature of the firm as an organizational entity and pay

more attention to the boundaries of the firm, whereas the competence perspectives, like knowledge- and resource-based theories of the firm (See e.g. Rumelt 1974, Nelson and Winter 1982, Richardson 1972, Hamel and Prahalad 1994 and Demsetz 1993) or the view of the firm as an information processor (e.g. Cremer 1990 and Aoki 1986) can be perceived to emphasize the internal organization of the firm.

Governance theoretical research has generally manifested an ability to deal with numerous management research topics, especially ones that involve significant changes in the organization of economic activity. Altogether, M&A seems to be representing a large and ever-growing proportion of the total change in the organization of economic activity in contemporary society, given that economic historians have been reporting growth in both their average size and their number. Whilst M&A is but one aspect amongst many[3], it has also been argued to be the primary driver of the reorganization of economic activity (See e.g. Williamson 1996, Ch. 11). M&A, given that it deals with the amalgamation of two or more individual firms into one, is also a management research topic, which essentially deals with the boundaries of the firm.

Despite all this, governance theoretical research on M&A has been surprisingly uncommon. The governance theories of the firm have been perceived to represent fragmented approaches that have been applied, if at all, individually to specific narrow topics within the M&A discourse (for examples of such narrow applications see such classics as e.g. Williamson 1985, Jensen and Ruback 1986, Roll 1986, Morck, Schleifer and Vishny 1990, Amihud and Lev 1981 or more recently e.g. Holmström and Kaplan 2001, Matsusaka 2001, Chi 2000, Pagano 2000). The prime motivation for this study is that the governance perspective, which is not a collection of segregate, conflicting theories but a cognitive framework through which various governance theoretic insights can be united, holds considerably more potential for M&A research than has thus far been realized. Consequently, one of the key foci of this study is to analyze M&A literature and research and the role of governance theory in it.

This study attempts to interlink the governance and M&A discourses[4] at different conceptual levels and build an overarching interdisciplinary discussion. In doing this, this study also answers the recent call for research permeating the boundaries between

[3] Besides M&A, there are numerous other 'reorganizers' of economic activity, e.g. cooperative arrangements between firms, changing industry logic, change in the nature of work, the emergence of the network society, the changing nature of time and space, the opening of global market places and so on (See e.g. Castells 1996, Tikkanen and Parvinen 2002b).

[4] In other words, this study concentrates on the bulk of *reputable academic output* around the topics of the governance theories of the firm and M&A. The former is understood to consist of institutional and organizational economic analyses at the level of the firm, tackling questions concerning the existence, boundaries and internal organization of firms. The latter is understood to consist of academic writings around mergers, acquisitions, takeovers, acquisitive behavior, consolidation, integration and amalgamation of companies.

management and economic theory. While the main case of this study (M&A) is a management discourse, the tools employed (governance theories of the firm) originate from economics. By and large, the present study thus attempts to advocate an interdisciplinary research orientation by applying the economics-flavored governance theories to M&A as a management research topic.

1.1.3 Towards the research questions

The focus of this study is to tackle the problematization of the M&A discourse as described above. In this section, the problematization is attempted to be refined into a general research aim and in order to form a logical thought sequence that originates from the motivations of this study and leads to the acute formulation of the research questions.

As outlined above, there are two general research areas in this study, i.e. the M&A discourse and the contribution of the governance theories of the firm to the M&A discourse. Within these two research areas, the study has a more defined research focus that is defined as the knowledge gaps that are perceived to exist in the interplay of the governance and M&A discourses. Despite many merited overviews of the M&A discourse (e.g. Haspeslagh and Jemison 1991, Larsson and Finkelstein 1999, Cording et al. 2001, Weston et al. 2001, Gammelgaard 1999, Kim 1998), there has not been a rigorous effort to map the structuring of the discourse systematically. Furthermore, no systematic effort to apply the governance perspective to a particular management research phenomenon (such as M&A) as a meaningful whole, not as individual theories, has been encountered during the research process. What is more, the governance theoretical treatment of M&A is perceived to be generally weak and in need of reinforcement. These limitations in current governance theoretical and M&A research can be perceived to comprise a conceptual knowledge gap whose identification is vital in the process of problematization of this study (cf. Locke and Golden-Biddle 1997).

Succeeding at dealing with these topic-related foci in meaningful depth requires limiting the scope of the study otherwise. This study assumes that the academic output on M&A represents both a reliable source of information regarding the nature of M&A discourse and that there is an intimate relationship between the major contours of the academic M&A community and professional M&A. In other words, high-level academic investigation is assumed to be needed to both identify empirically and conceptualize independently issues that are useful for M&A decision-making. The focus of this study is what underlies the M&A discourse. The analysis is focused to operate on a high level of abstraction, implying that most of the theory-building in this study focuses on how the governance perspective can be perceived to influence M&A through academic and professional mindsets, as opposed to focusing on e.g. the particular influences of governance insights on the particular strategies of

particular firms. The focus is thus *primarily* on looking for the structuring and influence of governance theories within the M&A literature and only *secondly* on structuring the various, disciplinary 'schools' of M&A thought. Methodologically, this means that this study focuses on scrutinizing the M&A discourse on the basis of what has been written in leading academic journals during the past ten years.

Subsequently, the aim of this thesis is to map the actual structuring of the M&A discourse using both objective and subjective methodologies[5]. Thus the aim is firstly to map different research orientations in M&A literature. Secondly, the aim is to identify the theories, which have been used in M&A research as well as the key antecedents that have motivated M&A research. Thirdly, the aim is to appraise the contribution of the governance theories of the firm to the M&A discourse, which is assumed to operate on at least three different levels, namely a) the interlinkages between the academic roots and traditions between the two discourses, b) the academic output that derives intellectual input from the governance theories to the analysis of M&A and c) the use of governance based insights in building on managerial understanding about M&A and facilitating decision-making.

These research aims have been formulated as the principal research questions of this study. The research questions and their sub-questions are formulated as:

Research Question 1:	What is the *de facto* structuring of the M&A discourse?
Sub-Question 1a:	What are the disciplinary research orientations?
Sub-Question 1b:	What are the theories used in M&A articles?
Sub-Question 1c:	What are the key antecedents of performing M&A research?
Research Question 2:	What is the contribution of the governance theories of the firm to M&A?
Sub-Question 2a:	How are their intellectual roots and traditions interlinked?
Sub-Question 2b:	How do they cross-fertilize academically, i.e. how does M&A literature derive input from the governance theories?
Sub-Question 2c:	What is the potential for a governance-based framework for M&A decision-making?

[5] While the conceptual analysis is primarily based on subjective judgment, the bibliometric analysis yields objective statistical results about the structuring of the discourse.

The first research question tackles what has really been said about M&A, i.e. mapping the *de facto* structuring of the M&A discourse. The aim is not to perform this in a qualitative and/or descriptive manner, but through systematic analysis of M&A articles published during a fixed time period. More specifically, this study maps the M&A discourse vis-à-vis the disciplinary research orientations, theories and antecedents used in a body of M&A research that can be argued to represent the current state of the M&A discourse.

The second research question is interested in the contribution of the governance theories of the firm to M&A both as an academic discourse and as a business phenomenon. There are three levels at which such contributions are sought. Firstly, the interlinkages between the intellectual roots and academic traditions of both worlds are explored. Secondly, their cross-fertilization in academic research is analyzed. Finally, this study is also interesting in determining the potential for a governance-based framework for M&A decision-making. This means that one of the main purposes of this study is to develop governance thinking in a direction, which makes it more available to managerial dialogue and more applicable to M&A decision-making situations.

The research questions engulf a wealth of literature[6] and traverse disciplinary boundaries. They lead to a dilemma of how to gather the wealth of information in these domains, harness it in a plausible way, investigate what is relevant in it and process it into a communicable format[7], so that it could actually increase understanding of M&A. Thus, despite the fact that the aforementioned research questions set the primary targets of the present study, this study has a further aim in developing cognitive frameworks based on the answers to the research questions. This is done by building an arsenal of propositions that, besides tackling the research questions, act as a basis for building the frameworks. As is indicated in the sub-questions to Research Question 2, a perspective combining academic and decision-making oriented viewpoints is aspired. In practice, this means that the general governance perspective to M&A advocated in this study consists of two approaches. The *explanatory governance approach to M&A* addresses primarily academic audiences interested in M&A *research* by mapping the questions, answers, shortcomings, knowledge gaps, future knowledge gaps and others implications of the conceptual interplay between the two discourses. The *prescriptive governance approach to M&A*, then again, addresses both academic audiences and practitioners by identifying ways in which the governance approach could be used as a cognitive framework in M&A decision-making.

[6] See Appendices 1 and 2 for a conceptual overview of the research in the M&A and governance theoretical discourses respectively.
[7] To increase the readability and prepare the reader for the language and concepts in the area of the study, a semantical overview of the terminology is presented in Appendix 3.

1.2 Research Strategy

The research strategy of this study is crystallized in two issues. Firstly, the concept of meta-analytical research and the selection of two particular meta-analytical research approaches, bibliometric and conceptual research, are explained and linked to the aims and research questions of this study. Secondly, an overview of the research process is given together with a detailed description of the essential research materials and the way in which the selected methods have been used in this study.

1.2.1 The meta-analytical research approach

Why meta-analytical research?

The more extensive research effort that this study belongs to aims at drawing implications from conceptual interplay to managerial reality in the context of any phenomenon. The governance perspective presented in this study operates through the cognitive constructs of academics and practitioners, both of which have been seen as essential to the development of organization science (Meindl, Stubbart and Porac 1996). Through its influence on academics' cognitive constructs, the governance perspective attempts to develop organizational thinking that considers key governance theoretical questions, e.g. concerning the boundaries, existence and internal organization of firms (Foss 2000). Through its influence on practitioners' and managers' cognitive constructs, then again, the governance perspective aims at enlightening managers about key governance issues in decision-making settings, without attempting to prescribe much about the management of businesses themselves (cf. Weick 1989). This represents a fundamental departure from conventional strategic management thinking. In a nutshell, a higher-level aim of this study is to advocate a governance based perspective to management research and predict that whilst it is not yet mature, it is already imminent.

The aim of influencing and building on cognitive constructs has an influence on the methodological assortment of this study. Conceptual research has traditionally been perceived to suit such framework-building exercises well. Building an understanding of the conceptual rootings of a particular research area, reported often in a more profound overview of the literature characterized by ponderings of near-metatheoretical depth, has customarily been the methodology of choice. This study has taken the underlying methodology one step further by first engaging in profound conceptual research and then using this to construct a robust arsenal of bibliometric analyses in order to investigate the *de facto* structuring of the M&A discourse[8]. Subsequently, results of both the conceptual analysis of the literature and

[8] While the conceptual analysis of the M&A and governance theory of the firm literatures focus on subjectively identifying and forming an understanding about the content of the both fields of research respectively and independently, the bibliometric methodology is employed in order to bring in an objective measure. While

the bibliometric analyses are discussed in the context of a cognitive framework building exercise.

In the following, a summary of the basic postulates of performing meta-analytical research is given. Firstly, the alternative ways of performing meta-analytical research are outlined. Secondly, the employment of bibliometric methodology to meta-analytical research and management research is investigated in particular, given that it has been selected as the primary methodology of this study. Thirdly, the possible shortcomings and limitations of performing meta-analytical research, in general and with the selected methods, are given in order to include a critical perspective to the issue.

Performing meta-analytical research

There are a number of ways of performing research on research, i.e. investigating earlier research efforts with the aim of identifying new issues from the whole that could not be identified by looking at the studies individually. In different disciplinary fields, such research is labeled differently. In social science, research concentrating on the deeper theoretical nature and development of a certain discourse is often called 'metatheoretical research'. If the research is not theory-centered or even if it includes analysis of other aspects of the discourse, the term 'meta-analysis' is employed more loosely. The disciplinary variety in the use of such terms is exemplified by the fact that in medicine, 'meta-analysis' refers to a specific set of statistical tools that are used to extract statistically significant findings from a bulk of earlier quantitative research findings (Cook 1991).

Meta-analytical research in social science comes in a variety of forms (see e.g. Glass 1976, 1981, Cooper and Hedges 1994). Perhaps the most common are 'literature review'-type studies, where literature within a defined discourse or set of discourses is selected by judgment and reviewed in order to find some general meaningful patterns. This type of research, especially if the area of investigation is demarcated by a set of concepts, overlaps with the notion of 'conceptual analysis', which in its purest form is an investigation of the state and nature of the discourse surrounding the key concepts. Meta-analytical research can also come in the form of 'discourse analysis', which usually refers to the careful investigation of the communication, e.g. speech or exchange of journal articles, in a given context. Thus, discourse analysis can be performed just as well in the context of a given academic discourse

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elements of subjectiveness also creep into the bibliometric analyses (e.g. the selection of articles incorporates some qualitative judgment and the network analysis is entirely based on a subjective selection method, despite it being proven robust), the bibliometric study can be argued to increase the level of objectiveness dramatically. However, the conceptual and bibliometric analyses, as such, only reveal the structuring of the literature. The structure of the discourse requires further analysis that nears metatheoretical depth. By discussing the governance theoretical insights within the M&A literature, this study thus attempts to engage in fundamental metatheoretical discussion of the M&A discourse.

or debate or in the context of a documentation of managerial discussion about a particular business phenomenon. Even though all of the above can incorporate a longitudinal dimension, there is a separate type meta-analysis that is often coined 'historical analysis' or 'historiography', which concentrates on the development of the selected research area through time.

With the partial exception of historiography, the above meta-analytical methods are ones that rely mainly on qualitative analysis and more or less judgment-based account of the literature (or other research material). There are, however, also a number of methodologies that analyze the performed research quantitatively. Most importantly, research that statistically analyzes previous research literature in terms of e.g. the authors, research findings, topics, theories, antecedents, outcomes, research processes, methodologies or levels of analysis, i.e. 'bibliometric analysis', operates with varying degrees of statistical sophistication. The degree of statistical complexity of the employed analyses is largely dependent on the type of issues under investigation. For example, citation networks and quantitative research results are often subjected to more complex analyses, whereas very qualitative issues (authors, levels of analysis) are mainly investigated vis-à-vis their frequency of appearance. (Hedges and Olkin 1985, Rosenthal 1991)

Quite recently, the value of meta-analytical research can be argued to have been 'rediscovered'. In addition to the well-known fundamental benefits of meta-analysis in improving the error and bias of research findings across a large set of replication studies (Hunter and Schmidt 1990, Hunter, Schmidt and Jackson 1982), other benefits relating to the ability to unveil grand theoretical constructs as well as detailed theoretical relationships have been emphasized (Eden 2002). For example, meta-analysis has recently been argued to be able to "which kind of further research will be the most worthwhile" (Eden 2002, p. 843). Eden (2002) argues that the findings of meta-analysis can raise insights into both what kind of replication research is necessary as well as what is the direction for new theory development. Altogether, the argument is that meta-analysis that sheds new light on how or why a relationship occurs and provides a novel theoretical framework to support it should be favored over mere tallying of existing literature.

The bibliometric methodology in this study represents this 'newer' type of meta-analytical research, and thus attempts to act as something of a pathfinder for the already foreseeable surge of meta-analytical research in the field of general management research, and not only in the conventional playgrounds of meta-analytical behavioral, medical and marketing research (Eden 2002). What is more, this study attempts to point out that in management research, meta-analysis has a much broader area of application than the mere synthesis of replicated study results. It can be argued that meta-analytical studies have the *primary* role of constructing a fuller understanding of a given issues, may it be a phenomenon, theory or other construct, and perhaps only a secondary role in strengthening the credibility of given

empirical associations by reducing error and bias. By and large, the present study, with its bibliometric and conceptual analysis, attempts to succeed in this perceived primary role.

Performing bibliometric research

Bibliometric analysis has been widely applied in social sciences for discussing the state of an academic discourse relating to a real-life phenomenon, even though, as Puro (1996) puts it:

> "It is evident that bibliometrics cannot analyze 'scientific reality' as such, but only qualities which have been seen to have significance in the field" (Puro 1996, p. 54).

Puro (1996, 54-55) adds that once these significant issues have been discovered and the most crucial theorists found, it will also be possible to evaluate the philosophical background behind the most crucial theories. Here, attention is also paid to the way the theories and theorists have contributed to the development of traditions and paradigms in the research, and equally importantly, also the management of M&A.

There are a number of seminal studies introducing and evaluating the nature of bibliometric inquiry in social scientific, and other, research. Pritchard (1969, p. 349) defines bibliometrics as "the application of mathematics and statistical methods to books and other media of communication". Since academic discourse today has moved to and is most active in journal articles, they have been selected as the source material for the bibliometric analyses in this study. According to an alternative definition (Broadus 1987, p. 376), bibliometrics is "the quantitative study of physical published units, or of bibliographic units, or of the surrogates for either". This definition is close to the conception of bibliometrics employed in this study, given that it emphasizes the importance of physical published units (e.g. journal articles) as opposed to other means of communication and publication.

The use of bibliometric methodology also needs to be scrutinized from the viewpoint of the general aims of this study. The bits of data which consist the bibliometric material of any study need to contain certain information, and the analysis methods need to be able to extract and organize the information in an enlightening yet rigorous way. Given that the aims of this study include the identification of the most influential contributors and contributions, and the most significant theoretical underpinnings underlying the *de facto* structuring of recent research on M&A, the bibliometric material must include at least information regarding authors, articles, books, years and their interlinkages. Journal articles include all this information, and citation analysis thus seems an appropriate tool for the accomplishment of

the aim of investigating the structuring of a network of scientific artifacts and products (Amsterdamska and Leydesdorff 1989, Cole and Cole 1973, Price 1986).

Citations analyses can be argued to be a useful tool for investigating interlinkages between scientific articles, which altogether form a network of articles, book and author relationships. Citation analysis acts as "a useful tool in studying various networks of relationships among authors, journals, and fields in an objective and quantitative manner" (So 1988, p. 237). On a more practical level, citation analysis yields results with which single units (e.g. articles) or clusters (groups of interrelated articles) can be evaluated and ranked vis-à-vis their frequency of appearance and the centrality of their position in the citation network. The frequency distribution results yield, provided that they analysis is performed properly and the results are interpreted by experts, both revealing and reliable information (Garfield and Welljams-Dorof 1992). The frequency results can not only be used to rank authors and articles, but also to analyze the relative productivity of associated universities, departments and institutions, even strands of scientific policy. (Garfield and Welljams-Dorof 1992, Price 1986)

There are, however, also pitfalls to bibliometric studies. Firstly, they must be performed thoroughly, with expert interpretation and without simplification that might arise from an overemphasis of simple patterns in a complex bibliometric network (Puro 1996, p. 55); "the problem lies in the fact that quantitative results are interpreted to be answers in themselves". It is rather evident to any scholar familiar with the variety of different statistical tools available for the analysis of citation networks that our ability to interpret and understand what the bibliometric results actually mean is far less developed than our ability to process and quantitatively analyze the bibliometric data mass. Bibliometric studies have been criticized for their inability to produce explanations for the states and structures of academic discourses.

Given this criticism highlighting that bibliometric studies simply describe "what most other colleagues do" and that bibliometric indicators measure "popularity rather than anything else" (Moed 1989, p. 474), this study aims at performing a thorough interpretation of the results produced. The simple frequency distribution analyses of most-cited authors, articles and journals have been complemented with statistically more complex network centrality analyses. The aim here is to provide more information on the relationships between the different underlying theories and antecedent factors in order to avoid the oversimplification problem and basing the conclusions on a mere few sets of most-cited frequencies.

Most importantly, this study does not rely on the bibliometric results alone, but also incorporates a qualitative conceptual analysis of the mergers and acquisitions and governance theory of the firm discourses to enrich the current investigation. The network centrality analysis and the conceptual analysis provide plenty of information regarding the intellectual roots and traditions of the M&A discourse, thereby significantly reducing the possibility of

oversimplification and misinterpretation. They also allow us to make deeper conclusions regarding the *de facto* structuring of the discourse and the interplay this structuring with how M&A is viewed in academic arenas and performed in business arenas today.

In management research, bibliometric research is, by and large, rather common. The most common application in general management research has, by far, been comparing, analyzing and ranking academic journals, the sources of bibliometric data (See e.g. Johnson and Podsakoff 1994, Gomez-Mejia and Balkin 1992, Franke et al. 1990 and Coe and Weinstock 1984) or the level of research at university faculties or departments (e.g. Henry and Burch 1974, Doyle and Arthurs 1995, Thomas and Watkins 1998) using citation or network analysis. Another field in which bibliometric methodology has been utilized is the so-called science and technology (S&T) systemic studies with applications to research policy and R&D management (Kostoff and Schaller 2001, Tijssen and Van Raan 1994, Hugunin, Thomas and Wilemon 1992).

Furthermore, bibliometric research, i.e. citation and/or bibliometric network analysis, has been applied to a wide range of issues within various disciplines and research problems. It has e.g. been used in determining the structuring of journal networks and the regional integration of management research (Danell 2000, Usdiken and Pasadeos 1995), the drawing of disciplinary boundaries between production and operations management, operations research, management science and industrial engineering (Pilkington and Liston-Heyes 1999) and academic career progression (Park and Gordon 1996).

Some of the above studies as well as other bibliometric research are also conceptual or even meta-analytical in nature. At the deepest and arguably most profound level of analysis, bibliometric methodology has been used in researching research. For example, citation analysis has been employed to e.g. reveal the tendency of researchers to overgeneralize seminal research contributions (Bamber, Christensen and Gaver 2000) and to draw precise disciplinary boundaries (Pilkington and Liston-Hayes 1999), whereas network centrality analysis has been used to analyze disciplinary networks in e.g. inter-organizational network research (Oliver and Ebers 1998), public administration research (Toonen 1998) and entrepreneurship research (Dery and Toulouse 1996, see also Ratnatunga and Romano 1997).

In research on mergers and acquisitions, bibliometric methodologies are, if not unprecedented, at least rare. Citation analyses or citation network analyses concerning M&A research were found neither in the search engines used in the study process[9], nor among the M&A material scrutinized and listed in the bibliography of this study.

[9] E.g. The ISI Web Of Science, The Social Science Citation Index, Abi Inform, Ebsco HOST, Proquest 2000 and Google

There are at least three reasons why structured and comprehensive bibliometric analysis should be performed on the M&A discourse from a methodological point of view. Firstly, the bibliometric research on management related topics has shown that bibliometric methodologies can be successfully applied to researching research, i.e. investigating the underlying intellectual theories and underpinnings of a given discourse. M&A, if any, is an interdisciplinary field, where the intellectual bases are neither self-evident nor uncontroversial. Employing bibliometric methodologies in order to investigate the major contributors, contributions, theories, traditions, paradigms and their interlinkages seems valid in a field which has generally been continuously rising in academic and managerial importance over the past century. The nature and state of M&A research also needs to be figured out well before research on the role of M&A as a driver of the (re-)organization of economic activity, the wider social scientific research context of this study, can be commenced.

Secondly, previous research by the author (Parvinen 2001) and the conceptual research performed in this study on the M&A discourse (Appendix 1) and the governance theories of the firm (Appendix 2) suggest that there could be substantial avenues for cross-fertilization between the M&A discourse and the governance theories of the firm. A structured and comprehensive bibliometric analysis is required to analytically map the role of different theories and paradigms in the M&A literature, thereby deepening and complementing our understanding of the state of the discourse. A bibliometric study is also needed to establish an objective and credible ground for a governance perspective to mergers and acquisitions, and justify further interdisciplinary research. Thirdly, and perhaps most importantly, a proper bibliometric study, in fact *any* bibliometric study, is needed about the M&A discourse since there simply doesn't seem to be one available.

Given that a significant share of bibliometric research orbits around citation analyses, another significant issue deals with the way the habits and traditions of referencing have evolved. Most importantly, one has to recognize the social dimensions of referencing. In contemporary social scientific research, referencing is not only a way to indicate which sources have been used in the study, but it is also a social signal. Using a certain way of citing references helps the researcher to construct intertextual coherence, which is these days considered essential in striving towards contributing to the body of knowledge through academic research (Locke and Golden-Biddle 1997).

How does this coherence construction show in how referencing is done in practice? For example, it is common that researchers use a systematic pattern of referencing to e.g. key concepts, authors or journals to anchor their output to a certain discussion. Referring consistently and as much as possible to the very journal outlet the researcher is aiming to be published through at is conventional. Similarly, researchers aim at legitimizing their research by referring to high-rank journals and seminal works of reputed authors. Additionally, the

writers who have established the respect of the academic community can be seen to have a need to institutionalize themselves through very selective referencing to both their own works as well as those of others. Typically, reputed authors make fewer references on the whole.

A critical view on meta-analysis

Meta-analytical research strategies that attempt to refine a major part of a given research area, like the present study, must also be viewed critically. There are at least two instances that can be perceived to erode the credibility of any grand attempt to establish a new theoretical perspective on the basis of meta-analytical research. Firstly, there is the general question of whether meta-analytical research can actually support theory-building in a wide disciplinary field such as M&A, and secondly, there is the problem of defining and implementing the selected methodologies so that they yield results with maximal credibility.

There has been extensive discussion on the multi-paradigm problem in social sciences and whether overarching and holistic theoretical frameworks are sustainable or even needed (See e.g. McKelvey 1997, Scherer 1998, Gioia and Pitre 1990, Schultz and Hatch 1996). Arguably, building overarching theoretical proposals is needed to decrease the multi-paradigm problem, but at the same time this exercise is controversial because of multi-paradigmatic nature of social science and real life (McKelvey 1997). The present study attempts to build a holistic perspective of M&A that would integrate insights from various governance theories of the firm, which, then again, represent somewhat different currents of the field of institutional and organizational economics[10]. In this sense, the present study is an acute example of the type of research that can be argued to suffer from the general multi-paradigm problem in integrative theory building. However, other researchers contend that the multi-paradigmatic nature of social science, while it is true and sometimes problematic, should not be allowed to stifle ambitious integrative theory-building, but researchers should rather admit that they are "living with multiple paradigms" (Schultz and Hatch 1996, p. 529, see also Kaghan and Phillips 1998). According to this view, by focusing on the connections between the paradigms and allowing for a more fluid and dynamic conception of boundaries between scientific fields and between science and society, the adverse effect that the multi-paradigm problem has on grounded theory-building can be alleviated. While admitting the potential weaknesses of its methodological approach, the present study supports this view.

[10] In essence, the highest-level concept is *organizational economics* (OE), in which institutional analysis at the level of the organizations plays a key role. The governance theories of the firm can be thought to constitute an overwhelming majority of the institutional economics (IE) literature. Organizational economics also includes e.g. evolutionary economics approaches (see e.g. Nelson and Winter 1982), which are essentially departures from the institutional tradition. The competence based theories of the firm can be said to have emerged from the evolutionary approaches. By and large, this study uses the general term 'institutional and organizational economics' (IOE) to describe the economics based organizational research tradition.

The problem of defining and implementing the selected methodologies so that they yield results with maximal credibility is well reflected in this study. Despite careful formulation and execution of the bibliometric research agenda, including a one-by-one coding of over 30 000 data cells and a time-consuming definition of the journals whose articles were to act as the research material, disciplinary bias and subjective attitudes creep into the results. Probing deep into the metatheoretical structure of a discourse requires employing bibliometric analyses that rely not only on objective citation counts, but also on subjective evaluation of the research material. In the context of this study, this implied that network centrality analyses were performed.

With hindsight, it is easy to provide an example of an instance where the author's subjective knowledge and the nature of the phenomenon (M&A) under investigation influenced the network analysis results. As will be seen in Chapter 2, organization theory authors and antecedents were poorly represented in the citation and network centrality analyses respectively. This boils down to a few things. Firstly, it seems that mergers and acquisitions are coined not only mergers and acquisitions, but also something else in the rather distinctive language of organization theory. Consequently, fewer organization theory articles were selected, which affected all of the bibliometric analysis results. Secondly, in the network centrality analysis, it was equally difficult to try to define organization theory-oriented antecedents that could be identified amongst the articles. M&A, as a real-life phenomenon, is rather significant and research on it is, possibly because of this, very phenomenon-centered and thus far away from the language of organization theory. The result was that no real organization theory antecedents were defined and the role of organization theory in the bibliometric results was mitigated further. Thus, with hindsight, it seems that including organization theory and behavior journals in the journal list was not enough. It could be argued that all this boils down to the economics and management background of the author and the lack of organization theory knowledge, but then again all researchers have some background and some mindset. In any case, this example illustrates the difficulties of designing and executing meta-analytical research in an attempt to engage in theory building.

1.2.2 The research process

In this Section, a detailed account of the research process for the present study is given. The research for the study was performed between October 2000 and July 2002. The first location in which a bulk of the preparations and much of the conceptual research was done was the London School of Economics and Political Science (LSE). During the time spent at LSE, which actually already began in 1998, a wealth of literature about the governance theories of the firm and M&A was accessed through LSE's electronic and offprint collections and rich sources of the British Library of Political and Economic Sciences (BLPES). The time at LSE, which saw a longer six month stay at the Stockholm School of Economics as

well as somewhat frequent short visits Finland and the University of Oulu, can be seen to have laid the foundation for the study and many of the key thoughts date back to that time. The LSE period ended in the first versions of the conceptual analyses of the two discourses being finished in September 2001.

After this, the author moved to Helsinki, Finland and started working at the Helsinki University of Technology Executive School of Business (HUT ESB), which enjoys the intellectual and academic support of the university's Department of Industrial Engineering and Management. During this time, the final form of the study started forming and the bibliometric methodology was designed and discussed in depth in November-December 2001. Subsequently, the bibliometric data was acquired from the ISI Web of Science in January 2002 and the bibliometric tests were performed early that year. During the bibliometric research the National Resource Library of Economics and Business in Finland was also of great help. The interpretation of the results and the integrative theory building took place for the first part of 2002, and core of the research was essentially done by July 2002. This was ensued by an intense period of writing and reviewing, which resulted in the present research report. The LSE and BLPES were visited a number of times during the research.

Essentially, the two-fold methodology, consisting of conceptual and bibliometric analyses, in this study were composed to facilitate the building of a holistic, governance theory-based cognitive framework for looking at M&A, *a governance perspective to M&A*. In the following, the detailed processes with which the two methodologies have been employed are given, together with a note on the dynamics of development of the theory-building project.

Conceptual research

The conceptual research accounts of the M&A and governance theory of the firm literature yield significant information addressing the research questions directly. However, they also lay the foundation for the bibliometric study. Both analyses look into the key conceptual issues of the two discourses, namely the key concepts and issues that they raise, the definitions and delimitations of the discourses, the research orientations they use as well as the key research findings. The conceptual analysis of M&A literature in Appendix 1 begins by addressing some of the contemporary motivations for researching M&A. This is followed by an overview of the definitional boundaries of the M&A discourse, the justifications and motivations for performing M&A and different perspectives presented about the processes internal to M&A. Analyzing distinct streams of M&A research, namely the capital markets stream, the strategic stream, the process stream and the organizational behavior stream, as well as identifying the types of questions they pose about the organization of economic activity play a central role in this analysis.

Subsequently, the economic foundations of corporations are explored through a conceptual analysis of theories of the firm in Appendix 2. Here, a categorization and overview of the various governance theories, namely neoclassical economics, the nexus of contracts perspective, agency theory, early incomplete contracting, transaction cost economics and property rights theory, is given. With every theory, an explicit mention of the key messages and authors is given together with a separate account for the way the theories have been related to M&A and adjunct concepts. Emphasis is placed on identifying the contribution of the governance theories on M&A. Finally, the shortcomings of the governance theories as well as the potential contributions from the competence perspective to strategy research are outlined.

The conceptual research preceded the bibliometric analysis primarily for two reasons. Firstly, two knowledge gaps were perceived to prevail. The first knowledge gap related to the lack of systematic meta-analytical research (even of the review-type) on M&A. Secondly, it seemed that whilst the developments of the 1990s brought insights from the competence perspectives to the firm and its strategy to the analysis of M&A, the governance aspects have not received enough attention. Thus the conceptual research was employed as the first step towards filling these knowledge gaps. Secondly, a solid conceptual overview was perceived to be needed before the bibliometric study could be performed well. The exact bibliometric methodologies, the theory and antecedent formulation and the interpretation of the results was only possible in the light of the knowledge acquired during the process of constructing and writing the conceptual analyses.

Bibliometric research

The driving idea behind performing a bibliometric analysis is that it can used to discover not only the superficial structuring of a discourse but also the underlying theories. In M&A, the intellectual bases are neither self-evident nor uncontroversial, given its inter-disciplinary nature. Two sets of bibliometric methodology, citation analysis and network centrality analysis are used. Both rely on the same research material. This Section describes the bibliometric methodologies, nature of the research material and the process in which the bibliometric research has been performed.

This study employs two sets of bibliometric methodology. Citation analysis (Cole and Cole 1973) is employed for the identification of major pillars of the M&A discourse, whereas network centrality analysis (Bonacich 1972, Freeman 1979, Wasserman and Faust 1994, Scott 1992) is used to investigate the relative positions and relationships of theories and phenomenon-oriented antecedents within the network represented by the M&A articles.

On the whole, the purpose of the bibliometric methodologies is to provide an analytically oriented, objective and empirical background backbone for the general research aim of this study, establishing a better understanding of the *de facto* structuring of the M&A discourse. The bibliometric methodologies and data have thus been chosen with this aim in mind.

Citation analysis

The first part of the bibliometric research methodology used in this study is citation analysis (Cole and Cole 1973). The basic citation analysis aims at identifying the key contributors and contributions in the M&A discourse as well as building an understanding of the temporal and outlet patterns of publishing. This aim is attained by performing the following analyses:

a) Most-published first authors
b) Most-cited first authors
c) Most-cited texts (books and articles)
d) Temporal pattern of articles published
e) Temporal pattern of articles cited
f) Outlet pattern of articles published
g) Outlet pattern of articles cited

The most-published authors analysis refers to the characteristics of the article material, i.e. the number of articles published by each author. Due to the source of the bibliometric data, only the first authors are visible in the most-published authors analysis. The same applies to the most-cited author analysis; again only the first authors appear in the bibliometric data and thus the analysis focuses on the frequencies with which the first authors are quoted in the selected body of articles. This implies that authors with significant numbers of second- and third-authored articles are emphasized relatively significantly less. Despite the fact that first-authors are often considered the main contributors to scientific articles, this presents some questions about the validity of the author citation data, especially since it is sometimes customary to list the authors not in order of contribution, but in alphabetical order.

In the case of most-cited texts i.e. books and articles, the aim is to identify the texts that have been most influential in the M&A discourse during the time period of this study. Given that many of the authors which are considered influential in the M&A discourse have contributed across disciplines and from a number of different angles, the identification of major works can be considered to be as important as the first author analyses[11]. Whereas

[11] In fact, the most-cited first author and the most-cited article analyses complement each other. Whereas the most-cited first author analysis potentially downplays some significant second authors, the article analysis accounts for all contributors. On the other hand, the most-cited first author analysis highlights the authors who have been productive in publishing for a long time and are not simply picked out because of a single seminal article.

citation analysis has traditionally been used to compare and rank central authors responsible for the contents of a discourse (see e.g. Moed 1989), this study focuses more on investigating the intellectual roots (indicated by central source references) and structuring (indicated by the dependencies between the disciplinary traditions, contributors, references, theories and antecedents) of the discourse. For this purpose, it is important to be able to pinpoint individual articles. At the level of a single article, the identification of e.g. key theoretical messages or empirical research results is much easier and more meaningful than trying to deduce them from the general research profile of a well-published and/or –cited author. Regardless of whether the articles or the authors are considered the more significant indication of the structuring of the discourse, both are relevant for understanding it and are thus employed in this study.

Beyond the most-published first author, most-cited first author and most-cited text analysis, the temporal and outlet distributions of the M&A discourse are also analyzed. The aim of mapping the temporal pattern of the published M&A articles is to see how the popularity of M&A as a research article topic has developed. Additionally, the effect of the time at which the articles were published on the results can only be analyzed if the mean, mode and distribution of the article publishing years are known and taken into account. The temporal pattern of the cited articles is even more significant. The temporal pattern of citations of a bibliometric data set in a 10-year interval is generally known to be weighed to a 5-6 years before publication. In order to generalize the results of the citation analyses, i.e. removing their temporal embeddedness to the selected time frame[12] and drawing conclusions regarding a longer period of time, the bibliometric data needs to be adjusted to the temporal profile of the citations. Thus the temporal pattern of the cited articles is useful in extracting further information from the other citation analyses in addition to being interesting in itself.

The outlet pattern of the published and cited articles, then again, gives a general picture of where and from which angles the M&A discourse has been built. Knowing the distribution of articles and references per journal can be used to complement the discussion of the development of the discourse and the relative importance of different research traditions in it. Furthermore, the outlet profiles used as a part of the explanation for the relative dominance of some paradigms over other and establish linkages between paradigms, authors, institutions and the development of the discourse through time.

Network centrality analysis

The second part of the bibliometric research methodology used in this study is network centrality analysis. As opposed to citation analysis, which attempts to point out central

[12] The 11 years in 1991-2001 in the case of this study

contributions and contributors within a discourse, network analysis attempts to "analyze the forest of research rather than individual trees" (Oliver and Ebers 1998, p. 550). The network analysis here deals with the same discourse as the citation analysis, i.e. mergers and acquisitions, and derives from the same bibliometric data as above, i.e. the 567 journal articles from 1991-2001.

The network analysis thus maps the research performed on M&A as represented by the materials and explores the theoretical and phenomenon-oriented patterns that underlie this research by measuring their frequency of appearance and position within the research network. The aim of the network analysis is to distinguish the key theories and antecedents[13] that have been employed as intellectual roots to the M&A discourse in past research and point out their interrelations. Additionally, the network analysis attempts to indicate the relative importance of different theoretical paradigms and explain the type of roles specific theories have undertaken in the development of the discourse. The network analysis hence offers this study a deeper investigation of the interplay of the roots of the discourse, which, as a whole, should strengthen our understanding of the structuring of the M&A discourse and possibly yield implications regarding research and application of M&A theory to decision-making.

Network analysis of journal articles is based on building a database, which indicates the presence or absence of different facets, 28 *theories* and 25 *antecedents* in the case of this study, in each article. The database was built by familiarizing with each article and selecting the significantly influential theories and the significantly present antecedents within the articles[14]. The presence of a selected facet is denoted in each respective article by giving it the value 1 and the absence by 0. The database ends up as a binary matrix with which statistical analyses can then be performed.

The different facets are thus linked to each other by their presence in the same article and articles are linked to each other by a facet they share in common. This study employs four analyses to the 'M&A discourse network':

a) Frequencies of theories employed
b) Frequencies of antecedents present

[13] The key theories are the theoretical cornerstones employed and referenced in the articles. Antecedents for M&A research in the present study refer to the primary motivation for writing the article in the first place. It is especially important to understand that there is a difference between the antecedents for performing M&A and writing an article about M&A. Here, the term 'M&A antecedents' refer to the latter.

[14] In the context of this study, a minimum of zero and a maximum of eight theories and an equal amount of antecedents were chosen. To moderate the emphasis on articles with a large number of theories and antecedents, a combined minimum of least one and a combined maximum of ten theories and antecedents were chosen for each article. Articles containing no theory or antecedent were thus effectively excluded from the network centrality analysis.

c) Bonacich eigenvector centrality
d) Betweenness centrality

The frequencies of the theories employed indicate which theories have been most commonly employed and which antecedents are most commonly present in the M&A discourse. Since the breadth or acuteness of theories and theory descriptions is difficult, the frequencies of the theories and antecedents should not be considered without careful interpretation. The frequencies, together with the findings of the citation analysis and the conceptual analyses, however, give a good overall picture of the relative dominance of the different paradigms. In addition, comparing the frequencies of single theories or antecedents to the number of articles in the material gives an indication of what proportion of the literature acknowledges each facet, which can be argued to be interesting as such.

In order to determine and compare the centrality of the various theories that are employed and antecedents that are present within the M&A research, statistical centrality measures need to be employed. The analytical techniques employed here, i.e. Bonacich eigenvector centrality and betweenness centrality, are indicators of network positions of the theories and antecedents (Oliver and Ebers, 1998, p. 557):

> ***Bonacich eigenvector centrality*** (Bonacich 1972, 1987): According to this measure, the centrality of a concept equals the sum of its connections to other concepts, weighed by the centrality of each of these concepts (Bonacich 1972, 1987). This measure thus provides information on the concepts that have been at the core of research on inter-organizational relations and networks.
>
> ***Betweenness centrality*** (Freeman 1979): This measure indicates the degree to which a focal theory is located on the shortest connecting path between any other theories. Bridging ability (high betweenness centrality) is an actor-level attribute, referring to the ability to connect to other network actors who cannot or who do not wish to connect directly. With reference to networks of theories, a high score on betweenness centrality means that the theory is connected to one other theory in one particular article, and to another theory in another article. Thus, the theory has the ability to connect two theories that are not directly connected in any other article. Such a bridging ability could not be an attribute of wide and/or flexible theories, or be related to specific characteristics of the theory, for example, the levels of analysis on which it is based, the structure of the hypothesis extracted from it or the specification of its testability.

The network centrality measures thus analyze the centrality and the bridging ability of the theories and antecedents, revealing a) which theories are interlinked to which theories, b)

which theories are linked to which antecedents and vice versa and c) which antecedents are linked to which antecedents. These interlinkages can also be interpreted as the 'relative importance' (centrality) and 'relative cross-fertilizing ability' (bridging), thus deepening our understanding of the function, role and interplay of different theories and antecedents in the formation of the M&A discourse.

The process of performing the bibliometric analyses and their results are examined as follows. Firstly, the journal and article selection processes are discussed respectively in order to shed light on the rationales of the bibliometric data acquisition process and nature of the resulting research material in general. Chapter 2 will then explain the performed bibliometric analyses in detail and exhibit the respective results.

Selecting the core journals of the M&A discourse

The purpose of the selective citation and network centrality analyses applied on the core journals involving merger and acquisition related discourse was to analytically identify the relative importance of key authors, articles, journals and topics, and to facilitate drawing conclusions relating to the interlinkages between the M&A and governance discourses in the next Chapters.

Two initial challenges in the effort of choosing a representative population of articles can be outlined promptly. On one hand, the population of articles should encompass an extensive period of time. Many of the seminal contributions identified in the conceptual analyses date back to the 1950s (Lindblom 1959, March and Simon 1958, Selznick 1957), the 1960s (Ansoff 1965, Chandler 1962, Andrews 1971, Steiner 1979, Cyert and March 1963) and even earlier than that (Berle and Means 1932, Ricardo 1815). This surfaces the problem of the time frame in which the journal articles are studied. On the other hand, the selection of journals must permeate wide enough a disciplinary base to capture enough of the M&A related articles to be statistically significant and not to exclude any significant publications.

The problem of selecting the right 'core journals' was solved as follows. The notion of a 'core journal' is often annexed to the fact that it is an academically distinguished, well-referenced publication. Core journals in management have in the past been ranked using various methodologies including author opinions (e.g. Hubbard and Vetter 1996, Niemi 1988), citation analysis (e.g. Franke et al 1990, Gordon and Purvis 1991, Johnson and Podsakoff 1994) and faculty surveys (e.g. Macmillan 1989, Extejt and Smith 1990, Henderson et al. 1990, Gomez-Mejia and Balkin 1992, Kirkpatrick and Locke 1992, van Fleet 1995, Glick et al. 1997).

Here, two core journal selections were performed using a mix of different methodologies. This was felt necessary, as the aim was to include a much wider selection of journals in order to cover a wide disciplinary and geographical spread. Given the interdisciplinary and multifaceted nature of mergers and acquisitions as a research area, journals in various disciplines were included[15].

In order to bring in qualitative judgment into the journal selection process, the journals were selected using a combination of qualitative judgment and quantitative rankings. This was performed by firstly engaging in multiple consecutive judgment selections, then screening the journal list using a number of rankings and finally ensuring the representation of a diverse disciplinary, geographical and institutional representation of journals. In practice, this resulted in the following procedures.

Firstly, the choice for the core list of journals, which was then to be developed further using other methodologies (see below), was selected by judgment. The author made the first selection of 50 journals from the Social Science Citation Index (SSCI) journal list[16]. This was followed by an independent selection from the same list by a more senior researcher who judged the same list and ended up with 56 journals, of which 78% coincided with the original selection. After two further rounds of discussion with senior colleagues, the journal list was revised to include 58 journals within the SSCI.

The choice of journals attempts, along the lines of Oliver and Ebers (1998), to avoid sample-selection bias by accessing as wide range of sources as possible, including contributions from different disciplinary origins and avoiding geographical bias in author and research setting origins and including both institutionally connected and independent journals. Therefore, additional measures were undertaken to further refine the representativeness of the journal list.

Rankings published for economics, management and finance related journals were then reviewed. A number of earlier journal ranking articles and associated papers (see e.g. Siggelkow 2001, Coe and Weinstock 1984, Extejt and Smith 1990, Sharplin and Mabry 1985,

[15] All of the relevant categories in the Social Sciences Citation Index were covered as business, economics, management, finance, sociology, law, industrial relations, psychological and accounting journals were included in the list.

[16] The Social Sciences Citation Index was accessed through the ISI Web of Science. The SSCI is a multidisciplinary database, with searchable author abstracts, covering the journal literature of the social sciences. It indexes more than 1,725 journals spanning 50 disciplines, as well as covering individually selected, relevant items from over 3,300 of the world's leading social scientific journals. Provides access to current information and retrospective data from 1956 forward. The SSCI averages 2,700 new records per week and includes approximately 50,500 new cited references per week. It contains a current total of over 3.15 million records and as of January 1992, it has contained searchable, full-length, English-language author abstracts for approximately 60% of the articles in the database. The ISI Web of Science provides access to the last 10 years of publications, which was convenient for the purposes of this study.

Gomez-Mejia and Balkin 1992, and Johnson and Podsakoff 1994) were reviewed in the process of selecting the journals. The rankings consider separately and jointly a number of ranking criteria, most importantly research stimulation (measured my citations), reputation (measured by surveys) as well as more complex dependency network analyses based on Salancik (1986).

In further refining the selection of journals, the journal list was amended by checking through Siggelkow's (2001) rankings of strategy, organization behavior and economics journals. The ten highest ranked journals from each discipline vis-à-vis both stimulation and reputation were made sure to be included in the list[17]. The article list was further checked using the SSCI Journal Citation Report (2000) by choosing the five journals with the highest number of citations in all relevant categories; business, business/finance, economics and management. In this process, a total of three journals[18] in the disciplinary lists were found to be missing from the list, and they were consequently added.

After this, qualitative judgment was again exercised, as geographical diversity was ensured through the representation of European journals and journals from independent, non-institutional publishers. Furthermore, the aim was to only include academic journals representing scientific papers concerning M&A. This was the major motivation behind making, after lengthy consideration and discussion, the decision of not including *Mergers and Acquisitions*, which has a conspicuous trade journal profile, in the journal list. Finally, some minor changes were made for reasons of convenience and economy.

Consequently, the following journals were included in the final list with which the bibliometric analyses were performed:

List of 65 core journals included in the bibliometric analysis of the mergers and acquisitions discourse

ACADEMY OF MANAGEMENT JOURNAL
ACADEMY OF MANAGEMENT REVIEW
ACCOUNTING ORGANIZATIONS AND SOCIETY
ACCOUNTING REVIEW
ADMINISTRATIVE SCIENCE QUARTERLY
ADVANCES IN STRATEGIC MANAGEMENT
AMERICAN BUSINESS LAW JOURNAL
AMERICAN ECONOMIC REVIEW
AMERICAN JOURNAL OF ECONOMICS AND SOCIOLOGY
AMERICAN JOURNAL OF SOCIOLOGY
AMERICAN SOCIOLOGICAL REVIEW

[17] By doing this, the following journals were included: Journal of Economic Theory, Journal of Applied Psychology, Journal of Personality and Social Psychology, Organizational Behaviour and Human Decision Processes and American Sociological Review
[18] Review of Financial Studies, Journal of Monetary Economics and Journal of Money, Credit and Banking

ANTITRUST LAW JOURNAL
BRITISH JOURNAL OF MANAGEMENT
CALIFORNIA MANAGEMENT REVIEW
CORPORATE GOVERNANCE-AN INTERNATIONAL REVIEW
ECONOMETRICA
ECONOMICA
EUROPEAN ECONOMIC REVIEW
HARVARD BUSINESS REVIEW
HUMAN RELATIONS
INDUSTRIAL MARKETING MANAGEMENT
INTERNATIONAL ECONOMIC REVIEW
INTERNATIONAL JOURNAL OF FINANCE & ECONOMICS
INTERNATIONAL JOURNAL OF INDUSTRIAL ORGANIZATION
JOURNAL OF ACCOUNTING & ECONOMICS
JOURNAL OF APPLIED PSYCHOLOGY
JOURNAL OF BANKING & FINANCE
JOURNAL OF BUSINESS
JOURNAL OF BUSINESS RESEARCH
JOURNAL OF BUSINESS VENTURING
JOURNAL OF CORPORATE FINANCE
JOURNAL OF ECONOMIC BEHAVIOR & ORGANIZATION
JOURNAL OF ECONOMIC THEORY
JOURNAL OF ECONOMICS & MANAGEMENT STRATEGY
JOURNAL OF EVOLUTIONARY ECONOMICS
JOURNAL OF FINANCE
JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS
JOURNAL OF FINANCIAL ECONOMICS
JOURNAL OF INDUSTRIAL ECONOMICS
JOURNAL OF INTERNATIONAL BUSINESS STUDIES
JOURNAL OF LAW ECONOMICS & ORGANIZATION
JOURNAL OF MANAGEMENT
JOURNAL OF MANAGEMENT INQUIRY
JOURNAL OF MANAGEMENT STUDIES
JOURNAL OF MARKETING
JOURNAL OF MONETARY ECONOMICS
JOURNAL OF MONEY CREDIT AND BANKING
JOURNAL OF PERSONALITY AND SOCIAL PSYCHOLOGY
JOURNAL OF POLITICAL ECONOMY
LONG RANGE PLANNING
MANAGEMENT SCIENCE
MIS QUARTERLY
MIT SLOAN MANAGEMENT REVIEW
OMEGA-INTERNATIONAL JOURNAL OF MANAGEMENT SCIENCE
ORGANIZATION
ORGANIZATION SCIENCE
ORGANIZATION STUDIES
ORGANIZATIONAL BEHAVIOR AND HUMAN DECISION PROCESSES
ORGANIZATIONAL DYNAMICS
QUARTERLY JOURNAL OF ECONOMICS
RAND JOURNAL OF ECONOMICS
REVIEW OF ECONOMIC STUDIES
REVIEW OF FINANCIAL STUDIES
SMALL BUSINESS ECONOMICS
STRATEGIC MANAGEMENT JOURNAL

All in all, the list of 65 journals shown above can be argued to constitute a representative journal population from which articles discussing mergers and acquisitions can be screened. The presented selection of journals is supported by earlier studies containing bibliometric analyses of so-called 'first tier journals'. There are numerous categorizations of the use so-called first-tier or core journals in management research. In this study, a wide perspective is employed to avoid advocating somebody's subjective perspective on the definition of a core journal.

With the exception of one more extensive study (Siggelkow 2001), the previous selections of core journals have been rather similar to each other. This is evident in Table 2, which shows the journals that have been listed in recent and relevant bibliometric analyses. The studies referred to are those of Siggelkow (2001), Franke et al. (1990), Coe and Weinstock (1984), Gomez-Mejia and Balkin (1992), Extejt and Smith (1990) and Johnson and Podsakoff (1994). Highlighted is the fact that the current study attempts to cover not only a wide disciplinary field, but be exhaustive in some sense, ensuring the inclusion of what most experts would call core journals at the expense of including journals which others would peg as non-core.

Table 2: Comparison of the selected 65 core journals to the journal selection in previous bibliometric analyses investigating diverse topics in management research

	Franke et al. 1990	Coe and Weinstock 1984	Gomez-Mejia and Balkin 1992	Extejt and Smith 1990	Johnson and Podsakoff 1994	Siggelkow 2001
AMJ	X	X	x	x	x	x
AMR	X	x	x		x	x
AOS						x
AR						x
ASQ	x	x		x	x	x
AM						
ABLJ						
AER						x
AJES						
AJS					x	x
ASR						x
ALJ						
BJM						
CMR	x	x	x		x	x
CG						
ETR						X
ENM						
EER						x
HBR	x	x	x		x	x
HR			x		x	x
IMM						
IER						
IJFE						
IJIO						x
JAE						x

JAP			x		x	x
JBF						x
JB		x	x			x
JBR			x		x	x
JBV			x			x
JCF						
JEBO						x
JET						x
JEMS						x
JEE						x
JOF						x
JFQA						x
JOFE						x
JIE						x
JIBS			x		x	x
JLEO						x
JMN	x		x		x	x
JMI						
JMS	x		x		x	x
JMR						x
JME						x
JMCB						x
JPSP					x	x
JPE						x
LRP	x	x	x		x	x
MS	x	x	x		x	x
MIS						x
SMR	x		x		x	x
OME						
ORG						
OSC						x
OS	x		x			x
OBH			x	x	x	x
OD	x		x		x	x
QJE						x
RJE						x
RES						x
RFS						x
SBE						
SMJ	x		x		x	x

Furthermore, the issue of involving journals from a relevant period of time was addressed. Because of the temporal focus of this thesis, namely addressing the structuring of the M&A discourse for *contemporary* academic and managerial purposes, journal articles from the time period of 1991-2001 were chosen. The limited scope of time is made up to by the fact that the conceptual analysis as a methodology savors the durability of the argument's relevance through time. It must also be acknowledged that organization theory paradigms as well as the theories of the firm in economics, many of which date before the chosen range, seem more robust through time than management discourses. Additionally, the conceptual analysis (See Appendices 1 and 2) as such manifests the crucial role of many of the basic works on

management before this time period, and Chapter 3 does consider the chronological patterns of the key publications.

Thus this time frame was perceived sufficient for the purposes of verifying the appraisal of the meta-analysis as well as observing the *de facto* relative importance of the key texts to the M&A discourse. As the temporal publishing and citing profiles of the articles and references indicate, this time period facilitates a thorough analysis of references all the way to the 1970s, which was perceived to be sufficient given the rapid development of the academic M&A discourse during the past three decade following the conglomerate merger wave of the 1960s and 70s.

The selection of articles

The next step from choosing the core journals in fields relevant to the M&A discourse was the selection of articles in these journals.

Given the amount of articles under investigation, a Social Science Citation Index database search was performed using the words "merger", "acquisition", "mergers" and "acquisitions" as search words for the titles, keywords given by authors and editors as well as for the abstracts of the articles. Naturally, not all articles containing issues about M&A will be found using this search string. Many could argue that articles including such terms as "demerger", "takeover", "horizontal integration", "vertical integration", "consolidation" and "amalgamation" should be included in the list. The database was checked for articles containing any of the latter keywords and neither of the prior, and all the ones found that dealt with M&A were included in the list.

There were no additional articles found using "demerger", "consolidation", "horizontal integration" or "amalgamation" that would have discussed M&A (and not mentioned either "merger" or "acquisition") in the sense of this study. "Takeover" and "takeovers" as search words gave a relatively large number of articles. These articles are, however, were excluded from the original M&A article population, since literature that dominantly employs the word "takeover" often has a very narrow focus on M&A and would thus distort the bibliometric analysis[19].

[19] A brief familiarization with the takeover literature indicated that it is significantly skewed in the direction of hostile takeovers, financial instruments employed as anti-takeover defense mechanisms, antitrust legislation and certain individual takeover cases. The article population produced with the search words ‘merger’ and ‘acquisitions’ included a large number of articles discussing takeovers too, and thus it was felt that the true significance of takeovers in the M&A discourse was actually better represented in the bibliometric study by excluding articles that made no significant reference to ‘merger’ or ‘acquisition’, only ‘takeover’.

The search word "vertical integration" had to be rejected. This was due to the fact that nearly all of the found additional articles focused not on vertical integration as M&A but as a central concept and theoretical building block of transaction cost economics. Thus, the author and article analyses of the bibliometric study would have been distorted. Separate analysis of these articles is not necessary, since the dominance of transaction cost economics is explicit in these studies[20].

Naturally, all the articles selected in this fashion had to be short-read to extract the articles actually dealing with M&A and to extract those not belonging to this area. A large number of articles were excluded simply because the word "acquisition" has so many additional meanings. Articles not focusing on corporate acquisitions, but mentioning the word acquisition in some other context comprised the vast majority of the excluded articles[21].

Along the lines of Puro (1996), writings that were not perceived to be scientific articles were excluded. This includes numerous industry reports, book reviews, introductory and editorial comments as well as announcements. From then on the basis of the selection of articles was the definition of the M&A discourse, outlined more carefully in Appendix 2. That is, an article whose key focus was the process, rationale, management, outcome, or other contingency of a completed or attempted merger, acquisition, takeover or a demerger were included. Topics falling under these headings included articles dealing with e.g. diversification through acquisitions, corporate cash reserves in financing acquisitions, the resource allocating outcomes of M&A, the role of raiders and takeovers in disciplining the market for corporate control, shareholder value outcomes of mergers, acquisition policy for multi-supplier systems and the role of information in market entry through acquisition.

In the case of articles that had ambiguous topics or included a large number of issues from different disciplinary viewpoints, the conceptual analysis of the M&A literature was again utilized. Keeping in mind the basic aim of better structuring the M&A discourse, ambiguous cases were considered individually. Included were articles that had M&A as one of their key theoretical and/or phenomenon-related foci. For example, an article on the role of chief executive officers, their incentives and individual characteristics in takeover resistance (Buchholtz and Ribbens 1994) was included in the list, but an article focusing merely on the interplay of boards and chief executive officers in restructuring (Johnson, Hoskisson and Hitt 1993) was excluded because it only gives M&A as one of many examples. Likewise, an article the impact of ownership changes on internal labor markets (McGuckin and Nguyen

[20] Examples of studies emerging with 'vertical integration' include e.g. Ghoshal and Moran 1996, Poppo and Zenger 1998, Robertson and Gatignon 1998, Davis and Duhaime 1992 and Williamson 1991, all of which are evidently very much transaction cost economics flavored articles.

[21] The excluded articles related to some other discourse (shown in parentheses) and referred most often to technology (R&D), information (many), skill (social psychology, HRM), capital (finance), or knowledge (many) acquisition. Other miss-hits included capacity, resource, campaeus, learning, expectancy, stimuli, customer, human capital and capability acquisition.

2000) since it focuses on ownership changes was included, but another on corporate tournaments and firm size-wage relations was excluded because it focuses on human capital, not corporate, acquisition. Elsewhere, articles that only referred to or made a passing mention of M&A, but were not centrally interested in M&A, were excluded.

Also excluded were articles where the perceived M&A process was just an object of mere speculation, with little intent to actually M&A to the academic research agenda in the articles. In other words, excluded in this way were e.g. articles, which listed a wide array (e.g. over five) of different organizational circumstances with M&A being one of them. In ambiguous cases, factual 'M&A activity' occurring in the form of e.g. asset interchange, organizational agglomeration or hierarchical reorganization was the general guideline for inclusion. This by no means implies that purely theoretical articles were excluded. On the contrary, as long as one of the main foci in the article dealt with the one of the aspects of the definitions provided in this study, the article was included.

After this round of detailed selection, the 567 articles were found, chosen and familiarized with during a more or less six-month period starting in January 2002. The abstracts of the articles, together with the title, keywords and author names and all references were read from all articles. Access to 389 full text articles, either in Adobe Acrobat pdf or paper format, representing 69% of the article population was acquired, with the others analyzed on the basis of, arguably, somewhat insufficient information. Having familiarized with the articles, it would, however, seem justified to argue that an overwhelming majority of the articles could have been analyzed on the basis of the abstracts and references. Since qualitative network analysis is limited to as few basic variables as two (i.e. theories and antecedents), this information could have most often been extracted from well-structured abstracts and with a careful investigation of the key literature sources. The results of this bibliometric analysis would therefore be, with extremely high probability, very similar even if the whole analysis had been performed solely on the basis of abstracts and referencing information.

Cognitive framework building

The conceptual and bibliometric analyses facilitate the building of a cognitive framework for governance-based M&A thinking in Chapter 3. In practice, this implies a definite process starting with moving towards a fuller picture of the *de facto* structuring of the M&A discourse by discussing dominant perspectives, i.e. key theories, linking theories and antecedents identified in the bibliometric study. The developing picture of the M&A discourse is compared to the existing body of knowledge represented by the view of the M&A discourse presented on the basis of the conceptual analysis. A number of differences between the two representations are identified, and the *de facto* picture of the M&A discourse is found to be characterized by the strong presence of governance theoretical authors,

antecedents and insights. Also, a slightly refined picture of the disciplinary orientations within the M&A discourse is proposed. Five disciplinary M&A research streams are perceived to exist (finance, strategy, process, humans and organizations, and law and economics), which represents both the findings of the citation analysis and an amalgamation of the findings recent analyses of the M&A discourse (e.g. Weston et al. 2001, Larsson and Finkelstein 1999, Kim 1998, Cording et al. 2001, Haspeslagh and Jemison 2001 and Gammelgaard 1999).

The framework building exercise then moves on to discuss the nature of paradigmatic linkages, given that its principal aim is to identify such linkages between the governance and M&A discourses. Three levels of linkages are subsequently analyzed, namely linkages in intellectual roots and traditions, linkages through academic cross-fertilization and linkages through shared views on factual M&A affairs. The analysis of the linkages is complemented with an evaluation of the general level, assumption-specific and theory-specific criticisms of the governance theories of the firm and their implications for the applicability of governance theories to M&A analysis.

Together, the new, governance-flavored picture of the M&A discourse, the paradigmatic interlinkages and the understanding of the shortcoming of governance theory a) facilitate arguing for and b) show the need for a holistic governance perspective to M&A. This conceptual perspective aims at pulling together the insights of the governance theories of the firm. Two variants of this holistic governance approach are proposed, an explanatory avenue, concentrating on mapping the academic contribution of governance theory on M&A, and a prescriptive avenue, concentrating on developing cognitive models for using governance theoretical thinking in M&A decision-making. The 'holistic governance perspective to M&A' is thus essentially a way to present a number of findings that are connected by their origin in governance theoretical academic output under one distinct heading that can be operated as both managerial (pragmatic, prescriptive) or academic (theoretical, explanatory) cognitive frameworks.

1.3 On validity and reliability

This section analyses the methodological validity of the bibliometric analysis employed and discusses the limitations of the research data and methodology. In this context, it is necessary to highlight the role of the bibliometric study as a complement to a body of conceptual research performed about the M&A and theory of the firm discourses. Nevertheless, the aim is to investigate and acknowledge the methodological flaws and problems with the present study and start discussing the limitations that these may have regarding the conclusions that are drawn from the analyses as the discussion is continued and extended in Chapters 3 and 4.

The most notable insufficiency in the material used for the citation analyses is that the bibliometric data could only be analyzed vis-à-vis the first author of each work and reference. The natural outcome is that the importance of second and third authors of articles and books are downplayed in the most-published and most-cited author analyses.

The detrimental effect of the limitation to first-author referencing on the most-cited author analysis is alleviated by the use of the most-cited article analysis. Even though some significant second authors might be left without attention in the most-cited author analysis, the book and article level analysis is able to account for all authors. Comparing the results of the most-cited first author and the most-cited article analyses reveals two findings that support the validity of the first author referencing results. Firstly, the authors appearing in the most-cited first author list are well represented in the article comparison. 13 of the 16 most-cited first authors also appear among the 30 most-cited articles[22]. Secondly, when the article citation counts of authors that appear as second or third authors in the most-cited article comparison were added to their first author counts, only three notable changes occurred. Namely, Andrei Shleifer's position was further enforced and two acknowledged contributors, Paul Ruback and David Jemison, entered the most-cited author list somewhere around the top 10-20. All in all, the results converge to a very large extent. In any case, the results of the most-cited text and article analysis can be considered more valid than the most-cited first author results. This is also reflected in how the results are interpreted.

Some authors have criticized the use of simple citation analyses for focusing on quantity instead of quality (see e.g. Puro 1996, p. 55-57). An alternative method incorporates not only the number of citations, but also the position of citations as an equally significant variable (See Small 1982, Moravcsik and Murugesan 1975, p. 87-88). According to this view, the value and significance of citations depends on their location in the text and on how they are used. In practice, such a methodology does not consider all citations in the text but e.g. limit the number of citations considered for each article, consider only the most influential citations in an articles, consider only the citations appearing in the theoretical parts (e.g. introduction, separate theory section, discussion and/or conclusion) and so on.

Despite the merits of focusing the study and potentially pinpointing the more central references from each study, there are some considerable difficulties with such qualitative citation analytical methodology. Firstly, it incorporates an element of subjective judgment in the selection process. If not all citations and authors are considered, how can the significant references in an articles be systematically picked out without bias? If the number of references per article is restricted, some important references are left outside consideration.

[22] The exceptions are Berger, Asquith and Hitt. The reason for Berger's and Hitt's absence is due to their fertile publication in the 1990s, with no single article thus being filtered to the top 30.

For example, articles drawing on a wide disciplinary basis, as is often the case with e.g. M&A articles, would need to list at least 5-10 references and still important contributors would be left out. At the same time, some non-influential references would surely be included because of a fixed number of considered references in the case of an article with a very narrow theoretical basis. Robustness tests, i.e. trying out different fixed number of considered articles and seeing if the results vary, could verify the reliability of the test, yet none of these seem to have employed in academic management enquiry. If, then again, the number of contributors considered per article is left to the author to decide in the context of every article, the subjective selection bias issue is emphasized.

Secondly, there is the issue of data analysis. If the whole body of references is analyzed, as is done in this study, the process can be semi-automatized and statistical analyses employed. This yields two benefits. On one hand, it allows for larger populations of articles to be analyzed in less time and, on the other hand, this focuses research attention to the interpretation and discussion of the results. In the context of this study, the decision of including all references in the bibliometric data saved time and energy to perform a second bibliometric analysis, the network centrality analysis, and incorporate a thorough conceptual analysis as a further basis for the discussion.

Furthermore, it is evident that not all major journals that deal with various aspects of M&A were covered and thus all relevant studies were not included. As Oliver and Ebers (1998, p. 570) note, a bibliometric study drawing from a clearly defined group of journals within a clearly demarcated time window is not investigating a sample, but rather a population of articles within those boundaries. Since *all* M&A related articles were included according to best possible judgment, the analysis is, indeed, of the M&A article population published in the 65 core journals during the 1991-2001 period. After this contention, the key methodological question arising is that of the generalizability of the study, and whether the analyzed article population can be used to draw conclusions about the entire M&A discourse during 1991-2001 and at other times.

There seems to be fairly good grounds to argue that the performed results are generalizable on the basis of the following. Firstly, the convergence of the various studies indicates that there seems to be a number of theory and content related features that unite the field of M&A research, despite the fact that M&A research is widespread in a number of ways. The bibliometric results indicate that there are journals in several disciplines (economics, strategic management, finance and law) that have published widely in M&A. The citation pattern of the analyzed 567 articles is also relatively widespread, and the list of most-cited journals is very reminiscent of general referencing statistics published by e.g. the ISI Web of Science. The most-published first author list also indicates that there is overwhelming dominance of neither a particular researcher nor a stream of thought.

What is more, similar results emerge from the different bibliometric studies. The most-cited first author, most-cited article and frequency results of the network analysis present converging findings[23] concerning the theory and content of the M&A discourse, which are discussed in more detail in Chapter 3. These results are also strongly supported by the findings and propositions of the conceptual analyses of the TOF and M&A discourses presented in Appendices 1 and 2.

Another indication supporting the generalizability of the results is that the temporally adjusted analysis complemented and further deepened the results of the bibliometric study, thus yielding a fuller picture of the intellectual bases and the academic structuring of the M&A discourse. It seems justified to argue that the results presented in the bibliometric analyses represent not a biased sample drawn from the 1990s top management journals, but rather the general features of the field of M&A research.

The content validity of the network centrality analysis might suffer from the fact that the original list of facets designed on the basis of previous knowledge accumulated during the conceptual analysis of the M&A and TOF discourses turned out not to be all-inclusive. Thus four facets had to be added during the coding process. This may have reduced the content validity of the coding given that the absence of a necessary facet might have influenced the selection of facets for the previously coded articles. This effect was alleviated by applying the facets that had been added during the coding process to the previously coded articles. This nevertheless presents an unsystematic element in the coding process.

The network centrality test, then again, was performed using subjective evaluation in the selection of the theory and antecedent facets, the definitions of the facets and, most importantly, the coding of the articles according to the presence or absence of each facet. With the subjective element involved, the greatest methodological concern is placed on the reliability of the test, i.e. whether repeating the test would yield the same results. While the reliability of the process of selecting and defining the facets is difficult to evaluate, the reliability of the coding process could be tested with robustness tests performed by having two colleagues repeat a part of the coding process.

The reliability of the selection and definition of the necessary facets can thus only be evaluated qualitatively. One relieving factor is that many of the theory and some of the antecedent facets have been successfully used by Oliver and Ebers (1998) in their study of the networking discourse. Another encouraging factor arises from the fact that the colleagues performing the robustness test found few facets to be missing. The only comment regarding the theory facets was that the rather coarse heading of 'organizational behavior' was too

[23] Namely, emphasizing the key positions of agency theory, transaction cost theory and the governance theories of the firm in general, together with the relatively equally important positions of the competitive and resource based views on corporate strategy as well as the prevalence of corporate finance literature.

broad and all-inclusive. The antecedents were perceived to be slightly more problematic, with such antecedents as ‘restructuring’, ‘ownership structure’, ‘horizontal integration’ (which was explicitly explained to be included in the ‘Diversification and conglomerates’ category in case the article dealt with diversifying horizontal integration) and ‘vertical integration’ being perceived missing.

To test the robustness of the coding in the network analysis, a random sample of 30 articles from the article population was coded by two colleagues from the Helsinki University of Technology and the coding results were compared to those by the author. One of the se codings was performed so that the total number of antecedents and theories given for each article was known exactly and the other so that the total number of antecedents and theories was not known.

For the first 30 articles tested with the known number of facets given, the two codings converged on 1455 out of a total of 1560 codings. This represents an agreement rate of 93%, which can generally be considered to be completely satisfactory (Collin et al. 1996, Oliver and Ebers 1998, p. 555). One might assume, however, that this excellent result would be mitigated by the fact that during the coding, the number of antecedents and theories given for each article was known. The second robustness test coding, i.e. the one performed without knowledge of the number of facets allocated for each article by the author, proved this assumption wrong. The agreement rate was again 93%, with 1451 out of the total of 1560 codings converging.

On the whole, picking out the antecedents turned out to be more difficult than theories, which can be speculated to be partly because of the more successful selection and definition of the theory facets. The convergence in selecting theories was 96% and 94% for the two tests vs. 91% and 92% for the antecedents respectively. On the whole, the coding process thus seems very robust and reliable, given that both the colleague who knew the number of facets he was supposed to allocate and the one that didn’t know ended up with the same approximate average agreement rate: 93%.

1.4 Structure of the study

This study is structured in a way, which reflects the structure of the methodology. The conceptual analyses of the M&A and governance theory of the firm literatures, which act as somewhat independent research entities that underlie the bibliometric analyses and the framework-building, are reported separately as Appendices 1 and 2. Including them as Appendices is thus also justified by the fact that these two analyses represented two rather discrete work packages during the research project leading to this study.

Chapter 2 deals with the results of the bibliometric analysis of the M&A literature. It concentrates on exhibiting the results of the data in the performed bibliometric analyses. Subsequently, Chapter 3 interprets the results of the bibliometric and conceptual studies and aims at making propositions that address the research questions directly. Here, some paradigmatic discussion is presented together with a discussion of the interlinkages between the M&A and governance paradigms on three levels (Section 3.1). Chapter 3 thus both ascertains the contents of the cognitive framework-building exercise (Section 3.2) and presents two approaches under the common heading of a governance perspective to M&A (Section 3.3).

Finally, Chapter 4 concludes the present study. Here, particular attention is paid to bringing together all of the research propositions made in Chapter 3 and relating them to the research questions posed in this study. This is followed by an analysis of the contributions of this study to the existing body of knowledge. Seven contributions are predicted together with a realization of the fact that the true contribution will only be revealed in time. Additionally, while the shortcomings of applying the governance theories to M&A are already evaluated at the end of Chapter 3, Chapter 4 also includes an in depth analysis of the shortcomings of the holistic governance perspective to M&A as a whole. The shortcomings are perceived to yield important information about the limits of the perspective and the need to complement it with other research perspectives. Consequently, this study is rounded off with an account of the future research avenues it proposes both in the direction of the M&A discourse and in the direction of the developed governance perspective.

By and large, this study can be seen to contain a general governance proposition. Despite the fact that this study is limited in its phenomenon focus (only M&A), its methodology (only conceptual and bibliometric, no phenomenon-oriented empirical methodology) and the exhaustiveness of its implications (only a collection of governance theoretical insights into M&A), it represents a somewhat new orientation to management research. The idea of the use of governance as a holistic management research perspective, i.e. using the governance theories as a theoretical framework for scrutinizing a variety of real-life management issues, has been emerging (see e.g. Williamson 1999, Madhok 2002), but has not yet surfaced in any particular form.

This study attempts to point out that the ‘governance perspective’ could be developed into a new management research orientation that would both enjoy academic appreciation and be applicable to different business phenomena. Arguably, the governance perspective has always been stronger as a conceptual framework than an operational decision-making tool. On the basis of this study, the governance perspective seems promising in its ability to create constructs of the real world. The application of the governance perspective requires, in any case, a constructivist worldview, since the messages are so abstract that application directly, without the cognitive interplay between the literature based constructs and the managers’ or

academics' mindsets is very hard. It is also this type of interplay that has attracted much of the criticism. Without an understanding of managerial cognitions, constructivism and the interplay between academic lessons and the mindset with which they are used, making decisions based on the governance theories can indeed be "bad for practice" (cf. Ghoshal and Moran 1996).

2 DATA ANALYSIS

Chapter 2 sets to the task of complementing the findings of the conceptual analyses in Appendices 1 and 2 by employing bibliometric analysis to the identification of the *de facto* structuring of the M&A discourse. The aim of the bibliometric analysis in this study is to identify the most influential contributors and contributions, and hence the most significant theoretical underpinnings of recent research on mergers and acquisitions. It is necessary starting point for the analysis is clarifying what is actually meant by 'the *de facto* structuring of the M&A discourse'.

Mergers and acquisitions, or M&A, is understood here as a general concept implying a process of change dealing with, most importantly, a) a new way of organizing activities and assets, b) the human interplay that the new organizational reality creates and c) the role of the change in financial structure. In general, M&A is seen as a vehicle for the reorganization of economic activity. M&A is defined carefully in the Introduction and Section 6.1 of Appendix 1.

Even though this is not meant as only a discourse analytical study, it is still necessary to carefully define what is meant by *discourse* in the phrase 'the M&A discourse', which is used often in this study. "A good working definition of a discourse should be that it is *a system of statements which constructs an object*" (Parker 1992, p.5). This implies that, as is outlined in Section 6 in Appendix 1, M&A is perceived as a single field of academic research, and is not a mere heading for separate research streams dealing with e.g. acquisitions, takeovers, conglomerate mergers and so on. As Pera (1994) proposes, the tension between normative and descriptive philosophies of science can be overcome by focusing on research subjects, which are unified by a common rhetoric. It is the M&A discourse, and not e.g. its aforementioned segments, which can be said to be the highest level of analysis with its own rhetoric. This further reinforces the motivation of selecting 'the M&A discourse' as the research object. It also justifies the exclusion of takeover discourse from the sphere of this study, since it arguably has a completely different rhetoric[24].

Another term that needs definition is 'the *de facto* structuring'. Mapping the *de facto* structuring of the M&A discourse is the key task and contribution of the bibliometric analyses in Chapter 2. The aim is to engulf a large enough population of articles to be able to argue that it represents the whole M&A discourse. Subsequently, the necessary bibliometric tests are employed on this population in order to be able to answer the first research question of this study. Namely, the M&A discourse is analyzed its vis-à-vis its important intellectual

[24] This has an explicit impact on the way the articles are selected in the bibliometric study, see Section 2.2.4 below

sources (authors, texts), the theories the M&A discourse uses and the antecedents that explain scientific output related to M&A. The bibliometric tests can be argued to yield indisputable evidence of these issues and thus provide an empirical backbone for the analysis of the M&A literature.

With these aims and questions in mind, Chapter 2 is structured as follows. Firstly, an overview of bibliometrics as a research method, focusing on the background of bibliometric analysis in social science research and its application to management research, is given. Secondly, the data and exact methodologies employed in the bibliometric analysis are outlined. Thirdly, the results of the bibliometric analyses are investigated. Chapter 2 is capped with an explicit elaboration of how the bibliometric tests answer the first research question of this study.

2.1 Data organization

In this section, the features and results of the performed bibliometric analyses are outlined in detail. The organization of the data material is first briefly overviewed, followed by the identification of key contributions in the M&A discourse facilitated by the citation analysis results including first author publishing and referencing frequencies, key article referencing frequencies as well as temporal and outlet patterns of articles published and referenced. An analysis of citation frequencies with adjustment to the temporal citation profile of the whole data population deepens this analysis. The analyzed article population of 567 M&A related articles is found in Appendix 4, listed alphabetically according to journal and then chronologically according to the date of publication.

Key theories and antecedents of the M&A discourse are identified. Here, the results of the network centrality analysis, discourse structuring and further theory development, together with an interpretation of the hypothetical potential for conclusive judgment, are laid out. The results presented in Sections 2.3 and 2.4 are deepened and further elaborated in much more depth and detail in Chapter 3.

In total, the selected journals in 1991-2001 included 567 articles on M&A in the SSCI database. The total number of articles found with the database search using the words "merger", "acquisition", "mergers" and "acquisitions" was 987, and thus 420 articles were dropped during the post-search selection. An additional database consisting of 105 articles on takeovers was also compiled, but wasn't analyzed separately in this study. For the purposes of the bibliometric analysis, the articles were then organized in groups according to the journal they were published in. Within the groups, the articles appeared in order of the time of publication. The following information was listed for each article in the article list: author(s), title, source, number of cited references, keywords given by authors and editors,

abstract, all cited references, times cited within the SSCI database, page count and publication date, etc.

Example:

Author(s): Ramaswamy K
Title: The performance impact of strategic similarity in horizontal mergers: Evidence from the US banking industry
Source: ACADEMY OF MANAGEMENT JOURNAL 1997, Vol 40, Iss 3, pp 697-715
No. cited references: 49
KeywordsPlus: CORPORATE ACQUISITION; PROFITABILITY; FIRM
Abstract: This study examined the impact of strategic similarities between target and bidder firms on changes in postmerger performance. Set in the U.S. banking industry, the empirical examination shows that mergers between banks exhibiting similar strategic characteristics result in better performance than those involving strategically dissimilar banks.
Cited references: ALLISON PD-1990-SOCIOL-METHODOL-P93
BOWDEN EV-1980-REVOLUTION-BANKING
BUONO AF-1989-HUMAN-SIDE-MERGERS-A
CHATTERJEE S-1988-ACADEMY-MANAGEMENT-B-P7
CHATTERJEE S-1992-STRATEGIC-MANAGE-J-V13-P319
CHATTERJEE S-1986-STRATEGIC-MANAGE-J-V7-P119
CHOI D-1983-J-FINANC-RES-V6-P239
CLARKE DB-1988-CHEM-GEOL-V73-P15
COHEN J-1983-APPLIED-MULTIPLE-REG
COMPTON EN-1991-PRINCIPLES-BANKING
CRONBACH LJ-1970-PSYCHOL-BULL-V74-P68
DATTA DK-1991-ADV-STRATEG-MANAGE-V7-P157
DESS GG-1984-ACAD-MANAGE-J-V27-P487
DRAZIN R-1985-ADM-SCI-Q-V30-P514
ECKBO BE-1983-J-FINANC-ECON-V11-P241
HARRISON JS-1993-ACAD-MANAGE-J-V36-P1026
HARRISON JS-1991-J-MANAGE-V17-P173
HAWAWINI GA-1990-MERGERS-ACQUISITIONS
HEMPEL GH-1986-BANK-MANAGEMENT
HOPKINS DH-1987-J-MANAGE-V13-P557
INGHAM H-1992-J-MANAGE-STUD-V29-P195
JEMISON DB-1986-ACAD-MANAGE-REV-V11-P145
JENSEN MC-1983-J-FINANC-ECON-V11-P3
KIESLER S-1982-ADM-SCI-Q-V27-P548
KUSEWITT JB-1985-STRATEGIC-MANAGE-J-V6-P151
LUBATKIN M-1983-ACAD-MANAGE-REV-V8-P218
LUBATKIN M-1996-ACAD-MANAGEMENT-EXEC-V10-P21
LUBATKIN M-1987-STRATEGIC-MANAGE-J-V8-P39
MEEKS G-1981-J-IND-ECON-V29-P335
MILES RE-1978-ORG-STRATEGY-STRUCTU
MILLER D-1978-MANAGE-SCI-V24-P921
NAHAVANDI A-1993-ORG-CULTURE-MANAGEME
PANZAR JC-1981-AM-ECON-REV-V71-P268
PORTER ME-1980-COMPETITIVE-STRATEGY
POST AM-1994-ANATOMY-MERGER-CAUSE
PRAHALAD CK-1986-STRATEGIC-MANAGE-J-V7-P485
RAVENSCRAFT DJ-1987-MERGERS-SELL-OFFS-EC
ROGERS D-1993-FUTURE-AM-BANKING-MA
ROSE PS-1989-INTERSTATE-BANKING-R
ROSE PS-1988-REV-BUS-ECON-RES-V24-P1
ROUSSAKIS EN-1989-COMMERCIAL-BANKING-E
SALTER MS-1979-DIVERSIFICATION-ACQU
SHELTON LM-1988-STRATEGIC-MANAGEMENT-V9-P279
SINGH H-1987-STRATEGIC-MANAGE-J-V8-P377
SNOW CC-1980-ADM-SCI-Q-V25-P317
STEMPER RG-1990-GUIDE-SUCCESSFUL-CON
THOMAS AS-1991-STRATEGIC-MANAGE-J-V12-P509
WERNERFELT B-1984-STRATEGIC-MANAGE-J-V5-P171
ZAJAC EJ-1989-STRATEGIC-MANAGE-J-V10-P413

Times Cited: 6
Source item page count: 19
Publication Date: JUN
IDS No.: XH205
29-char source abbrev: ACAD MANAGE J

It is important to mention that while the network centrality analysis relied on all information available about the articles (including the full text of the articles in most of the cases), the citation analysis relied on the type of data listed above. A notable issue in the appearance of the data in each article is the way the cited references are abbreviated, i.e. only the first author is mentioned. This automatically creates some distortion to the citation statistics of single authors. Even though it is a common practice that the person primarily responsible for the article is placed as the first author, many authors, however, write in groups of researchers and often use e.g. the most senior and prestigious author as the first author. It is also very common to simply list the authors in alphabetical order. Similarly, some pairs or groups of authors often get fixated in the way of determining who the first author is. This results in the partial neglect of some authors in the most-cited author analysis (see Section 2.3.2). For example, authors like William Meckling (Jensen and Meckling 1976), James Brickley and Jeffry Netter (Jarrell, Brickley and Netter 1988) or Andrei Shleifer and Robert Vishny (Morck, Shleifer and Vishny 1990) are surely underappreciated in the most-cited first author analysis below.

Given that the data for each article includes also journals, years, volumes and page numbers for the references, this fact does not distort the process of identifying the most referenced articles (see Section 2.3.2), which, as is later contended, arguably more important for the purposes of this study.

2.2 Identification of key contributions in M&A discourse

This section identifies the key aspects of the M&A discourse as it emerged in the bibliometric study. Given the large number of articles and the abundance of data in each article, it was possible to measure a number of citation analytical statistics. The aim of the bibliometric study is, firstly, to acquire a rough understanding about the structuring of the M&A discourse vis-à-vis a) the authors who have published most M&A related articles in 1991-2001, b) authors who have been referred to most in M&A related articles in 1991-2001, c) the articles which have been referred to most in M&A related articles in 1991-2001 and d) the years in which the articles were published, the years in which their cited references were published as well as the journals in which the articles and their references were published.

Secondly, partly on the basis of these analyses, the aim is also develop a more refined understanding of the central topics, concepts and theories in the M&A discourse, dominant underlying antecedents and intellectual roots of M&A put forth in the articles. While the first set of aims is essentially dealt with by the citation analyses above, tackling the second set of aims is done primarily through the network centrality analyses.

Initial descriptive frequency distributions

This section presents and analyzes the more elementary descriptive frequencies and distributions from the bibliometric data. To satisfy the prior set of aims, the most published first authors in the total of 567 M&A articles containing a total of 21 438 references was measured. All authors that have published three of more M&A related articles in the selected core journals are shown in Table 3. Likewise, a list with the number of references within these articles to first authors with at least 30 references was compiled. Of this list, the 16 most frequently referenced authors are presented in Table 4. Accompanying the list of reference authors is a compilation of the most influential source articles and their frequencies of appearance in the 567 M&A related articles in 1991-2001. The inclusion of the article-specific referencing was felt to be extremely important given that the bibliometric material a) does not give credit to all authors but only the first author and b) many of the authors have a number of significant articles whose relative weight is necessary to be evaluated. An abbreviated list of 30 most influential source articles is presented in Table 5. Finally, the frequency distributions of the years of publishing and referencing as well as journals of publication and referencing were created. The temporal distributions are illustrated in Figure 1 and Figure 2 and the journal distribution in Table 7 and Table 8. More extensive listings of the citation analysis results can be found in Appendix 4.

Most-published first authors

A cornerstone of the analysis of the 567 M&A related articles found in the 65 core journals is investigating the most published first authors among these articles. All authors with three or more first-authored articles among the 567 M&A related are shown in Table 3.

Table 3: Authors with three of more M&A related articles in the selected core journals in 1991-2001

Author	No. of M&A articles 1991-2001
Werden, GJ	6
Haunschild, PR	5
Lubatkin, M	5
Capron, L	4
Chatterjee, S	4
Gupta, A	4
Matsusaka, JG	4
Servaes, H	4
Berger, AN	3
Bergh, DD	3
Carow, KA	3
Cornett, MM	3
Datta, DK	3
Denis, DJ	3

Harrison, JS	3
Houston, JF	3
Hubbard, RG	3
Larsson, R	3
McAfee, RP	3
Schwert, GW	3

As is seen in Table 3, the 567 M&A related articles published in the 65 core journals are well-spread, with no author dominating the discourse. M&A is typically an issue that can be approached from multiple research angles and thus the authors are diverse in both number and disciplinary orientation.

The list of authors in Table 3 gives a preliminary indication about the many disciplinary angles that have been central to the M&A discourse during the ten-year period between 1991 and 2001. At the top of the list is Gregory Werden, an industrial economist, who has published extensively on the market efficiency outcomes of M&A. He is followed by Pamela Haunschild, who has studied e.g. interlocks, interorganizational imitation and managerial overcommitment in the context of M&A. Another author with five first-authored articles is Michael Lubatkin, whose research in the 1990s concentrated, in addition to shareholder value outcomes also on business cycles, merger waves and international M&A.

There are also a number of advocates of the resource based view (e.g. Laurence Capron, Sayan Chatterjee, Donald Bergh), which is seen as the dominant strategic management paradigm of the 1990s, among the most-published first author list. Represented are also banking and antitrust authors (e.g. Allen Berger, Atul Gupta, John Matsusaka and Marcia Millon Cornett, Kenneth Carow, William Schwert and Joel Houston) as well as representatives of numerous other perspectives to M&A, e.g. taxation and M&A transactions by Henri Servaes, organizational and HRM issues in M&A by Rikard Larsson, organizational, environmental and cultural fit by Deepak Datta, performance effects of corporate restructuring by David Denis, industry-specific contemporary M&A issues by Joan Harrison, internal control and financing issues by Glenn Hubbard and pure economics analysis by Preston McAfee).

The most significant finding, nevertheless, is that this analysis yields no apparent results vis-à-vis contributing to our understanding of the structuring of the M&A discourse, since no meaningfully dominant authors can be pointed out. The discourse in the 1990s has been well spread in terms of disciplinary orientation, geographical diversity, publication outlet as well as, ultimately, authors. The influence of the corporate finance/capital markets perspective, undoubtedly reinforced by the deregulation and further internationalization of the global capital markets during the 1990s is evident, as is the input of the strategic paradigms concentrating on resources, competencies and capabilities.

Most-cited first authors

The most-cited first author analysis reveals is a fundamental method of mapping the intellectual origins and structuring of a discourse (Budd and Raber 1996). The 16 authors who have first-authored articles that are most frequently quoted in the 567 M&A related journal articles are listed in Table 4.

Table 4: 16 most-cited first authors

	AUTHOR	NUMBER OF CITATIONS
1	JENSEN MC	344
2	WILLIAMSON OE	164
3	BERGER AN	157
4	MORCK R	147
5	LUBATKIN M	140
6	PORTER ME	137
7	CHATTERJEE S	120
8	SHLEIFER A	113
9	JARRELL GA	108
10	FAMA EF	107
11	BRADLEY M	105
12	WALSH JP	102
13	RAVENSCRAFT DJ	100
14	ASQUITH P	97
15	ECKBO BE	94
16	HITT MA	93

It seems justified to present just the 16 most cited first authors in Table 4 and analyze them as a group separate from the others. There are two good reasons for this. Firstly, the list of all first authors who have been referenced to 30 times or more consists of 93 names and it would not be meaningful to analyze all of them in this context. Thus the line had to be drawn somewhere where the resulting number of first authors would permit meaningful in-depth analysis and be convenient. Secondly, the 16 authors were quite clearly cited more frequently than others, i.e. the 17th most cited author (Bruce Kogut) had 12 references less than the 16th which forms a considerable chasm between the 16 most-cited authors and the rest. The analysis can thus be focused on the 16 most referenced authors.

The overwhelming dominance of Michael Jensen, with 344 references representing over twice as many as anyone else, is quite evident. Jensen has contributed, together with a few colleagues (most importantly Eugene Fama, Paul Ruback and William Meckling) to a number of governance-oriented theories of the firm, most importantly agency theory, but also property rights theory and the nexus of contracts perspective. The latter two do not appear in

this list primarily due to the first author referencing limitation to the methodology. Beyond the contributions to the governance perspective, Jensen's position as the undisputed leader of the first author referencing list is also explained by the diversity of his publication in a two key arenas close to the world of M&A. His has contributed extensively to not only the governance theories of the firm like agency theory, property rights theory and the nexus of contracts perspective, but also the theory of finance (see e.g. Jensen and Meckling 1976, Jensen 1978, Jensen and Smith 1984, Fama and Jensen 1985, Jensen 1989). As can be seen in the article-specific citation analysis (Table 5), Jensen has first authored a number of articles in a variety of journals and thus attained the interest and respect, and subsequently references, of a wide array of scientific communities.

The second most cited author is Oliver E. Williamson, an important contributor in a different and distinct approach to the theory of the firm, namely transaction cost economics (see Williamson 1975, 1985). There are a number of explanations for Williamson's appearance close to the top of the list that can be briefly mentioned here[25]. Most importantly, transaction cost economics concentrates on issues that are very close to the realm of M&A, e.g. the boundaries of the firm, vertical integration, contracting etc[26]. Furthermore, Williamson has published two major books and a set of seminal articles during an extensive period of time[27], which make him influential across three decades and thus also referenced steadily in the 1990s. Also the fact that Williamson has written nearly all of his books and articles either alone or as the first author has an impact on his first author referencing frequency. With 164 references, Williamson is very close to the next few first authors, but it is still very interesting that the top two first authors are undisputedly governance theorists.

After Jensen and Williamson, the following three authors (Allen Berger, Randall Morck and Michael Lubatkin) are conspicuously authors that have written about M&A issues and/or M&A as a phenomenon explicitly and not contributed via the development of specific theories. Allen Berger, with 157 references, is a known contributor in banking and antitrust related M&A issues whose research covers a variety of topics related to financial institutions, including e.g. efficiency and productivity growth, capital, credit rationing and credit crunches, small business finance, the effects of bank mergers and market structure. Berger is thus first and foremost a finance and economics oriented M&A researcher.

Randall Morck, with 147 references, is known for his research on a wide array of issues related to M&A. Even though Morck has published extensively using a finance orientation

[25] Chapter 3 provides an in-depth elaboration of the role and interplay of the various governance theories of the firm in the M&A discourse, while this section focuses most importantly on the presentation of the bibliometric data and results.

[26] See Section 7.1.5 in Appendix 2 for a close elaboration nature of transaction cost economics and its key contributions to M&A

[27] Williamson published 'Markets and Hierarchies' and 'The Economic Institutions of Capitalism' in mid-70s and mid-80s respectively and has continued to write journal articles through the 1990s.

(see e.g. Morck, Shleifer and Vishny 1989, 1990b, Morck and Barone-Adesi 1990 and Morck, Kaul and Mehrotra 2000) and thus been referenced in many of the same research fora and articles as Jensen's more financial theory oriented articles (Jensen and Meckling 1976, Jensen 1978, Jensen and Smith 1984, Fama and Jensen 1985, Jensen 1989), he is perhaps best known for one of his less technical articles on the adverse influences of managerial objectives in M&A (Morck, Shleifer and Vishny 1990a). Morck's collaborator Andrei Shleifer, who ranks 8th with 113 references is a corporate finance theorist, whose contributions focusing on e.g. asset ownership, privatization and corporate governance have been amply applied to the context of M&A. Another important contributor in this stream of thought is Robert Vishny, who is undoubtedly discriminated against by the first author limitation in the first author referencing statistics. An expert in the market for corporate control and governance, privatization, the behavior of institutional investors and stock prices as well as the economics of corruption and rent-seeking behavior, Vishny has collaborated widely with Morck and Shleifer and thus established himself among the important contributors in the field.

Michael Lubatkin, who has been referenced 140 times in the data, is best known for his research on M&A performance outcomes and M&A related event studies, most importantly on the integration of theory and empirical evidence in M&A research (Lubatkin 1983) and on the relationship between shareholder gains and the relatedness of merging firms (Lubatkin 1987).

These M&A-oriented authors are followed by two well-known corporate strategy authors, Michael E. Porter (137 references) and Sayan Chatterjee (120 references). Arguably, M&A has had an ever more important role in corporate strategy-making and strategy literature is naturally able to contribute across such top management theories and decision-making areas[28]. Further evidence of this is the presence of two further contributors of resource-based M&A thinking, namely Michael Bradley (see e.g. Bradley, Desai and Kim 1988) as the 11th most-cited and Michael Hitt as the 16th most cited first authors[29].

Gregg Jarrell and Eugene Fama are the next two in the list, with 107 and 105 references respectively. While Fama has contributed widely to the development of the theory of the firm[30], Jarrell has published widely in issues related to the economics of corporate control, the economics of regulation, applied corporate finance and stock price reactions and e.g.

[28] For a useful elaboration of the use of M&A as a strategic decision-making option, see the 'Harvard Business Review on Strategies for Growth, 2000' and 'Harvard Business Review on Mergers & Acquisitions, 2001' from the Harvard Business Review Series.

[29] It must be noted that Michael Hitt, together with his colleagues Duane Ireland and Robert Hoskisson, published productively all through the 1990s and would surely rank somewhat higher on any M&A citation analysis that focused on a more recent time frame than the 1991-2001 one employed here.

[30] Especially the nexus of contracts perspective and the more formal principal-agent research, see Section 7.5.2-7.1.3 in Appendix 2 and Fama 1980, 1983

provided a famous overview of evidence on the shareholder value benefits of M&A and anti-takeover tools (Jarrell , Brickley and Netter 1988).

James Walsh, 12th with 102 references, has concentrated on the psychological and managerial side of M&A, researching e.g. top management turnover and managerial cognition in M&A target companies (Walsh 1988, 1989) and CEO compensation and asset restructuring decisions (Margolis and Walsh 2001). In addition, Walsh has also explored the fundamentals of the firm, working in the borderline between the fundamental neo-classical efficiency assumptions and the theory and practice of social innovation.

David Ravenscraft, 13th with 100 references, is another M&A researcher with a financial orientation, has contributed, in addition to M&A, to economics flavored issues such as antitrust, game theory and vertical integration. He is perhaps best known for the book 'Mergers, Selloffs and Economic Efficiency' (Ravenscraft and Scherer 1987), which demonstrates the substantial inefficiencies and profitability declines resulting from the U.S. conglomerate merger wave of the 1960s and 1970s.

Paul Asquith, 14th with 97 references, is another finance theory specialist who has also contributed to not only the M&A discourse but also pure finance topics such as dividend policy, financial distress, equity short sales and market efficiency, with mostly empirical research data.

Espen Eckbo appears as the 15th most-cited first author with 94 references. Eckbo is known for his M&A valuation related studies, especially for his testing (Eckbo 1983) and rejecting (Eckbo and Wier 1985 and Eckbo 1985) of the market power theory of takeovers, i.e. that increased monopoly in product markets explains takeover gains.

Thus, the first author referencing statistics summarized in Table 4 provide an interesting insight into the intellectual roots from which the M&A discourse has drawn its theoretical underpinnings in the 1990s. On the basis of the above results, a number of observations can be made. Firstly, the most-cited first authors represent a rather wide spectrum of disciplines ranging from pure theory of the firm (Jensen, Williamson, Fama) and applications operationalizing theories of the firm (Jensen, Jarrell) to finance literature (e.g. Berger, Jensen, Morck, Shleifer, Ravenscraft, Eckbo and Asquith), strategy literature (e.g. Porter, Chatterjee, Hitt, Bradley) and various issues dealing directly with M&A from a particular research angle (Lubatkin, Walsh).

Secondly, despite the evident plurality of the disciplinary origins of the referenced first authors, authors who have played a significant role in the development of different governance theories of the firm seem to be well represented. On the basis of the first author referencing data, it is the governance theories of the firm that appear to be dominant. In order

to validate this suggestion, an analysis of the referencing at the level of single articles needs to be performed (see below) and a justified arsenal of propositions about how and why the governance theories of the firm are and should be linked to M&A theory and phenomena needs to be developed (see Chapter 3).

A third and less surprising finding is that the balance of the influence of finance and strategy literature on the M&A discourse, measured in the first author referencing frequencies, seems to be remarkably equal, with some 300-400 references among the top 16 first authors for both[31]. It is hardly surprising that some pure strategy and finance theorists are present at the top of the list. It is more interesting *which* authors have made it there and authors have made it there and *why*[32].

Fourthly, the relatively weak position of the competence perspective to the theory of the firm needs to be asserted. Despite the dominance of the resource- and knowledge-based views to corporate strategy in the 1990s (See e.g. Rumelt et al. 1994, Hamel and Prahalad 1990, Barney 1991, Peteraf 1993), only Chatterjee, Hitt and Bradley have made it to the list of top-16 most-cited first authors with none of them in the top-6. As an increasingly polarized discussion about two substituting perspectives to the firm, the governance and the competence perspectives, is observed (Williamson 1999), it feels relevant to enquire why the competence perspective has not risen to dominate the present data[33].

Moreover, the data on first author referencing of M&A articles sets up an interesting discussion about the intellectual origins and disciplinary streams of the M&A discourse. It seems justified to assume that governance theories of the firm, various strategy viewpoints as well as finance literature assume key positions as underpinnings of the M&A discourse, and that their scrutiny helps in the reconsideration of certain issues of paradigm, tradition and theory in the field of M&A. However, to deepen and refine our understanding about the relative significance of the different underpinning paradigms, the most-cited first author analysis above needs to be complemented with analyses at the level of single scientific articles as well as analyses regarding the year and journals in which the M&A articles and their references have been published. Consequently, the focus is now turned to iterating the

[31] There is little sense in starting to categorize the articles very precisely to strategy and finance articles, since questions regarding whether Jensen is counted as a strategy or finance author would immediately arise. To the author, the two disciplines seem nevertheless in balance on a large scale.
[32] This is further elaborated and analyzed in the Chapter 3.
[33] Two reasons can be briefly hypothesized: firstly, the time frame of the study does not emphasize the role of the resource based view, even though the M&A articles were published in the 1990s. Articles refer to sources that are on average six years older than them, to a time before the flourishing of the competence based strategy literature. This point is elaborated below in the discussion of the patterns of time and publication outlet. Secondly, the contributors to the competence perspective are many and thus no one author stands out in the present first author referencing statistics. A larger elaboration could have revealed a wide front of competence contributors on the M&A discourse (cf. end of Appendix 2)

referencing profiles further and analyzing M&A related article referencing at the level of the most-cited books and articles.

Most-cited books and articles

The most-cited first author analysis is complemented with a more acute observation of the referencing frequencies of the source books and articles of the 567 M&A articles found in the core journals. The results of the most-cited article analysis are presented in Table 5, which includes 30 of the most frequently referenced books and articles.

Table 5: 30 most-cited books and articles

	ARTICLE	NUMBER OF CITATIONS
1	JENSEN AND RUBACK, 1983, ARTICLE / JOURNAL OF FINANCIAL ECONOMICS, V11, P5	98
2	JENSEN MC, 1986, ARTICLE / AMERICAN ECONOMIC REVIEW, V76, P323	70
3	ROLL R, 1986, ARTICLE / JOURNAL OF BUSINESS, V59, P197	68
4	MORCK, SHLEIFER AND VISHNY, 1990, ARTICLE / JOURNAL OF FINANCE, V45, P31	59
5	HASPESLAGH AND JEMISON, 1991, BOOK / MANAGING ACQUISITIONS	56
6	BRADLEY, DESAI AND KIM, 1988, ARTICLE / JOURNAL OF FINANCIAL ECONOMICS, V21, P3	52
7	JEMISON AND SITKIN, 1986, ARTICLE / ACADEMY OF MANAGE REVIEW, V11, P145	52
8	RUMELT RP, 1974, BOOK / STRATEGY, STRUCTURE AND ECONOMIC EFFICIENCY	50
9	PORTER ME, 1987, ARTICLE / HARVARD BUSINESS REVIEW, V65, P43	49
10	WILLIAMSON OE, 1975, BOOK / MARKETS AND HIERARCHIES	48
11	JENSEN AND MECKLING, 1976, ARTICLE / JOURNAL OF FINANCIAL ECONOMICS, V3, P305	47
12	JARRELL, BRICKLEY AND NETTER, 1988, ARTICLE / JOURNAL OF ECONOMIC PERSPECTIVES, V2, P49	44
13	CHATTERJEE S, 1986, ARTICLE / STRATEGIC MANAGEMENT JOURNAL, V7, P119	42
14	TRAVLOS, 1987, ARTICLE / JOURNAL OF FINANCE, V42, P943	42
15	SINGH AND MONTGOMERY, 1987, ARTICLE / STRATEGIC MANAGEMENT JOURNAL, V8, P377	41
16	LUBATKIN M, 1983, ARTICLE / ACADEMY OF MANAGEMENT REVIEW, V8, P218	40
17	WALSH JP, 1988, ARTICLE / STRATEGIC MANAGEMENT JOURNAL, V9, P173	36
18	LUBATKIN M, 1987, ARTICLE / STRATEGIC MANAGEMENT JOURNAL, V8, P39	35
19	RAVENSCRAFT AND SCHERER, 1987, BOOK / MERGERS, SELL-OFFS AND ECONOMIC EFFICIENCY	35
20	FAMA EF, 1980, ARTICLE / JOURNAL OF POLITICAL ECONOMICS, V88, P288	32
21	MYERS AND MAJLUF, 1984, ARTICLE / JOURNAL FINANCIAL ECONOMICS, V13, P187	32
22	BROWN AND WARNER, 1985, ARTICLE / JOURNAL OF FINANCIAL ECONOMICS, V14, P3	32
23	MANNE, 1965, J POLITICAL EC, V73, P110	32
24	AMIHUD AND LEV, 1981, ARTICLE / BELL JOURNAL OF ECONOMICS, V12, P605	31
25	BARNEY JB, 1988, ARTICLE / STRATEGIC MANAGEMENT JOURNAL, V9, P71	30
26	ECKBO BE, 1983, ARTICLE / JOURNAL OF FINANCIAL ECONOMICS, V11, P241	30
27	WHITE H, 1980, ARTICLE / ECONOMETRICA, V48, P817	30
28	PENROSE ET, 1959, BOOK / THEORY OF THE GROWTH OF THE FIRM	30
29	PORTER ME, 1985, BOOK / COMPETITIVE ADVANTAGE	29
30	WILLIAMSON OE, 1985, BOOK / ECONOMIC INSTITUTIONS OF CAPITALISM	29

At the top of the most-cited articles list are two articles by Michael Jensen (Jensen and Ruback 1983, Jensen 1986) with 98 and 70 references respectively, and Jensen also appears as the first author of the 11th most-cited article with 47 references (Jensen and Meckling

1976). It is somewhat expected that Jensen's and Richard Ruback's 1983 article, which "reviews much of the scientific literature on the market for corporate control" (Jensen and Ruback 1983, p. 5) has received most attention. The second-most cited article (Jensen 1986), then again, is an application of agency theory to a number of domains. Given that Jensen (1986) discusses five different issues, namely a) the benefits of debt in reducing agency costs, b) the substitutability of dividend with debt, c) loss-generating diversification, d) antecedents of takeover activity across industries and e) abnormally good pre-takeover performance, it is logical that the article has provided a popular basis for referencing.

Jensen and Meckling's original 1976 article, which examines and develops agency theory and the theory of finance from the perspective of debt/equity ratios, has relatively less attention. Nevertheless, the mentioned article can be considered a cornerstone of agency theory of the firm and its appearance, despite the fact that it was published 15 years before the beginning of the M&A article data period of 1991-2001, so close to the top of the list further supports the assertion that agency theory has been a key element in the structuring of the M&A discourse. On the whole, referencing to Jensen is frequent[34]. What is also notable about references to Jensen is that the 1978 article, which most importantly investigates the role of property rights in the theory of the firm, is nowhere to be seen among the top 74 most-cited articles[35].

Other proponents of the various governance theories of the firm are also well represented in the article referencing data. Oliver Williamson's major books 'Markets and Hierarchies' (1975) and 'The Economic Institutions of Capitalism' (1986) are found as 10th and 30th most referenced works with 48 and 29 references respectively. There are also a couple of articles that have become known for their operationalization of agency theory in M&A related contexts. Randall Morck's, Andrei Shleifer's, and Robert Vishny's (1990a) article discusses the low value outcomes of acquisitions and one of his prominent explanations relate to managerial motives and thus incentive asymmetries, which play have a central position in positivist agency theory[36]. A well-known article by Amihud and Lev (1981), 24th with 31 citations, then again, explains unrelated, value decreasing diversification with agency problems. Eugene Fama's (1980) article, which has received equally much attention (20th with 32 citations), advocates the nexus of contracts perspective to the theory of the firm, arguing that the "separation of security ownership and control can be explained as an efficient form of economic organization within the set of contracts perspective" (Fama 1980, p. 289).

[34] Even though the methodology is not able to extract the number of M&A articles referring to Jensen (thus removing the overlap of the 'many references in one article effect' present in the first author referencing number), it seems probable that at least a third of all 567 M&A articles in the core journals refer to at least one of Jensen's works.
[35] For a longer list of most referenced articles, see Appendix 4.
[36] See Section 7.1.3 in Appendix 2 for a closer elaboration of the two principal research streams, positivist research and formal principal-agent research, within the agency theory of the firm.

Articles and books discussing M&A directly are better represented in the list of most-cited articles than in the most-cited first author analysis. For example, three top-ten articles (Roll 1986, 3rd with 68 citations, Haspeslagh's and Jemison's 1991 book, 5th with 56 citations and Jemison and Sitkin 1986, 7th with 52 citations) belong in this category. The article by Roll is an answer to Jensen and Ruback (1983) and presents the hubris explanation for overpriced takeovers. Thus, even though there is no direct and explicit theoretical treatment of agency theory in Roll's 1986 article, it is still concerned with agency problems and the theory of the firm in general. Henry Manne's 1965 article (20th with 32 citations) is another classic 'pure' M&A text. It is a classic contribution to the discussion of mergers as a tool for corporate control and has had many agency theoretic repercussions in e.g. Jensen's work. Henry Manne is also known as a proponent of interdisciplinary work in the fields of management, finance, law and economics.

Jemison and Sitkin (1986) introduce the M&A process and analyze its potential impediments in detail[37]. Haspeslagh and Jemison (1991) is a rich volume which, besides providing an overview of M&A as a value creation mechanism, also advocates the processual perspective to M&A. Even though the book is essentially about the theory and phenomena linked to M&A directly, it derives strongly from the intellectual input of the 1980s and early 1990s resource based theory of the firm. Michael Bradley's, Anand Desai's and Han E. Kim's (1988) synergy explanation for corporate acquisitions (ranked 6th with 52 references) is another 'pure' M&A article, even if it relies heavily on strategy literature. Another classic M&A centered contribution is Ravenscraft's and Scherer's (1987) book "Mergers, Sell-Offs and Economic Efficiency".

In general, the competence-based perspective to the theory of the firm emerges somewhat stronger in the list of most-cited articles than in the earlier analysis of referenced first authors. Not only do two of the seminal milestone contributions to the intellectual development of the resource based view appear in the top 30, namely Richard Rumelt's 1974 book (ranked 8th with 50 citations) and Edith Penrose's 1959 book (ranked 25th with 30 citations), but the list also includes a wealth of later influential contributions by Jay Barney (1988, also ranked 25th with 30 citations) on the influence of strategic relatedness on returns for shareholders of bidding firms, Harbir Singh and Cynthia Montgomery (1987, ranked 15th with 41 citations) on the benefits of relatedness on economic returns and Sayan Chatterjee (1986, ranked 13th with 42 citations) on the creation of different types of synergy through specialized resources.

Other strategy authors are equally present as in the author analysis, with Michael E. Porter's contributions to a firm's business portfolio thinking (1987, ranked 9th with 49 citations) and his classic book 'Competitive Advantage' (1985, ranked 29th with 29 citations),

[37] See Section 6.2, and 6.2.4 in particular, in Appendix 1 for a more detailed description of the various M&A schools and the role of the process perspective in M&A research.

and James Walsh's 1988 article (ranked 17th with 36 references) on top management turnover in acquired companies.

Partly due to Jensen's two more financially oriented articles (Jensen and Ruback 1983, Jensen 1986) topping the list, finance-oriented articles have maintained a strong position in the article comparison. Compared to the first author referencing data, however, position of the financial perspective to M&A is perhaps slightly less accentuated. While the financial theory application of Morck, Shleifer and Vishny (1990b, 4th with 59 citations) has maintained its position, authors publishing more rigorous quantitative financial analyses have slid down the rankings. Among the significant finance articles are e.g. Nickolaos Travlos' article concentrating on the methods of payment (Travlos 1987, 13th with 42 citations) and Stewart Myers' and Nicholas Majluf's (1984) article on the role of private information in corporate financing decisions (both 20th with 32 citations) as well as B. Espen Eckbo's (1983, 25th with 30 citations)[38] article on positive abnormal returns to shareholders.

What is more, it is notable that methodological articles discussing the research methods commonly used in particularly finance-oriented, but also in other M&A literature, are also relatively well represented in the list of most cited works. Stephen Brown's and Jerold Warner's (1985, 20th with 32 citations) methodological article on using daily stock returns in M&A event studies and Halbert White's (1980, 25th with 30 citations) article on non-linear regression methodology are found relatively high up on the list.

All things considered, the results of the article-level analysis point to very much the same direction as the author analysis. The same governance theories of the firm as in the most-cited first author analyses, namely agency theory, transaction cost economics and the nexus of contracts perspective, are again seen as important theoretical underpinnings to the M&A discourse. Likewise, the governance perspective to the firm still seems to be more influential than the competence perspectives, which, however, seems slightly stronger in the light of the article data than the author data.

Time is, surely, one factor that influences the balance between the governance and competence perspectives. Whereas many of the seminal contributions to the resource-based view (e.g. Hamel and Prahalad 1990, Rumelt et al. 1994), and especially the knowledge-based view (e.g. Teece, Pisano and Shuen 1997) only developed in the 1990s, it is natural that the referencing is somewhat lower in the statistics of 1991-2001. Nevertheless, the precursors and some theoretically most significant articles (e.g. Penrose 1959, Nelson and Winter 1982, Rumelt 1974) for the competence perspectives were already published in the 1970s and 1980s. Additionally, the temporal referencing profiles of the 1991-2001 data don't seem to

[38] It is worth noticing that Eckbo's 1983 article has received the most attention even though, or perhaps because, it is one of the most 'non-financial' in its orientation.

discriminate largely against contributions written in the 1990s. The conclusion is that the timing span of the articles population should not, by and large, be the overwhelmingly most important factor in the determination of the relative importance of the governance and competence perspectives. On the whole, it still seems justified to say that the governance perspective is dominant and thus, on the basis of the article and author analyses, forms a central intellectual basis for the M&A discourse.

Furthermore, the interplay between strategy and finance theory as the two further cornerstones of the M&A discussion is equally evident in the article-level citation analysis as in the first author citation analysis. Looking at referencing to pure seminal and theoretical inputs (e.g. Rumelt 1974, Penrose 1959, Porter 1980), strategy literature is to some extent elevated above financial theory in the article analysis. In the 1980s, financial theory was, however, applied in many ways (e.g. Jensen 1983, Jensen and Ruback 1986, Morck, Shleifer and Vishny 1990 and Bradley, Desai and Kim 1988). The applied articles have again leveled referencing to strategy and finance in for the 1990s as a whole.

The above reporting of the most-cited first author and article results accentuates the role of timing in bibliometric analysis and necessitates further scrutiny of the temporal profiles of the bibliometric material. Thus, they are now investigated together with another important bibliometric factor, i.e. the outlets in which the M&A articles were published and referenced.

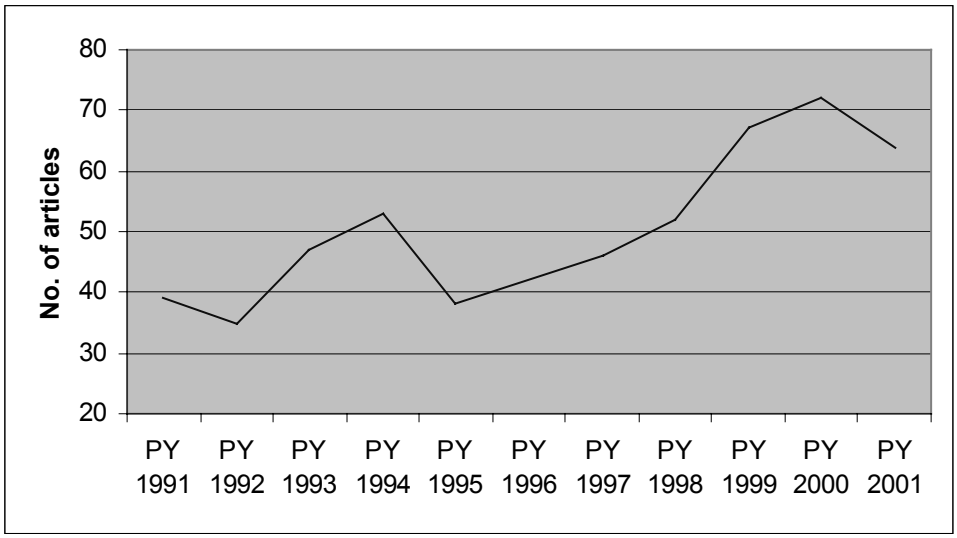
Patterns of time

In the following, the temporal profiles of the 567 M&A related articles as well as their 21 438 references are investigated. The temporal analysis is supplemented with an analysis of the publication outlets, in which the M&A-articles as well as the articles that refer to them have been published. Both factors, time and publication outlet, can be considered important factors in any bibliometric analysis and thus need to be considered carefully, with the impacts of each methodological choice iterated separately[39]. Thus, the temporal pattern of publication and referencing is analyzed first and the outlet pattern next.

The temporal profile of the published articles is shown in Figure 1 and the temporal profile of the referencing articles in Figure 2.

[39] The methodological choice of the time frame and the source journals is elaborated in more detail in Section 2.2, and thus the focus here is on the possible impacts on the results.

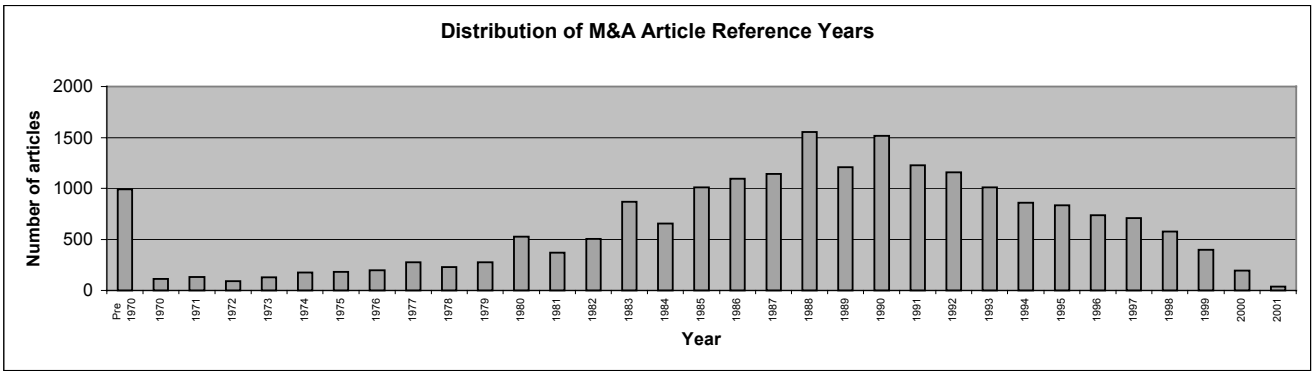
Figure 1: The temporal profile of the 567 M&A articles published in the 65 core journals in 1991-2001



The temporal distribution of the M&A related articles illustrated in Figure 1 reveals a general increase in M&A articles through the 1990s. The mean month of publication for the article material is July 1996 and the mode year is 2000. This development is natural given that the number of mergers and acquisitions grew by 340% between 1980-1996 (Kim 1998) and growth was equally notable between 1995 and 2000, when many Western economies were booming at the same time as the opening of international markets and the deregulation of many industries continued, spurring both national and cross-border M&A activity (Kim 1998). The near-stagnation of the world economy in 2001-2002 can also be assumed not show in this study.

From the perspective of the bibliometric analysis, Figure 1 would suggest that the data is weighed more towards the end of the studied time frame. In terms of the theories, traditions and paradigms that have been identified as the intellectual bases and central stepping-stones of the structuring of the M&A discourse, this has two outcomes. Firstly, the competence perspective to strategy research and the theory of the firm that developed fervently through the 1990s can be thought to be better covered the more the data is weighed towards the end of the 1990s. This has an impact on both the presence of governance and competence perspectives to the theory of the firm and the relative importance of the various corporate strategy paradigms. Secondly, the temporal profile of the M&A related articles has an impact on the temporal distribution of the references of these articles, which is analyzed in Figure 2.

Figure 2: The Temporal profile of the references in the 567 M&A articles



The temporal distribution of the referencing years can be argued to be an important factor in the citation analysis performed above, given that it directly influences the nature of the material used in the citation analysis above. The mode year of publication for the references is 1988, with 1990 being the next most common. What is notable, however, is that a slightly larger number of reference articles was published in the 1990s than in the 1980s. This is largely due to the fact that the temporal profile of the M&A related articles is weighed slightly towards the end of the study period. The average age of a reference in scientific research is found to be 6-7 years (see e.g. Garfield 1997, 1998), which is very much in line with the results of this study. By and large, nevertheless, the reference years are well distributed and a serious bias towards references in the 1980s can be argued to be avoided given that referencing to the 1990s is more common than to the 1980s.

What is the impact of this temporal profile on the findings of the most-cited author and article analyses? On the basis of the above, it seems safe to say that the publication and referencing time spans cover enough of the 1990s to incorporate a good deal of e.g. the early contributions on the competence perspective in the results. Furthermore, the temporal profiles indicate that the data is not severely skewed in any direction and thus the temporal profiles do not cause severe distortion in the structuring of the referencing analysis results. Looking at the list of most-cited authors, this seems to hold: only one of the top-eight authors have published a significantly referenced book or article (Morck, Schleifer and Vishny 1990) on one of the two highest referenced years (1988 and 1990). Firm theorists like Michael Jensen, Oliver E. Williamson or Eugene Fama are certainly not favored by the temporal distribution of the referencing years.

A look into the article referencing results raises, however, some concerns. Even though only four of the top-ten articles are published within the six most common years in the temporal article frequency distribution, only four articles out of the top 20 were published in 1980 or earlier and none of the top 30 articles were published in 1992 or later[40].

[40] The 31st is, however, Chatterjee (1992)

On one hand, it could be argued that the temporal profiles of publication and referencing do not matter at all. The picture given here about the structure of the M&A discourse is ultimately one which is specifically valid for the selected time period of the bibliometric study, 1991-2001. From the viewpoint of general academic discourse analysis, it is only natural that the structure of the discourse varies and changes. This does not render bibliometric analyses fixed to a certain time frame invalid. Quite the contrary, performing a bibliometric analysis of a certain time period allows for the possibility of repeating the same study for a later, or even earlier period. The result is that bibliometric studies can offer a useful longitudinal perspective analyzing discourses and perform even better the task of complementing and providing a backbone for conceptual research and analysis.

On the other hand, even though the direct most-cited author and article results of the 1991-2001 data cannot be rendered useless, the bias produced by the temporal profile of the referencing data can nevertheless be considered somewhat problematic. In order to establish a clearer picture of the *de facto* intellectual roots of the M&A discourse that would be less time frame specific, it is necessary to complement the direct most-cited article results with an analysis that takes the temporal profile into consideration. The methodology and results of this adjusted bibliometric study are outlined next.

Most-cited books and articles with temporal profile adjustment

As the 567 M&A related journal articles found in the 65 core journals produced a set of population of references, which is somewhat concentrated to certain years around the late 1980s and early 1990s, a further bibliometric citation analysis is needed. The most-cited article data and analysis methodology outline above is used, but it is complemented with an adjustment to the temporal profile of the reference articles in order to extract the most significant works that M&A related articles in 1991-2001 referred to.

Adjustment weights are consequently given to each year as follows. The time period of 1970-2001 is chosen to be weighted[41]. Each year is assigned a temporal profile coefficient (TPC), which is calculated as:

$$TPC_n = \frac{\text{[average no. of references per year in 1970-2001]}}{\text{no. of references in year n}}$$

[41] The 1970-2001 time frame and articles belonging to it was chosen, because years prior to that didn't have a sufficient number of articles to permit statistical manipulation. For example, references to Manne (1965) and Penrose (1959) dominated their years so completely that their TPCs would have raised them far above all others, distorting the results.

Hence, the TPC takes into consideration the total number of references each year and compares it with the average number of references (624,3) in all years between 1970 and 2001. Subsequently, all 74 of the most important reference articles[42] were multiplied with the TPCs corresponding to their publication years. The most-cited books and articles with the temporal profile adjustment are given in Table 6.

Table 6: 30 Most-cited books and articles with temporal profile adjustment

	AUTHOR(S)	YEAR OF PUBL.	TYPE OF OUTLET (B=book, J=journal)	YEAR ADJUSTED NUMBER OF CITATIONS	NAME OF OUTLET
1	WILLIAMSON O.E.	1975	B	166	MARKETS HIERARCHIES
2	RUMELT R.P.	1974	B	161	STRATEGY STRUCTURE E
3	JENSEN M.C. & MECKLING W.	1976	J	151	J FINANC ECON
4	PFEFFER J. & SALANCIK, R.	1978	B	74	EXTERNAL CONTROL ORG
5	JENSEN M.C.	1983	J	70	J FINANC ECON
6	SALTER M.S. & WEINHOLD W.S.	1979	B	56	DIVERSIFICATION ACQU
7	AMIHUD Y. & LEV B.	1981	J	52	BELL J ECON
8	JENSEN M.C.	1986	J	40	AM ECON REV
9	ROLL R.	1986	J	39	J BUS
10	FAMA E.F.	1980	J	38	J POLITICAL EC
11	WHITE H.	1980	J	35	ECONOMETRICA
12	MYERS S.C. & MAJLUF S.	1984	J	31	J FINANC ECON
13	JEMISON D.B. & SITKIN S.	1986	J	30	ACAD MANAGE REV
14	LUBATKIN M.	1983	J	29	ACAD MANAGE REV
15	HASPESLAGH P.C. & JEMISON D.	1991	B	29	MANAGING ACQUISITIONS
16	NELSON R.R. AND WINTER, S.G.	1982	B	28	EVOLUTIONARY THEORY
17	TEECE D.J.	1982	J	28	J ECON BEHAV ORGAN
18	PORTER M.E.	1987	J	27	HARVARD BUS REV
19	DODD P.	1980	J	25	J FINANC ECON
20	MORCK , SHLEIFER & VISHNY	1990	J	24	J FINANC
21	CHATTERJEE S.	1986	J	24	STRATEGIC MANAGE J
22	PORTER M.E.	1980	B	24	COMPETITIVE STRATEGY
23	TRAVLOS N.G.	1987	J	23	J FINANC
24	SINGH H. & MONTGOMERY C.A.	1987	J	22	STRATEGIC MANAGE J
25	ECKBO B.E.	1983	J	22	J FINANC ECON
26	BRADLEY M., DESAI A. & KIM E.H.	1988	J	21	J FINANC ECON
27	SALANT S.W.	1983	J	20	Q J ECON
28	BROWN S.J. & WARNER, J.	1985	J	20	J FINANC ECON
29	LUBATKIN M.	1987	J	19	STRATEGIC MANAGE J
30	RAVENSCRAFT D.J. & SCHERER F.	1987	B	19	MERGERS SELL OFFS EC

The results of the most-cited book and article citation analysis change somewhat with the temporal profile adjustment. First of all, however, it must be noted that using the aforementioned temporal adjustment method seems to be slightly biased towards older

[42] All books and articles with 20 or more references in the 567 M&A related were included. As this calculation was done manually, it would have been an inencumberable task to calculate all. Thus the content validity of this analysis is not perfect.

articles, given that 5 out of the top 6 articles are from the 1970s and the first 1990s publication is no higher than 15th in the temporally adjusted rankings.

It can be assumed that the number of referenced articles in one year decreases more rapidly than referencing to that year in total. This means that the most significant contributions continue to be referenced through time and thus their total significance in the above analysis is accentuated. It would an interesting, albeit somewhat separate debate, which is thus not dealt with extensively in the context of this study, whether this accentuation is actually a sign of ever-greater academic significance or merely a statistical curiosity. What is more, this effect might have some impact on the non-temporally adjusted most-cited first author and most-cited reference article analyses presented above as well.

The significance of three theories of the firm, agency theory (Jensen and Meckling 1976), transaction cost economics (Williamson 1975) and early competence based theory of the firm (Rumelt 1974) is conspicuous. Even though it seems that the temporal profile adjustment weighs older articles too much, these three seminal theory of the firm contributions are undisputedly the most significant given that they all have temporally adjusted reference scores that are over twice as high as the 4th most cited publication, the seminal 1978 book by Pfeffer and Salancik that ordinarily appears close to the top in organization theoretical citation analyses.

Indeed, one of the new findings in the temporally adjusted referencing is the emergence of some classic books and articles at the top of the list. The Pfeffer and Salancik (1978) book "External control of Organizations", one of the cornerstones of behavioral organization theory and the resource dependence perspective, is a good example of this. The emergence of Amihud's and Lev's (1981) article dealing with agency problems as a source of unrelated diversification close to the top is yet another indication of the importance of the governance theories of the firm as underpinnings to the M&A discussion. Simultaneously, it highlights that diversification and diversifying acquisition still had a very central role in M&A literature between 1991-2001. Further evidence of this is the emergence of Salter and Weinhold's (1979) classic book "Diversification Through Acquisition", which is a seminal contribution in diversification literature, as high as 6th in the temporally adjusted comparison.

Besides these three, there are only four such publications in the temporally adjusted list which are not featured as significantly in the earlier article citation results, and even these are relatively far down the list. Two of these four publications (Teece 1981, Nelson and Winter 1982) further emphasize role of the competence thinking as one of the important backbones of M&A literatures. The Salant, Switzer and Reynolds' 1983 article is a influential application of game theory to the analysis of horizontal mergers and industry structure. Finally, Dodd's 1980 article represents yet another 'pure' M&A article arguing for the positive share price outcomes of merger announcements.

Patterns of publication outlet

The publication outlet profiles of both the 567 M&A related articles and the 21 438 articles that refer to them provide further interesting information concerning the nature of the M&A discourse. The pattern of the publication outlet regarding the 567 articles is shown in Table 7 and the 25 most common journals that these articles refer to in Table 8.

Table 7: Number of M&A related articles in the selected 65 core journals in 1991-2001

	JOURNAL TITLE	No. of M&A articles
1	JOURNAL OF BANKING & FINANCE	70
2	STRATEGIC MANAGEMENT JOURNAL	35
3	ANTITRUST LAW JOURNAL	31
4	JOURNAL OF FINANCE	31
5	JOURNAL OF FINANCIAL ECONOMICS	29
6	ACADEMY OF MANAGEMENT JOURNAL	27
7	INTERNATIONAL JOURNAL OF INDUSTRIAL ORGANIZATION	27
8	JOURNAL OF INDUSTRIAL ECONOMICS	21
9	HARVARD BUSINESS REVIEW	19
10	AMERICAN ECONOMIC REVIEW	15
11	JOURNAL OF BUSINESS	15
12	JOURNAL OF MANAGEMENT	15
13	JOURNAL OF MANAGEMENT STUDIES	15
14	JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS	12
15	ADMINISTRATIVE SCIENCE QUARTERLY	11
16	EUROPEAN ECONOMIC REVIEW	11
17	ORGANIZATION SCIENCE	11
18	RAND JOURNAL OF ECONOMICS	11
19	JOURNAL OF ECONOMIC BEHAVIOR & ORGANIZATION	10
20	JOURNAL OF INTERNATIONAL BUSINESS STUDIES	10
21	LONG RANGE PLANNING	10
22	JOURNAL OF LAW ECONOMICS & ORGANIZATION	9
23	AMERICAN SOCIOLOGICAL REVIEW	8
24	HUMAN RELATIONS	8
25	ACADEMY OF MANAGEMENT REVIEW	7
26	JOURNAL OF BUSINESS RESEARCH	7
27	JOURNAL OF ECONOMICS & MANAGEMENT STRATEGY	7
28	JOURNAL OF ACCOUNTING & ECONOMICS	6
29	JOURNAL OF MONEY CREDIT AND BANKING	6
30	REVIEW OF FINANCIAL STUDIES	6
31	ACCOUNTING REVIEW	5
32	CORPORATE GOVERNANCE-AN INTERNATIONAL REVIEW	5
33	SMALL BUSINESS ECONOMICS	5
34	AMERICAN JOURNAL OF SOCIOLOGY	4
35	JOURNAL OF BUSINESS VENTURING	4
36	MANAGEMENT SCIENCE	4
37	ORGANIZATION STUDIES	4
38	ORGANIZATIONAL DYNAMICS	4
39	ACCOUNTING ORGANIZATIONS AND SOCIETY	3

40	ECONOMICA	3
41	INDUSTRIAL MARKETING MANAGEMENT	3
42	JOURNAL OF ECONOMIC THEORY	3
43	CALIFORNIA MANAGEMENT REVIEW	2
44	JOURNAL OF CORPORATE FINANCE	2
45	JOURNAL OF MARKETING	2
46	JOURNAL OF MONETARY ECONOMICS	2
47	JOURNAL OF POLITICAL ECONOMY	2
48	REVIEW OF ECONOMIC STUDIES	2
49	AMERICAN BUSINESS LAW JOURNAL	1
50	AMERICAN JOURNAL OF ECONOMICS AND SOCIOLOGY	1
51	BRITISH JOURNAL OF MANAGEMENT	1
52	ECONOMETRICA	1
53	INTERNATIONAL ECONOMIC REVIEW	1
54	JOURNAL OF MANAGEMENT INQUIRY	1
55	MIT SLOAN MANAGEMENT REVIEW	1
56	SO QUARTERLY JOURNAL OF ECONOMICS	1
57	ADVANCES IN STRATEGIC MANAGEMENT	0
58	INTERNATIONAL JOURNAL OF FINANCE & ECONOMICS	0
59	JOURNAL OF APPLIED PSYCHOLOGY	0
60	JOURNAL OF EVOLUTIONARY ECONOMICS	0
61	JOURNAL OF PERSONALITY AND SOCIAL PSYCHOLOGY	0
62	MIS QUARTERLY	0
63	OMEGA-INTERNATIONAL JOURNAL OF MANAGEMENT SCIENCE	0
64	ORGANIZATION	0
65	ORGANIZATIONAL BEHAVIOR AND HUMAN DECISION PROCESSES	0

Unsurprisingly, the publication outlet profile of the 567 M&A related articles is dominated by journals in the financial sector. 70 of the 567 articles appear in the Journal of Banking and Finance, over twice as many as in the Strategic Management Journal, which ranks 2nd just ahead of the Antitrust Law Journal, the Journal of Finance and the Journal of Financial Economics. Despite the strong positions of JBF, JF and JFE, as well as the appearance of the International Journal of Industrial Organization and the Journal of Industrial Economics among the top 10, a severe skew in one direction of the other has been avoided. The top 20 journals include a number of business, management, economics, law and finance journals. What has to be noted is that organizational behavior and theory journals, despite the appearance of Organization Science (with 11 articles, ranked 17th) and the Journal of Economic Behavior and Organization (with 10 articles, ranked 19th), have relatively few accounts of M&A, given that e.g. Human Relations only has 8 articles, Organisation Studies 4, Organizational Dynamics 4 and both Organization and Organizational Behavior and Human Decision Processes none. This shows that organization theory and behavior journals have been included, but they simply do not discuss M&A very often.

Table 8: 25 most-cited journals

	JOURNAL	NUMBER OF REF.
1	STRATEGIC MANAGEMENT JOURNAL	1440
2	JOURNAL OF FINANCIAL ECONOMICS	1435
3	JOURNAL OF FINANCE	830
4	ACADEMY OF MANAGEMENT JOURNAL	636
5	ADMINISTRATIVE SCIENCE QUARTERLY	501
6	AMERICAN ECONOMIC REVIEW	464
7	ACADEMY OF MANAGEMENT REVIEW	436
8	JOURNAL OF BANKING AND FINANCE	329
9	JOURNAL OF POLITICAL ECONOMICS	325
10	HARVARD BUSINESS REVIEW	312
11	RAND JOURNAL OF ECONOMICS	261
12	JOURNAL OF BUSINESS	223
13	JOURNAL OF LAW AND ECONOMICS	223
14	QUARTERLY JOURNAL OF ECONOMICS	206
15	JOURNAL OF INDUSTRIAL ECONOMICS	200
16	ECONOMETRICA	159
17	ORGANIZATION SCIENCE	159
18	AMERICAN SOCIOLOGICAL REVIEW	155
19	AMERICAN JOURNAL OF SOCIOLOGY	149
20	ANTITRUST LAW JOURNAL	149
21	JOURNAL OF INTERNATIONAL BUSINESS STUDIES	142
22	JOURNAL OF ACCOUNTING AND ECONOMICS	140
23	JOURNAL OF ECONOMIC PERSPECTIVES	133
24	JOURNAL OF MANAGEMENT	133
25	BELL JOURNAL OF ECONOMICS	132

On the other hand, despite the dominance of economics and finance-oriented journals in the publication outlet profile, the citation outlet profile is remarkably well balanced. The top 25 most cited journals list shows a relatively even distribution of management (Academy of Management Journal and Review, Administrative Science Quarterly, Journal of Management), business (Harvard Business Review, Journal of Business, Journal of International Business Studies), finance (Journal of Finance, Journal of Banking and Finance), economics (American Economic Review, Rand Journal of Economics, Quarterly Journal of Economics, Journal of Industrial Economics, Bell Journal of Economics), sociology (American Sociological Review, American Journal of Sociology), law (Antitrust Law Journal), econometrics (Econometrica) and interdisciplinary (Journal of Political Economics, Journal of Financial Economics, Journal of Law and Economics, Journal of Accounting and Economics, Journal of Economic Perspectives) journals. Again despite the appearance of Organization Science in the top 20, organization theory and behavior journals are the ones that conspicuously lack attention in the citation outlet profile. It is important to note that this is primarily not because organization theory journals were not included in the screened journal population, but because there simply were very few M&A related articles in those journals.

2.3 Identification of key theories and antecedents

This section aims at identifying the key theories employed and the key antecedents presented as well as their roles and positions in the network consisting of M&A related articles. In doing this, the network centrality analyses outlined in Section 2.2.1 were employed. In short, the analysis concentrates on the same data base as above, i.e. the a complete population of 567 M&A related articles from 65 selected management, business, economics, finance, accounting, psychology, industrial relations, law and other social science journals included in the Social Science Citation Index in 1991-2001, with the exception that in the network analysis, the full text of the articles, where available, was used. The selection method for the articles was outlined in Sections 2.2.2 and 2.2.3.

This body of literature is analyzed from the perspective of two main dimensions representing the roots of the M&A discourse, *theories* and *antecedents.* These two dimensions were selected in the light of the conceptual analyses as well as the results yielded by other similar network analyses (cf. Oliver and Ebers 1998). The analysis is based on 28 theory facets and 25 antecedent facets, which attempt to capture and describe the range of concepts that make up each particular dimension.

The facets employed in the analysis are as follows:

Theories	**Antecedents**
Resource dependence	Debt / equity
Alliances, networks and JVs	Asset valuation and maximization
Legal and Institutional frameworks	Asset transfer
Political power	Insider trading
Culture and HRM theories	Shareholder value
Resource based strategy	Hostile takeover protection and resistance
Competitive strategy	Goal conflict / congruence
Knowledge based view	Diversification, conglomerate
Internationalization	Competitive advantage / synergy
Exchange	Productivity / profit / performance
Contingency	Hubris / empire-building
Communication	Geographical expansion / entry
Decision-making	Growth
Organizational and population ecology	Organizational learning
Industrial organization	Industry decline
Bargaining	Consolidation wave
Game theory	Wealth and economic efficiency
Evolutionary	Antitrust, monopoly, cartels
Psychology	Uncertainty and change
Leadership	Immaterial resources
Organizational behaviour	R&D, innovation
Capital markets	Corporate refocusing, demergers
Corporate finance	Functional and product-level integration
Accounting	Commitment
Agency	Privatization or deregulation
Transaction cost	
Property rights	
Neoclassical TOF	

The purpose of the theory facets is to identify the main theoretical tenets that are used in the M&A articles. The theory facets reveal the theoretical areas, which can have explanatory power vis-à-vis the structuring of the M&A discourse and thus act as frameworks for answering research questions posed for this study. The theory facets, albeit partly overlapping, attempt to represent specific, identifiable categories of theoretical thought in management research. In the coding, theories which were identified as central or helpful for establishing an argument, hypothesis, research question, conclusion or other key part of the article have been coded as present in the article. Likewise, theories which lend a central conceptual tool, e.g. the concept transaction costs in the treatment of vertical integration or the notion of core competences in the analysis of conglomerate M&A, are acknowledged.

The antecedents that can be identified from an article traditionally represent the explanation why the phenomenon in question, i.e. here a merger or an acquisition, occurs. What follows from the phenomenon in question is traditionally pegged the outcome of the phenomenon. In this study, the word 'antecedent' refers to why *article writing about M&A,* not only M&A, occurs. These two are often converging. If an article argues that M&A can to arise from e.g. managerial hubris, the hubris explanation is the antecedent to both the phenomenon (the presence of hubris is an explanation to the M&A occurring) as well as the scientific interest (the presence of hubris as an explanation to M&A spurs the scientific interest – and consequently the journal article). In a way, M&A itself is thus always one of the antecedents explaining the scientific interest. This means, however, that many issues that would traditionally be considered as outcomes to M&A are here considered as antecedents to the scientific interest. For example, 'growth' is a typical facet, which would have an ambiguous position if the phenomenon-centered antecedents and outcomes were to be separated. For example, growth demands or aspirations create the need for acquisitions (antecedents) and acquisitions lead to further corporate growth (outcome). This approach enables us to investigate the presence of a number of antecedents, or 'motivations', to M&A research without having to cope with the ambiguity of many facets. In any case, many of the antecedents in this study are actual phenomenon-oriented antecedents, since the outcomes can nevertheless always be seen as potential motivations or dismotivations for performing M&A and research is consequently heavily skewed towards studying explanations.

The theory and antecedent facets are defined and are applied to the articles as explained in the following[43]:

THEORIES

Resource dependence – e.g. Pfeffer and Salancik – focus on the process through which organizations reduce their environmental dependencies using various strategies, which enhance their power within the inter-organizational system.

Alliances, Networks and JVs – e.g. Powell, Granovetter – focus on how the positions of actors, activities and resources within their network of influence result in the emergence of intermediate "hybrid" governance modes (Williamson 1985) to complement market and hierarchical forms.

Legal and Institutional frameworks – e.g. DiMaggio, Meyer, Werden, old Williamson (e.g. 1968), Fisher, Posner – focus on the institutional or legal environment of economic activity and isomorphic processes that lead to conformity in institutional orders and/or similarities among organizations.

Political power – e.g. Hirsch, Palmer – focus on how political power is used within organizations and how organizations influence the balance of political power and vice versa.

[43] Some of the definitions have been adopted from a similar network centrality study on research on interorganizational relationships and networks by Amalya Oliver and Mark Ebers (Oliver and Ebers 1998) whose solid use of this methodology was a great inspiration in its application to this study.

Culture and HRM theories – e.g. Schein, Becker, Hofstede, Buono, Bastien – focus on the human side of organizations, including the interplay between culture and human resource management, the soft, human aspects of the organization and theories of human and industrial relations.

Resource based strategy – e.g. Penrose, Rumelt, Hamel, Prahalad, Teece, Wernerfelt, Barney – focus on the resources and competencies as the strategic imperatives for the creation and sustaining of corporate performance.

Competitive strategy – e.g. Porter – focuses on the competitive positioning, competitive advantage and the strategic fit of the organization to the conditions prevailing in the industry and the markets.

Knowledge based view – e.g. Kogut, Eisenhardt, Nonaka, new Teece (e.g. Teece et. al 1997) – focus on knowledge, e.g. learning and innovation, as the major source of competitive advantage and as the main determinant of sustained firm performance and profitability.

Internationalization – e.g. Dunning – focus on the internationalization and international competitiveness of firms, focusing strongly on the geographical and location-based aspects of economic activity.

Exchange – e.g. Blau and Emerson – focus on how characteristics of the exchange process or relationship are related to the content and structure of inter-organizational relations.

Contingency – e.g. Thompson – focus on contingent conditions under which various events, actions, phenomena will exist, contrasted with conditions under which they will not exist.

Communication – focus on the exchange of information, information structures as well as inter- and intra-organizational and interpersonal communication and signaling.

Decision-making – e.g. focus on internal organizational decision-making processes and managerial decision-making settings as they impact the patterns, policy directions, decision-making outcomes, political actions etc.

Organizational and population ecology – e.g. Freeman, Carroll, Hannan, Stinchcombe – focus on how environmental and intra-organizational selection results in the extinction of certain organizational forms and management practices, or how environmental opportunities allow for the birth of new forms and practices.

Industrial organization – e.g. Porter, Caves, Scherer, Tirole – focus on how market structures (e.g. number of buyers and sellers, degree of product differentiation, entry barriers) affect the vertical and horizontal agglomeration within industries and between firms, and vice versa.

Bargaining – focus on the process through which groups and individuals pursue their interests in an exchange system in e.g. auctions or other similar contested bidding settings.

Game theory – e.g. Nash, Von Neumann, Dixit, Nalebuff, Brandenburger – focus on the application of both descriptive and analytic game theoretic models to describe corporate decision-making situations or explain behavior.

Evolutionary – e.g. Nelson and Winter, Baum, Singh – focus on the process through which patterns of strategies, organizational forms and relationships evolve, are maintained and changed.

Psychology – e.g. Abrams, Brewer, Hogg, Turner, Skinner, Rousseau, Weick – focus on the psychological aspects of organizations its influence on organization of economic activity, including both socio-psychological process and the cognitive processes of individuals.

Leadership – e.g. Grint, Willcocks – focus on the way individual managers guide their organizations, the characteristics of good managers, leadership skills and the role they play in the achieving of organizational outcomes.

Organizational behavior – e.g. March, Simon, Cyert, Perrow, Pfeffer – focus on the behavioral and organizational aspects of the organization, especially literature focusing on the impact of the rules and patterns of organizational behavior on the determination of the state and changes of the organization of economic activity within firms.

Capital markets – focus on the behavior of capital markets and their impact on the determination of the boundaries of firms, organization forms and organization of economic activity in general.

Corporate finance – e.g. Myers, Jensen, Fama, Shipper, Servaes, Berger – focus on the financing of corporations, their capital structure, financial transactions, corporate reorganization from the financial perspective etc.

Accounting – e.g. Kaplan – focus on the accounting procedures and process of firms and their influence on the firm and vice versa.

Agency – e.g. Jensen, Eisenhardt, Fama – focus on the institutional arrangements that actors create for their agency relations in order to pursue their self-interest under information or incentive asymmetries, including e.g. signaling, screening and monitoring solutions to the agency problem.

Transaction cost – e.g. Coase (1937), Williamson – focus on the comparative assessment of transaction costs ensuing for transactions in different institutional arrangements and governance modes.

Property rights – e.g. Coase (1960), Alchian and Demsetz, De Alessi, Furubotn and Pejovich, Hart, Grossman – focus on the establishment of a legal framework to guarantee property rights over assets. Property rights assignments govern value maximization behavior and thereby facilitate the allocation of resources to their highest valued uses, influencing the level and character of economic activity.

Neoclassical TOF – e.g. Arrow, Debreu – focus on the firm as a production function, with decision-making mechanisms and consequently governance structures being dependent on utility maximization in the presence of budget constraints and zero transaction costs.

ANTECEDENTS

Debt / equity – focus on the influence of the capital structure of the firm, and various issues related to the type and amount of debt and equity, on the probability and nature of mergers and acquisitions occurring.

Asset valuation and maximization – focus on M&A as a vehicle of maximizing some or various types of assets, and the problematics related to the valuation of assets in the context of M&A.

Asset transfer – focus on M&A as arrangement, which facilitates the transfer of valuable assets from one organizational or legal entity to another.

Insider trading – focus on the role and impact of insider trading possibilities on the probability and nature of M&A occurring.

Shareholder value – an explicit focus on the shareholder value motivations and implications of M&A and their impact on the probability and nature of M&A occurring.

Hostile takeover protection and resistance – focus on hostile takeover attempts and/or takeover defense measures as a source of M&A and a main determinant of the probability and nature of M&A occurring.

Goal conflict / congruence – focus on the alignment of goals, motivations and incentives of various stakeholder groups and their impact on the probability and nature of M&A occurring.

Diversification, conglomerate – focus on the role of M&A as means to diversify the activities of firms and the presence of conglomerate corporate organizations as a source or M&A and a determinant of the probability and nature of M&A occurring.

Competitive advantage / synergy – focus on the development and sustaining of competitive advantage as a somewhat abstract notion of corporate performance relative to the market, and the role of the competitive advantage in determining the probability and nature of M&A occurring.

Productivity / Profit Performance – focus on the productivity, profitability and performance goals and measures of firms and their impact on the probability and nature of M&A occurring.

Hubris / empire-building – focus on the tendency of executives to develop a thirst for ever larger organizations and personal achievement, and the impact such motivations can have on the probability and nature of M&A occurring.

Geographical expansion / Entry – focus on the internationalization, international expansion, entry to new international markets etc. motives of firms extending their geographical reach through the use of M&A.

Growth – focus on the different sides of corporate growth: e.g. strategies, aspirations and limitations, and their interplay with M&A. M&A's role in the creation of corporate growth and M&A's impact on the growth of areas, nations and industries.

Organizational learning – focus on the process of corporate knowledge acquisition and the learning processes of the employees. Focus on M&A as a vehicle for organizational learning and organizational learning as a motivation M&A.

Industry decline – focus on the decline of some industries, e.g. mining, steel and manufacturing, as an explanation for agglomerating and synergy-seeking M&A.

Consolidation wave – focus on the wave-like nature of M&A in general as well as the consolidation of e.g. retail banking industry and hospital chains. M&A waves acting as a antecedent to new M&A occurring and the impact of waves nature of M&A activity in general.

Wealth and economic efficiency – focus on the possibility and probability of economically measured wealth and efficiency impacts of M&A and its role as a motivation to pursue M&A.

Antitrust, monopoly, cartels – focus on the competitive implications of M&A and the impact of abnormal profits and measures by competition authorities on the characteristics and the realization of M&A initiatives.

Uncertainty and change – focus on M&A as a discontinuity in organizational life as well as the role of the possible implications it may have for CEO employment, discharging employees, downsizing, cost reduction and generally the increased unpredictability of life within the organization(s).

Immaterial resources – focus on the transfer and acquisition of immaterial resources, e.g. intellectual property rights, business relationships, brand names or goodwill as a motivation for performing M&A, and their influence on the probability and nature of M&A occurring.

R&D, Innovation – focus on R&D and/or other innovative activities of firms as a source and motivation for M&A projects as well as the interplay between R&D and corporate restructuring activity.

Corporate refocusing, demergers – focus on (especially conglomerate) M&A as a source for demergers and corporate refocusing projects and vice versa.

Functional and Product-level integration – focus on some specific functional or product-level integration issue as a motivation or outcome of an M&A process.

Commitment – focus on personal and organizational commitment issues in the context of M&A decision-making.

Privatization or deregulation – focus on privatization and deregulation activities of economies, industries and firms and their impact on the probability and nature of M&A occurring.

The articles have been analyzed with respect to the presence or absence, and coded respectively with 1 or 0, of these altogether 53 facets. This implies that the analysis is entirely dichotomous, i.e. only indicates whether the facet is present or absent in each article. Non-mutual exclusivity of the facets is assumed within each category. This implies that each article can have more than one facet within a given category. In order to balance the analysis of the articles, some boundaries were, however, set. Each article was attributed 0-8 facets in the *theories* category and 0-8 facets in the *antecedents* category[44]. If none were found, the article was rendered as somewhat useless for this analysis and thus effectively excluded from the analysis. Altogether 22 articles became insignificant in this way.

It seems that the list of facets, their explanations and the brief familiarization of the performers of the robustness test was good enough to produce similar coding results time and again, arguing for completely sufficient reliability in the network centrality analysis (See Section 1.3 above).

Network analysis

The gathered population of 567 M&A related articles constitute a body of literature that can be used to analyze the core theories and antecedents of the M&A discourse. Along the lines of Oliver and Ebers (1998, p. 555), "just as parties create a basis for social events in which various sets actors gather, articles create a basis for cognitive events in which various sets of concepts or variables gather". In this sense, all the articles and facets in the data are interconnected. All facets [*a*], which appear in various articles [*b*], are connected to other [*a*] variables through the articles [*b*] in which they appear in common. In order to analyze the interlinkages of the various facets and articles, the matrix indicating the presence of every

[44] The number of either theory or antecedent facets was originally intended to be limited to eight, but none of the articles were actually perceived to contain more than that.

facets [*a*] in every article [*b*] was built as. This 53x567 matrix directly delivers the facets' frequencies of appearance. This matrix can also be seen in Appendix 4.

For the centrality analyses, the matrix [*ab*] needs to be multiplied by its transpose $[ab]^T$, which results in a 53x53 symmetric square matrix [*aa*]. This matrix exhibits the sum of the times that two variables appear in the same article. Based on the matrix created this way, three tests are performed with the data in order to determine the frequency of appearance of each facet and their network centrality within the discourse. Firstly, the *frequency* at which the various facets appear are analyzed in order to determine their relative significance in the discourse. Secondly, *Bonacich eigenvector centrality*, which derives on the number of linkages every facet has with other facets, is measured to indicate the centrality of a facet in the network. Thirdly, *betweenness centrality* is measured to determine the bridging ability of a given facet, indicating its ability to cross-fertilize between different theories and phenomenon-oriented antecedents. The centrality analyses were performed using network analysis software, UCINET 5 (Windows version) and the matrix was manipulated in Microsoft Excel v. 9.0.

Theory and antecedent frequencies

In line with the findings of the citation analysis, the Table 9 points out the dominance of agency theory in M&A research. After agency theory, the ensuing theories are quite equally represented, with theory of corporate finance and the resource-based view of corporate strategy as runners-up. What is notable is that in the time frame of this study, 1991-2001, resource based strategy literature has generally been seen to gained dominance over competitive strategy literature, indicating a paradigm shift in strategic management literature. In economics, however, the tradition of industrial organization, operating both on micro- and macroeconomic levels of analysis, seems to continue as a fertile breeding ground. Additionally, transaction cost economics is relatively somewhat weaker represented than in the citation analysis above. In this light, also resource dependence, the knowledge based view and internationalization theories have also reduced in relative weight. All in all, the M&A has been scrutinized using a wide variety of different theoretical angles. This is manifested by the fact that 11% of the articles use four or more theories and 57% more than one theory. What is more, it is again rather surprising that agency theory prevails on the top over the theory of corporate finance[45] despite the fact that a large part of the M&A discourse has taken place in finance journals (see Table 8).

[45] It is, however, rather evident that Jensen's cross-fertilizing research on both agency theory and the theory of corporate finance, of which the 1976 article is a good example, is somewhat responsible for the appearance of the two theories on the top.

Generally, the theories used in M&A research are numerous and manifest not only the different perspectives of different disciplines (e.g. strategy, finance, economics and organizational behavior), but also competing view within the disciplines (e.g. competitive vs. competence based strategy). As will be discussed in Chapter 3, this fragmentation may have contributed to the lack any general set of commonly accepted and managerially relevant theoretical frameworks of M&A.

Table 9 lists the frequencies of the theories and antecedents used in the 567 M&A related articles in 65 core journals in 1991-2001.

Table 9: The number (n) and percentage (%) of presence of the 53 *theory* and *antecedent* facets in N = 567 articles. Note that up to 8 theory and antecedent facets can be present in one article and thus the summed percentage therefore exceeds 100%.

Facet	n	%	Facet	n	%
Theories			**Antecedents**		
Agency	134	23,6	Productivity, profit and performance	135	23,8
Corporate finance	94	16,6	Shareholder value	115	20,3
Resource based strategy	93	16,4	Goal conflict / congruence	93	16,4
Industrial organization	86	15,2	Antitrust, monopoly, cartels	93	16,4
Competitive strategy	76	13,4	Wealth and economic efficiency	80	14,1
Culture and HRM theories	64	11,3	Diversification, conglomerate	75	13,2
Transaction cost	59	10,4	Uncertainty and change	67	11,8
Organizational behavior	56	9,9	Geographical expansion / entry	64	11,3
Capital markets	52	9,2	Consolidation wave	53	9,3
Legal and institutional frameworks	51	9,0	Competitive advantage / synergy	48	8,5
Alliances, networks and joint ventures	41	7,2	Hostile takeovers, protection & resistance	45	7,9
Property rights	39	6,9	R&D, Innovation	34	6,0
Knowledge based view	31	5,5	Organizational learning	26	4,6
Internationalization	29	5,1	Privatization, deregulation	24	4,2
Game theory	20	3,5	Functional and Product-level integration	22	3,9
Decision-making	18	3,2	Growth	21	3,7
Leadership	18	3,2	Immaterial resources	21	3,7
Psychology	14	2,5	Debt / equity	20	3,5
Accounting	14	2,5	Corporate refocusing, demergers	15	2,6
Exchange	13	2,3	Asset transfer	14	2,5
Bargaining	12	2,1	Asset valuation and maximization	12	2,1
Neoclassical theory of the firm	12	2,1	Hubris / empire-building	12	2,1
Resource dependence	11	1,9	Commitment	7	1,2
Political power	11	1,9	Industry decline	5	0,9
Communication	10	1,8	Insider trading	2	0,4
Contingency	5	0,9			
Organizational and population ecology	4	0,7			
Evolutionary	2	0,4			

The theories employed in M&A research listed in Table 9 converge with the findings of the preceding citation analysis to a very large extent. Agency theory clearly holds the highest count with 134 mentions covering 23,6% of the articles, and theories of corporate finance and resource-based view are up next. Competitive strategy literature is also well represented. The only significant deviation to the citation analysis findings among the most frequently used

theories is that transaction cost economics, 7th with 59 mentions covering only 10,4% of the articles, has not been as frequently identified as a key theory in the articles as the citation analysis, highlighting the importance of Oliver Williamson's output (Williamson 1975, 1985), would suggest.

Before analyzing the frequencies of the antecedents of M&A research, a methodological detail must be emphasized. Investigating the *antecedents of performing research*, as is done here, instead of investigating the *antecedents of the phenomenon* is rather unconventional. A simple look at the list reveals that many of the factors (antecedents) explaining M&A research actually represent *outcomes* or both outcomes and antecedents of mergers and acquisitions occurring. For example, the "diversification and conglomerates" facet implies that they have been a main motivation of writing a M&A related article. In this article, diversification, for example, could have served either as a corporate objective explaining why a merger occurs, or as an outcome of the merger occurring. This ambiguity is one reason why all of the facets were considered *antecedents of M&A research*. The second is simply that this by a large is a phenomenological and discourse analytical study of M&A, not a fact-empirical one.

The antecedents for M&A research listed in Table 9 reveal a finance and economics mindset towards M&A. The facet combining the productivity, profitability and performance ability of the firm, with 135 mentions covering 23,8% of the material, is at the top of the list. The profit motive appeals to a number of audiences and is easily quantifiable and thus can be operationalized in quantitative and qualitative studies alike. The next most common antecedent is shareholder value, with 115 articles representing 20,3% of the material. Also the competition and market structure considerations as well as the economic efficiency issues (4th and 5th with 93/16,4% and 80/14,1% respectively) ranked high in the antecedent comparison, further reinforcing the position of quantifiable, economics and finance oriented objectives for mergers and acquisitions. Goal congruence and conflict, with 93 articles equaling 16,4%, is the only antecedent, which is more difficult to operationalize in terms of numbers. Competitive advantage and synergy, basic strategy-related motivations for M&A, were used seldom (10th with 48 articles and 8,5%) as were pure corporate finance considerations like debt/equity ration (20 articles and 3,5%) and asset valuation and value maximization issues (12 articles and 2,1%).

Looking at the frequencies of the antecedents, one further interesting pattern emerges. Antecedents primarily representing outcomes of M&A, i.e. profit and productivity outcomes, shareholder value outcomes, anticompetitive outcomes, efficiency outcomes, diversification and the birth of conglomerates as an outcome, uncertainty and change outcomes, consolidation waves as outcomes of M&A activity and anti-M&A measures as outcomes to takeover attempts, are well also found near the top of the list. Some of the major antecedent explanations for why M&A occurs, e.g. industry decline, hubris, corporate refocusing,

growth, learning, technology-related issues, privatization and deregulation, then again, have received significantly fewer mentions and are found on the lower half of the list.

Network centralities of theories

For further analysis on the centrality and bridging ability of the theories, a symmetric square matrix including only the 28 theory facets was built. The theories could thus be analyzed using two network centrality measures, *Bonacich eigenvector centrality* (Bonacich 1972 and 1987, measuring centrality) and *Betweenness centrality* (Freeman 1979, measuring extent of cross-fertilization and bridging ability).

Table 10 displays the three different centrality values for each of the 28 theories, rank-ordered according to their frequency of appearance.

Table 10: The frequency of appearance, Bonacich eigenvector centralities and betweenness centralities of 28 theories in the M&A discourse, ranked according to frequency of appearance (N=567)

Facet	n	Frequency%	Bonacich eigenvector centrality	Betweenness centrality
Agency	134	23,6	0,609	13,827
Corporate finance	94	16,6	0,267	4,487
Resource based strategy	93	16,4	0,454	23,458
Industrial organization	86	15,2	0,119	7,320
Competitive strategy	76	13,4	0,334	17,292
Culture and HRM theories	64	11,3	0,199	7,648
Transaction cost	59	10,4	0,260	25,547
Organizational behavior	56	9,9	0,212	13,083
Capital markets	52	9,2	0,094	2,174
Legal and Institutional frameworks	51	9,0	0,065	3,874
Alliances, Networks and JVs	41	7,2	0,135	9,664
Property rights	39	6,9	0,109	8,937
Knowledge based view	31	5,5	0,116	6,625
Internationalization	29	5,1	0,075	2,806
Game theory	20	3,5	0,025	1,080
Decision-making	18	3,2	0,038	2,698
Leadership	18	3,2	0,050	1,485
Psychology	14	2,5	0,036	0,267
Accounting	14	2,5	0,011	0,217
Exchange	13	2,3	0,031	5,001
Bargaining	12	2,1	0,014	0,125
Neoclassical TOF	12	2,1	0,019	1,001
Resource dependence	11	1,9	0,045	3,276
Political power	11	1,9	0,033	1,354
Communication	10	1,8	0,031	1,268
Contingency	5	0,9	0,017	1,143
Organizational and population ecology	4	0,7	0,009	1,142
Evolutionary	2	0,4	0,004	0,200

Table 10 demonstrates the central roles (in terms of Bonacich centrality) of agency theory, the resource-based view, competitive strategy, corporate finance and transaction cost economics in M&A literature in the 1990s, thereby by and large converging with the findings of the citation analysis above. However, especially competitive strategy, transaction cost economics, theories regarding organizational behavior, theories regarding "hybrid organization modes" (see Williamson 1985 for definition, e.g. alliances, joint ventures, networks and clans) and the knowledge based view, of the relatively more significant theories, achieve a ranking higher in terms of their Bonacich centrality than their frequency of appearance. This implies that whilst not the most frequent, these theories are nevertheless central to the contemporary M&A discourse. On the other hand, particularly industrial organization, the capital markets perspective, game theory and accounting (as well as corporate finance to some extent) assume lower rankings. This might suggest that the high frequency of appearance of finance and accounting oriented articles is due to the large number of M&A articles found in a key journals in the area (e.g. Journal of Banking and Finance, Journal of Finance and Journal of Financial Economics), and that their centrality in the discourse is not quite as high as the frequencies might indicate.

On the other hand, the Bonacich findings can also be interpreted to hint that the industrial organization and finance discussions represent more segregated fields of M&A than the rest of the lot. This is supported by the results regarding the Betweenness centralities of the different theories. Corporate finance, industrial organization and capital markets are the only three significant theory facets that have a high frequency of appearance and Bonacich centrality, but considerably lower Betweenness centrality (See Table 11). On a more general level, corporate finance, capital markets, industrial organization, bargaining and games as well as accounting theory, despite being frequent in the M&A literature, remain rather peripheral within the M&A discourse and have weak bridging abilities.

Table 11: The theories ranked according to their frequency of appearance in the network, together with ranking changes (vis-à-vis frequency rankings) when ranked according to Bonacich eigenvector centrality and Betweenness centrality (– = lower ranking, + = higher ranking)

	Ranking in frequencies	Ranking change --> Bonacich	Ranking change --> Betweenness
Agency	1	**0**	**-3**
Corporate finance	2	**-2**	**-10**
Resource based strategy	3	**+1**	**+1**
Industrial organization	4	**-5**	**-5**
Competitive strategy	5	**+2**	**+2**
Culture and HRM theories	6	**-1**	**-2**
Transaction cost	7	**+2**	**+6**
Organizational behavior	8	**+2**	**+3**
Capital markets	9	**-3**	**-8**
Legal and Institutional frameworks	10	**-4**	**-3**
Alliances, Networks and JVs	11	**+3**	**+5**
Property rights	12	**+1**	**+5**
Knowledge based view	13	**+3**	**+3**
Internationalization	14	**+1**	**-1**
Game theory	15	**-7**	**-8**
Decision-making	16	**-1**	**+0**
Leadership	17	**0**	**-1**
Psychology	18	**0**	**-7**
Accounting	19	**-7**	**-7**
Exchange	20	**0**	**+9**
Bargaining	21	**-4**	**-7**
Neoclassical TOF	22	**-1**	**-2**
Resource dependence	23	**+7**	**+9**
Political power	24	**+5**	**+5**
Communication	25	**+4**	**+5**
Contingency	26	**+2**	**+5**
Organizational and population ecology	27	**0**	**+5**
Evolutionary	28	**0**	**+1**

As Table 11 illustrates, transaction cost economics has the highest Betweenness centrality value, with theories of hybrid organization forms, property rights, exchange and resource dependence also having respectively higher Betweenness centrality than frequencies. Thus, even though some of these theories (especially property rights and exchange) assume a relatively peripheral role within the M&A discourse, they all often function as bridging theories between other theories that they are not directly connected. This might suggest that they could deserve a more central role in M&A research than they do at present. In other words, theories with high Betweenness centrality could act as ideologies and frameworks guiding future M&A research projects.

Network centralities of antecedents

For further analysis on the centrality and bridging ability of the antecedents, a symmetric square matrix including only the 25 antecedent facets was built. Also the antecedents were

measured using the same two network centrality measures, *Bonacich eigenvector centrality* (Bonacich 1972 and 1987, measuring centrality) and *Betweenness centrality* (Freeman 1979, measuring extent of cross-fertilization and bridging ability).

Table 12 displays the three different centrality values for each of the 25 antecedents, rank-ordered according to their frequency of appearance.

Table 12: The frequency of appearance, Bonacich eigenvector centralities and betweenness centralities of 25 antecedents in the M&A discourse, ranked according to frequency of appearance (N=567)

Antecedent Facets	N	Frequency %	Bonacich eigenvector centrality	Betweenness centrality
Antecedent				
Productivity / Profit Performance	135	23,8	0,024	4,208
Shareholder value	115	20,3	0,028	1,547
Goal conflict / congruence	93	16,4	0,003	0,141
Antitrust, monopoly, cartels	93	16,4	0,422	17,022
Wealth and economic efficiency	80	14,1	0,171	2,168
Diversification, conglomerate	75	13,2	0,386	2,550
Uncertainty and change	67	11,8	0,380	5,809
Geographical expansion / Entry	64	11,3	0,204	4,846
Consolidation wave	53	9,3	0,489	6,425
Competitive advantage / synergy	48	8,5	0,138	4,547
Hostile Takeover protection, resistance	45	7,9	0,158	3,315
R&D, Innovation	34	6,0	0,076	11,907
Organizational learning	26	4,6	0,060	1,266
Privatization, deregulation	24	4,2	0,019	0,277
Functional and Product-level integration	22	3,9	0,132	3,767
Growth	21	3,7	0,257	3,095
Immaterial resources	21	3,7	0,082	1,600
Debt / equity	20	3,5	0,229	6,015
Corporate refocusing, demergers	15	2,6	0,051	3,709
Asset transfer	14	2,5	0,059	1,575
Asset valuation and maximization	12	2,1	0,074	3,555
Hubris / empire-building	12	2,1	0,031	0,304
Commitment	7	1,2	0,025	0,332
Industry decline	5	0,9	0,051	1,141
Insider trading	2	0,4	0,072	0,880

Table 12 yields somewhat puzzling results. The frequency results seem logical. The most frequent antecedents, productivity/profit performance and shareholder value, followed by goal conflict/congruence and antitrust/monopoly/cartel reinforce the findings of the citation and theory network analyses above. They are evidently interlinked with the leading theoretical underpinnings identified, e.g. agency, corporate finance, strategy and industrial organization.

The Bonacich eigenvector centrality results, however, provide more incongruent evidence. Productivity, shareholder value and especially goal conflict and congruence all assume seem non-central to the discourse. On the basis of results of the theory facet analysis, it would seem logical that variables with high frequencies would also be somewhat central to the discourse. One explanation for this could be that all of these explanations are so dominant that very few other antecedents were identified in such articles. On the other hand, especially antitrust/monopoly/cartel, uncertainty/change and consolidation wave achieve a ranking higher in terms of their Bonacich centrality than their frequency of appearance. This might be suggested to result from the fact that they all constitute a significant argument by themselves and that they are central to a particular M&A research area. There are quite distinct conversations regarding the e.g. the anticompetitive effects of mergers[46] or the human resource outcomes of M&A and industry-specific merger waves[47]. These discrete discussions have most certainly assumed attention in the 1991-2001 M&A discourse, yet it is nevertheless surprising that their Bonacich centrality rankings exceed e.g. the frequent shareholder value, goal conflict and productivity/profit performance explanations.

Likewise, the betweenness centrality results are somewhat perplexing. Anticompetitive concerns and R&D/innovation seem to appear particularly commonly together with others explanations and have the best bridging ability. Antitrust explanations most certainly link with the other industrial organization minded explanations, e.g. wealth/economic efficiency. On the other hand, R&D/innovation is interlinked with organizational learning, synergy and competitive advantage. Goal congruence/conflict has extremely low bridging ability, which could be suggest that it represents a rather isolated discussion. Somewhat surprisingly, inter-stakeholder group conflict or congruence explanations seldom take a stance vis-à-vis other, e.g. strategic or economic, explanations such as wealth, efficiency, synergy or competitive advantage. Some might say that managerial explanations to M&A are superficial and rather artificially glued on top of the M&A discourse, but it is not possible to take a stance on that here. On the other hand, it is possible that anticompetitive concerns and R&D/innovation display high bridging ability because they operate on a less demarcated level of analysis. Agency theoretical articles typically operate on at the level of the individual or groups of individuals, whereas competition, wealth and efficiency effects, as well as technology-related issues can be discussed also at the level of the firm, industry, economy or even higher. Surely, mentions of these antecedents come from a wider set of research orientations, which would automatically show as an increase in the Betweenness centrality results.

Whether there is any sense at all in measuring the centrality (in terms of Bonacich centrality) and linking ability (in terms of Betweenness centrality) of antecedents is an issue that needs to be raised in this context. Arguably, antecedents are not used like theories in the

[46] Especially in the legal dialogue
[47] e.g. in retail banking and hospital management

sense that they would be attempted to be integrated with each other to the same extent. In other words, whilst it is often seen as valuable to consider multiple theoretical approaches while scrutinizing M&A, M&A researchers typically only need one or two antecedents to motivate a study. Intuitively, antecedents are not in similar interplay with each other as theories, but research rather focuses on validating one or some antecedents at a time. Looking at the figures in the antecedents network results in

Table 12 indicates that the level of bridging is considerably lower than with theories. This shows as a lower average Betweenness centrality among the antecedents. This lack of connections between antecedents also questions the relevance of the Bonacich centrality results somewhat. If there are fewer connections between antecedents in the first place, the antecedent network can have several ostensible nexuses. Several nexuses that consist of few interlinkages do not yield very reliable clear Bonacich or Betweenness centrality results since these measures are analyze the linkages specifically. The outcome can be that e.g. the Bonacich centrality results have little correspondence with the frequency results, as seems to be the case here.

2.4 Theory and antecedent co-occurrence analysis

In addition the simple frequency, Bonacich eigenvector centrality and Betweenness centrality analyses, a co-occurrence analysis of the theory and antecedent facets has been performed[48]. The purpose of this analysis is to reveal which antecedents and theories co-occur most frequently with each theory and antecedent. Subsequently, it is possible to see whether theories and antecedents actually appear in logical clusters or patterns.

The data in the co-occurrence analysis consists of the network centrality analysis result matrix **K** depicted in Appendix 4. In the analysis, a 53 x 53 matrix **F** consisting of the 53 facets on both axes (article number i: a_i and dichotomous 0-1 variable number j:x_j) is built by firstly initializing all elements F_{ij} as zero. Subsequently, every article in matrix **K** is read for the presence of each facet. If variable x_j appears on the same row with variable xk, the corresponding matrix element Fjk is increased by one. Variable j assumes values 1, 2, .., N and variable k values j+1, j+2, …, 53. This procedure is repeated for all articles. The resulting matrix **F** displays the times which each theory and antecedent appear together in the data consisting of the 567 analyzed articles. This Table is also found in Appendix 4.

From the table, two of the most common theory and antecedent facets were picked for each theory and antecedent in order to see whether the theories and antecedents co-occurred together in a logical pattern. In case there was no significant co-occurrence, no facet was

[48] The help of Mr. Lauri Ora of Cambridge University, UK, is gratefully acknowledged in designing and constructing the co-occurrence analysis.

picked. On the other hand, in case there was e.g. one clearly dominant facet and two equally commonly co-occurring facets, best discretion was used in whether to include only the one most important or all three. The results are tabulated in Table 13.

Table 13: Theory and antecedents co-occurrence analysis results of 28 theories and 25 antecedents used in M&A related articles published in core journals between 1991-2001 (N=567).

Facet	Most important co-occurring theories	Most important co-occurring antecedents
Resource dependence	Resource based view Organizational behavior	Diversification and conglomerates Productivity, profit and performance
Alliances, Networks and JVs	Organizational behavior Transaction cost economics	Productivity, profit and performance R&D and innovation
Legal and institutional frameworks	Transaction cost economics Property rights	Antitrust, monopoly and cartels Consolidation wave
Political power	Culture and HRM theories	Hostile takeover protection and resistance Uncertainty and change
Culture and HRM theories	Organizational behavior Resource based view and competitive strategy	Uncertainty and change Productivity, profit and performance
Resource based strategy	Competitive strategy Agency theory	Productivity, profit and performance Diversification and conglomerates
Competitive strategy	Resource based view Agency theory	Productivity, profit and performance Competitive advantage and synergy
Knowledge based view	Resource based view Competitive strategy	Organizational learning R&D and innovation
Internationalization	Culture and HRM theories Resource based view and competitive strategy	Geographical expansion and entry Shareholder value
Exchange	Hybrid organization forms Organizational behavior	No antecedent stands out
Contingency	Organizational behavior Resource based view	No antecedent stands out
Communication	Agency theory	Goal conflict and congruence Organizational learning
Decision-making	Agency theory Culture and HRM theories	Productivity, profit and performance Goal conflict and congruence
Organizational and Population ecology	Organizational behavior Culture and HRM theories	Uncertainty and change
Industrial organization	Game theory Agency, TCE and property rights	Antitrust, monopoly and cartels Wealth and economic efficiency

Bargaining	Industrial organization Game theory	Antitrust, monopoly and cartels Wealth and economic efficiency
Game theory	Industrial organization	Antitrust, monopoly and cartels Wealth and economic efficiency
Evolutionary	No theory stands out	Growth
Psychology	Culture and HRM theories Organizational behavior	Uncertainty and change Goal conflict and congruence
Leadership	No theory stands out	Uncertainty and change
Organizational behavior	Culture and HRM theories Resource based view	Productivity, profit and performance Uncertainty and change
Capital markets	Corporate finance Agency theory	Shareholder value Wealth and economic efficiency
Corporate finance	Agency theory Capital markets theory	Shareholder value Productivity, profit and performance
Accounting	Corporate finance	No antecedent stands out
Agency	Corporate finance Resource based view	Goal conflict and congruence
Transaction cost	Agency theory Resource based view	Diversification and conglomerates Productivity, profit and performance
Property rights	Agency theory Transaction cost economics	Antitrust, monopoly and cartels Goal conflict and congruence
Neoclassical TOF	Industrial organization Property rights	Antitrust, monopoly and cartels Productivity, profit and performance

Facet	**Most important co-occurring theories**	**Most important co-occurring antecedents**
Debt / equity	Corporate finance Agency theory	Goal conflict and congruence
Asset valuation and maximization	Transaction cost economics	Shareholder value Wealth and economic efficiency
Asset transfer	Resource based view	Diversification and conglomerates Corporate refocusing and demergers
Insider trading	No theory stands out	Shareholder value
Shareholder value	Agency theory Corporate finance	Productivity, profit and performance Goal conflict and congruence
Hostile Takeover protection, resistance	Agency theory Corporate finance	Goal conflict and congruence Shareholder value
Goal conflict / congruence	Agency theory	Hostile takeover protection and resistance Productivity, profit and performance

Diversification, conglomerate	Agency theory Resource based view	Productivity, profit and performance Goal conflict and congruence
Competitive advantage / synergy	Competitive strategy Resource based view	Productivity, profit and performance Shareholder value
Productivity / Profit Performance	Resource based view Agency theory	Shareholder value Diversification and conglomerates
Hubris / empire-building	Agency theory	Goal conflict and congruence Shareholder value Hostile takeover protection and resistance
Geographical expansion / Entry	Internationalization Resource based view	Productivity, profit and performance Shareholder value
Growth	Competitive strategy Resource based view	Productivity, profit and performance Geographical expansion and entry
Organizational learning	Knowledge based view Resource based view	Immaterial resources Competitive advantage and synergy R&D and innovation
Industry decline	No theory stands out	No antecedent stands out
Consolidation wave	Corporate finance Legal and institutional frameworks	Wealth and economic efficiency Diversification and conglomerates
Wealth and economic efficiency	Industrial organization Corporate finance	Productivity, profit and performance Consolidation wave
Antitrust, monopoly, cartels	Industrial organization Legal and institutional frameworks	Consolidation wave Wealth and economic efficiency
Uncertainty and change	Culture and HRM Organizational behavior	Productivity, profit and performance Goal conflict and congruence
Immaterial resources	Resource based view Knowledge based view	Organizational learning R&D and innovation
R&D, Innovation	Resource based view Competitive strategy	Diversification and conglomerates Organizational learning Immaterial resources
Corporate refocusing, demergers	Resource based view Competitive strategy	Diversification and conglomerates Shareholder value
Functional and Product-level integration	Competitive strategy	Productivity, profit and performance Uncertainty and change
Commitment	Agency theory	Goal conflict and congruence Hubris and empire building Hostile takeover protection and resistance
Privatization, deregulation	Corporate finance Capital markets	Antitrust, monopoly and cartels Productivity, profit and performance

Some interesting considerations arise from the co-occurrence analysis. Firstly, organization theory and behavior and transaction cost economics theory facets appear much more commonly in the context of other theories than antecedents. Then again, resource-based strategy, knowledge-based strategy, competitive strategy, agency theory and corporate finance occupy an overwhelming majority of the positions as the most-co-occurring theories with M&A antecedents. This shows the clear difference between those theories that are appealing, useful and familiar for researchers performing empirical research and those theories that have assumed wide respect among theory-centered writers. This is another dimension where the social dimension of referencing can also be assumed to play a part.

Another particular observation deals with the tendency of some of the antecedents to appear in clusters, i.e. to repeatedly appear in the same articles with each other. At least five clusters can be pointed out. The first is a cluster of agency theoretic antecedents. The most common antecedent for agency theory is goal conflict and congruence and vice versa. The most commonly co-occurring antecedent for goal conflict and congruence articles, then again, is hostile takeover protection and resistance and vice versa. Hostile takeover protection and resistance is also most often featured by agency theory. All three of these are also among the most commonly co-occurring facets with the hubris and empire-building facet.

The second cluster consists of three traditional business objective measures, namely performance, growth and international expansion. Growth is featured by performance and geographical expansion, geographical expansion by performance and so on. Also shareholder value is seemingly close to this generic set of business success measures. The third cluster is one based on the knowledge-based analyses of M&A. Here, R&D and innovation co-occurs with organizational learning and immaterial resources, immaterial resources with the knowledge-based view, organizational learning as well as R&D and innovation, and organizational learning with the knowledge-based view, immaterial resources and R&D and innovation.

Two further somewhat less well-demarcated clusters exist. The first consists of central strategy related antecedents (competitive advantage and synergy, productivity, profit and performance, diversification and conglomerates and shareholder value). The second consists of efficiency- and economics-minded industrial organization antecedents (antitrust, monopolies and cartels, wealth and economic efficiency and consolidation wave) exist. Given that these clusters clearly represent two of the major disciplinary orientations in the M&A discourse (strategy and economics), the fact that they are not as clear in the data relates to the final key finding of the co-occurrence analysis. Namely, the co-occurrence analysis is also characterized by a lack of surprises. The most common theories and antecedents are proliferated across the board. Looking particularly at the antecedents, it seems that there are a number of things, e.g. an interest in shareholder value, firm performance, goal conflict and congruence that unite many disciplinary streams in M&A research.

2.5 Summary

The analysis in Chapter 2 employed bibliometric methodology to discover the *de facto* structuring of the M&A discourse. This kind of analysis is needed to support the findings of the conceptual analysis of the M&A literature and provide an objective backbone for this study. Bibliometric methodology was employed given its ability to e.g. identify significant theoretical underpinnings, discuss the state of academic discourse relating to a real-life phenomenon, organize vague information in a rigorous way and study networks, relationships and interlinkages between authors, texts, journals and fields.

With a selection of 567 M&A related articles published in 1991-2001 in a wide body of 65 core management, business, economics, finance, accounting, law, industrial relations, sociology, social psychology and accounting journals, the 1990s M&A discourse was attempted to be covered. Likewise, by employing dual bibliometric methodology combining citation analyses and network analyses, Chapter 2 aimed at identifying not only key underlying authors, texts and fora of the M&A discourse, but also analyzing the different roles and positions the key theories and antecedents employed in the 567 articles assume.

This bibliometric analysis attempted to answer the first research question of the study, i.e. what is the de facto structuring of the M&A discourse? Three dimensions of this question were defined in the introduction. Firstly, understanding the *de facto* structuring of the M&A discourse requires an understanding of the important intellectual sources (in the form of authors and articles) used in the 567 M&A articles. Secondly, an understanding of the theories used as academic backbones in these articles is necessary. Thirdly, the motivations or antecedents for writing the 567 articles need to be understood in order to establish a clearer picture of the aspects of M&A that have interested authors.

Disciplinary research orientations in the M&A discourse

The bibliometric analyses revealed some interesting insights to the disciplinary underpinnings of the M&A discourse.

Firstly, the findings of both the most-cited first authors analysis and the most-cited text analysis indicated that **the M&A discourse has drawn from a rather wide spectrum of disciplines**, ranging from pure theory of the firm and applications operationalizing theories of the firm to various finance oriented perspectives, strategy literature, methodological papers and a number of miscellaneous research angles issues dealing directly with M&A. The wide disciplinary nature of the M&A literature is also highlighted by the patterns of publication

and citation outlet. Even though the publication outlet profile is somewhat dominated by seven finance and economics journals (Journal of Banking and Finance, Antitrust Law Journal, Journal of Finance, Journal of Financial Economics, International Journal of Industrial Organization, Journal of Industrial Economics and American Economic Review) among the top 10, this is not the case in the citation outlet pattern. In addition to the fact that Strategic Management Journal and Journal of Financial Economics are evenly and clearly the two most cited, the most cited journals list shows a relatively even distribution of management, business, finance, economics, organizational, sociology, law, econometrics and interdisciplinary journals.

Secondly, and compared to existing generic knowledge of the structure of the M&A discourse, it seems that **authors and texts playing a significant role in the development of different governance theories of the firm seem to be well represented as the underpinnings of the M&A discourse as well**. Especially Michael Jensen's output in general and especially his agency theoretic works (e.g. Jensen 1986, Jensen and Meckling 1976, Jensen and Ruback 1983) emphasizing importance of the owner-manager relationship in corporate restructuring decision-making have received substantial attention. The legacy of the complete contracting oriented agency theoretic literature is also seen in the appreciation of works first authored by Eugene Fama's (e.g. Fama 1980, Fama and Jensen 1983). A prominent application of agency theory to M&A is Amihud and Lev's 1981 article. The influence of the governance perspective is also manifested in the significant influence of Oliver E. Williamson's works (most importantly Williamson 1975 and 1985). His transaction cost economics, which explicitly discusses the boundaries of the firm, a key issue in M&A, appeals to an audience with wide disciplinary backgrounds.

Thirdly, in addition to the governance theories of the firm, there seems to be a **strong tripartite balance of the influence of a) corporate strategy literature, b) corporate finance and capital markets literature and c) process literature** in the M&A discourse. What is notable is that the significant presence of these three converge to a very large extent with the metatheoretical findings in Haspeslagh and Jemison's 1991 book that lists a "capital markets school", a "process school" and a "strategic school" to M&A.

In the corporate strategy literature, the prevailing influence of the competitive strategy and positioning school dominated by Michael E. Porter's works (especially Porter 1980, 1985, 1987) is evident. In contrast, the competence perspective to the theory of the firm has a somewhat less dominant position than could be assumed on the basis of the dominance of the competence based perspectives to corporate strategy since around 1990 (See e.g. Rumelt et al. 1994, Hamel and Prahalad 1990, Barney 1991, Peteraf 1993). Important precursors to the resource-based view (namely Penrose 1959, Nelson and Winter 1982 and Rumelt 1974) appear high up particularly temporal profile adjusted citation analysis. Even considering the effect of time, emerging e.g. from the temporal limitation of this study (1991-2001) and that

the references date an average of six years back, the balance of competitive and competence-based strategy literature or rather the finding that the competence perspective does not dominate, is somewhat unexpected.

In the financially oriented literature, which as a whole is equally frequent to the corporate strategy literature, a presence of both corporate finance and capital markets oriented literature is discovered. Jensen's overwhelming popularity in the first-author rankings is much due to the fact that his key works (e.g. Jensen and Ruback 1983, Jensen 1986) have also contributed to the theory of corporate finance. Nickolaos Travlos' 1987 article concentrating on the methods of payment and Stewart Myers' and Nicholas Majluf's 1984 article on the role of private information in corporate financing decisions are good examples of the type of corporate finance literature that M&A literature has drawn from. Then again, there is a strong stream of capital markets oriented, financial M&A literature that typically relies on event study methodology. Examples of most influential articles from this perspective include Morck, Shleifer and Vishny's 1990 and Eckbo's 1983 articles. With the capital markets school, also related articles discussing related event study and quantitative methodologies have received considerable attention (White 1980, Brown and Warner 1985).

The process stream to M&A is also well represented in the citation analysis, even though the number of contributors and contributions is somewhat smaller. Seminal texts by Jemison and Sitkin (1986) and Haspeslagh and Jemison (1991) assume prominent positions. Arguably, the process perspective has engulfed some competence perspective ideologies (e.g. the importance of acquisition experience and strategic paths) and shares an interest in internal organization related gains and an aspiration for value creation, all which have helped to maintain the approach in 1990s. The process stream, however, is an example of a 'pure' M&A school and highlights the fact that also M&A is developing signs of autonomy and independence from, most importantly, the strategy and finance discourses through intra-disciplinary referencing.

The fourth finding deals not with what assumed a central position in the bibliometric analyses, but with what did *not*. A subjective list of the most conspicuously **missing or poorly represented research perspectives** includes e.g.

- Organization and behavioral theory — e.g. Simon 1951, March and Simon 1958, Argyris and Schön 1978, Perrow 1972
- Resource dependence theory — e.g. Pfeffer and Salancik 1978
- Key RBV contributions — e.g. Hamel and Prahalad 1990,

	Rumelt, Schendel and Teece 1994, Loasby 1990, Walter and Barney 1990
• Neoclassical economics and economics in general (e.g. rational expectations school)	e.g. Arrow 1951, Arrow and Debreu 1954, Stigler 1950, 1951, Lucas 1967
• Property rights theory	e.g. Coase 1960 Alchian and Demsetz 1972, Hart 1990, Grossman and Hart 1986, Hart and Moore 1990.
• Cultural issues	e.g. Hofstede 1980, 1990, Sales and Mirvis 1985, Buono, Bowditch and Lewis 1985, Buono and Bowditch 1989
• Some pure M&A contributions	e.g. Kitching 1967, 1974, Pablo 1994
• Trust and social capital	e.g. Coleman 1990, Putnam 1993, Fukuyama 1995

Surely one the most puzzling findings is the relatively small impact of organizational, behavioral and cultural perspectives as well as somewhat related perspectives on trust and social capital and resource dependence[49]. What Haspeslagh and Jemison (1991) peg as the organizational behavior school in M&A seems virtually non-existent, at least in the light of citation analyses. A closer inquiry of the theories used in the articles by the network centrality analyses, however, signifies a somewhat important role.

Among others, interesting absences in the citation analyses include property rights theory on the one hand and neoclassical economics on the other. It could be argued that property rights theory could serve as an intellectual underpinning for M&A shareholder value rationales, which assume very high priority among the M&A research antecedents. The same applies for seminal neoclassical economics contributions, and in fact *any* economics contributions, in the sense that, intuitively, they should underpin many of the articles published in the wealth of economics journals close to the top of the publication outlet profile list. Additionally, given that the competence perspectives and 'pure' M&A articles are at least somewhat well represented in the citation analysis, it seems counterintuitive that some significant outputs in both fields are missing.

[49] Even though Pfeffer and Salancik's seminal 1978 resource dependence theory contribution "External Control of Organizations" did rise to 4th place in the temporal profile adjusted comparison of books and articles.

Theories utilized in the M&A discourse

The theory frequencies in the network analysis by and large converge with the findings of the citation analysis. Agency theory, corporate finance, resource-based strategy, competitive strategy, industrial organization, culture and HRM theories and transaction cost economics, organizational behavior and capital markets theory assume the highest rankings in that order. The major differences to the citation analysis are that theories emphasizing the softer sides of the organizations, e.g. culture, HRM and organizational behavior, assume a somewhat more prominent role. On the other hand, transaction cost economics is only the seventh most common theory, which is remarkably lower than Williamson's partial dominance of the citation results might indicate. Also, political power and resource dependence theories assume a very low ranking. These theories appear to be often cited but seldom employed as central theoretical constructs in investigating M&A phenomena.

The Bonacich eigenvector analysis, which indicates the relative centrality of a theory in the M&A article network, revealed some interesting insights. Some theoretical streams, most importantly resource dependence and political power, but also competitive strategy, transaction cost economics, organizational behavior, hybrid organization modes and the knowledge-based view assume rankings significantly higher in terms of their Bonacich centrality than their frequency of appearance. These streams can be argued to deal closely with M&A 'business'[50], and therefore attract linkages from numerous theoretical directions, increasing their Bonacich values. On the other hand, the Bonacich findings can also be explained by indicating that the industrial organization, finance and legal perspectives to M&A can be thought to represent distinct fields of inquiry, with few linkages and little appeal to researchers outside their domains.

The speculation surrounding the Bonacich centrality results is supported by the results regarding the Betweenness centralities of the different theories. Corporate finance, industrial organization and capital markets are the only three significant theory facets that have a high frequency of appearance and Bonacich centrality, but considerably lower Betweenness centrality. At the same time, numerous theories seem to assume a strong bridging and cross-fertilizing role. Transaction cost economics has the highest Betweenness centrality value, which profiles it, together with theories of hybrid organization forms, property rights, exchange and most importantly resource dependence, as a linking theory whose 'task' in the M&A discourse is to attract and link complementary research and thus foster dialogue among otherwise unconnected perspectives.

[50] In the sense that they deal with competitors, regulation and organizational politics, alternatives to mergers, make-or-buy-decisions, knowledge assets, organizational turmoil and post-merger trauma etc. all of which are important, tangible, practical and managerial antecedents of M&A

Antecedents of the M&A discourse

A similar network analysis performed on a network of antecedents to the M&A discourse yielded somewhat confusing results. The frequency results seem logical. The most frequent antecedents, i.e. productivity/profit performance and shareholder value, followed by goal conflict/congruence and antitrust/monopoly/cartel reinforce the findings of the citation and theory network analyses. These antecedents are evidently interlinked with the leading theoretical streams identified, e.g. agency, corporate finance, strategy and industrial organization.

The Bonacich eigenvector centrality results, however, seem to reveal that very frequent antecedents, e.g. productivity, shareholder value and especially goal conflict and congruence, assume low centrality values due to the fact that they are so dominant in the articles where they appear that few other antecedents are identified in the same contexts. On the other hand, antecedents such as antitrust/monopoly/cartel, uncertainty/change and consolidation waves seem to attract high network centrality values due to the fact that they are certainly very central to a particular M&A research area.

Likewise, the betweenness centrality results are somewhat perplexing. Antitrust explanations linking with the other industrial organization minded explanations, and R&D/innovation linking with organizational learning, synergy and competitive advantage seem to have particularly good bridging abilities. However, it seems that antecedents are not used like theories in the sense that they would bring in issues and arguments and integrate them with other explanations, or unify several others. In other words, antecedents do not seem to be in similar interplay with each other as theories. This is supported by the results indicating that the level of bridging is considerably lower with antecedents than with theories.

In any case, the most significant finding above all others is that the governance theories of the firm, particularly transaction cost economics and agency theory, seem to hold a frequent and central position as intellectual foundations to the M&A discourse. The focus in Chapter 3 is thus turned to answering the second research question by investigating the contribution of the governance theories of the firm to the M&A discourse.

3 TOWARDS A GOVERNANCE PERSPECTIVE TO M&A

The motivations of this study have focused it to the scrutiny of the M&A discourse in leading academic journals during the 1991-2001 period. The aim has been to investigate the intellectual roots of the M&A discourse and reach a metatheoretical depth of academic inquiry similar to the governance vs. competence debate (see Williamson 1999). As indicated in the Introduction, this study looks primarily at the theories *underlying* the M&A discourse and thus does not even attempt to be an extensive yet superficial analysis of the M&A literature itself. The primary aim is to look for the influence of governance theories on the M&A discourse, with a secondary aim of restructuring the various 'schools' of M&A thought.

A conceptual analysis of M&A literature

Appendix 1 analyzes the M&A discourse in general and focuses on the conceptual interlinkages between the M&A discourse and the theoretical structure of the governance approach. The conceptual analysis of the M&A literature begins with a general discussion of M&A as a driver of the 'organization of economic activity', one of the most profound concepts of the governance approach. M&A, as a management discourse, is related to the governance approach and references to the governance approach and possible linkages between the two fields are made along Appendix 1.

Before moving on to partitioning the content of the discourse, the conceptual analysis is set up with an overview of the contemporary motivations for M&A research. There are two primary reasons, in addition to increased M&A activity in general, for the notable increase in academic M&A inputs. Firstly, there is the parallel development of a number of academic research streams including corporate finance, capital markets, corporate strategy, organization theory, corporate culture, human resource management. Secondly, and perhaps more importantly, a number of interesting M&A 'sub-phenomena' have taken place during the last few decades. These sub-phenomena, e.g. merger waves, increased M&A related corporate governance struggles, sustained demerger activity, disagreement in measuring M&A success and counterintuitive behavior of M&A professionals, have aroused considerable, particularly empirical research interest.

The core part of Appendix 1 consists of a three-partite approach investigating:

a) The conceptual **boundaries of M&A**, determined by the various definitions provided for M&A in the literature

b) The explanations and justifications put forward for the **existence of M&A** in the form of four schools of thought, namely the capital markets stream, the strategy stream, the humans and organizations stream and the process stream (along the lines of Haspeslagh and Jemison 1991)

c) The **internal organization of M&A**, i.e. the processes that M&A creates within the involved organizations.

The first part of the analysis discovers that the conceptual boundaries of M&A represent a broad spectrum highlighting e.g. organizational context, corporate identity, the difficulty of drawing the boundaries between mergers, acquisitions and takeovers, the disappearing and birth of legal entities, the negotiation aspect, learning, process, capital structure and so on. Beyond the differences in what the definitions emphasize, however, all of them more or less advocate the idea of a sequential change process related to the organization of economic activity.

The second part discusses the various justifications and motivations put forth for the existence of M&A. The motivations are categorized, close to the lines of Haspeslagh and Jemison (1991) under the four headings of *capital markets*, *strategy*, *humans and organizations* and *process*. The capital markets stream is fundamentally represented by financial economics work around the key concepts of the creation and allocation of value through M&A. The analysis of the capital markets stream concentrates on presenting the key references, arguments and criticisms of the financially oriented research on M&A. The strategy stream of M&A emphasizes the case of the individual firms in question and thus lowers the level of the analysis from the wealth of the economy or financial markets to the firm-specific outcomes such as firm performance, value creation, synergy or competitive advantage. The development of the M&A theory in this research stream is found to have a natural linkage to the evolution and schools of corporate strategy literature. The humans and organizations stream focuses on the 'people' aspects of M&A, with strong contours reflecting human resource management, crisis management and cultural compatibility ideas. Much of the literature in this stream bases on seminal organization theory (e.g. Pfeffer and Salancik 1978, Simon 1951, March and Simon 1958). Finally, the process stream argues that the M&A process itself can be an important determinant of the various M&A outcomes. Despite resemblance to the strategy stream, which sometimes leads to the process stream being subjected under a general strategic approach to M&A research (see e.g. Larsson and Finkelstein 1999, Weston et al. 2001), the process stream has its own distinct emphases. In brief, the process stream emphasizes the role of change in value creation and active change management in order to succeed in the M&A process.

The third and final part of Appendix 1 discusses the internal organization of M&A. Conceptually, the M&A processes are the 'content' of M&A and thus different views on what the M&A processes are correspond directly to the internal organization of M&A. Subsequently, the third part iterates the more pragmatic aspects of the process stream more carefully and overviews three general M&A process models. The literature emphasizing the role of post-merger processes in M&A success is also discussed briefly. A number of questions vis-à-vis the organization of economic activity arise in the analysis. Ultimately, the purpose of the whole conceptual analysis of the M&A literature is to identify relevant questions concerning the organization of economic activity and particular attention has been paid to identifying ramifications in the direction of the governance theories of the firm. These interlinkages are further analyzed and reorganized in Section 3.2.3 in order to make them a part of the substance of a general governance perspective to M&A.

The theories of the firm from a governance perspective

Appendix 2 approaches the potential relationships of the M&A and the governance theory of the firm discourses from another direction by conceptually analyzing the governance theories of the firm and their applicability to M&A research. Following a mapping of the research field at hand, an overview is given of the following key governance theories of the firm:

a) Neoclassical theory of the firm
b) The nexus of contracts perspective
c) Agency theory
d) The early incomplete contracting tradition
e) Transaction cost economics and
f) The theory of property rights

The analysis of each theory includes the crystallization of the key message(s), together with a discussion of the origins and development paths of the theory. Special interest has been awarded to the type of contracting each theory assumes and the assumptions they hold about e.g. the contracting environment and the nature of economic actors. In addition to overviewing the governance theories in this way, the main aim of each passage is to identify ways in which they are associated, employed and linked to various aspects of M&A, together with an evaluation of current and further applicability. In other words, the key purpose of Appendix 2 is to both find existing contributions from the governance theories of the firm to the M&A discourse and evaluate the potential for further such research. These contributions, analyzed further in Section 3.2.3 onwards, constitute an integral part of the substance of a governance approach to M&A.

In addition to analyzing the contribution of each governance theory of the firm, Appendix 2 also includes an analysis of the shortcomings and criticisms of the governance theories of the firm, as well as how these shortcomings reflect to the applicability of each theory to M&A discussion. The overview of the criticisms is three-fold. Firstly, generic criticisms that apply to the governance approach in general are outlined. Secondly, criticisms towards particular assumptions underlying some governance theories, e.g. assumptions regarding human nature, the incentives of economic actors and the nature of contracting, are presented. Finally, criticisms towards four individual governance theories of the firm[51] are overviewed together with ramifications vis-à-vis the applicability to M&A in order to sharpen the analysis further. The analysis of the criticisms and shortcomings are utilized in Chapters 3 and 4 to a large extent, given that the shortcomings of the governance theories on a number of levels have direct repercussions to the functionality, rigidity and credibility of a general governance approach to M&A.

Appendix 2 is rounded off with a discussion of the relationship of the governance and competence perspectives to the theory of the firm (see Williamson 1999), orbiting around the important speculation of the potential contribution of the competence perspective to a holistic perspective to M&A. The discussion is initiated with an overview of the motivations for focusing the present study on the governance approach to the theory of the firm and for leaving other important management research streams that have provided and could provide insights to the analysis of M&A with significantly less regard. The main motivations are concluded to be a) the need to integrate governance theories, b) their insufficient application to managerial thinking in M&A, c) the perceived potential of the governance approach to be able to provide a multi-faceted and holistic approach to M&A as well as d) pragmatic reasons related to limited time and space available.

Subsequently, an overview of the competence perspective, represented by most importantly by the resource based view of the firm, the knowledge based view of the firm, the capability perspective and the information centered approaches, is given. The overview offers a brief glance at the roots and fundamentals of the competence perspective, the perspective the competence literature presents to the boundaries of the firm discussion and some issues on the convergence and departures between the governance and competence perspectives. Finally, some attention is paid to the existing and potential inputs of the competence perspective to M&A analysis. Valuable inputs vis-à-vis the boundaries, existence as well as the internal organization of M&A are discovered. In short, the boundaries of M&A are defined, not surprisingly, according to the pattern of resource amalgamation, and M&A is

[51] The specific criticisms for neoclassical economics theory of the firm, agency theory, transaction cost economics and property rights theory are presented. The nexus of contracts perspective and the incomplete contracting tradition are characterized by the nature of contracting to such an extent that a discussion of the criticism towards the contracting assumptions (preceding the discussion of criticisms directed at individual governance theories of the firm) is perceived to be sufficient.

found to imply not only resource amalgamation but also historical path amalgamation (i.e. a historical change in the life of legal entities). The primary justifications for the existence of M&A put forth by the competence literature deal with relatedness, the creation of synergies, resource and knowledge acquisition, organizational learning and innovation. What is more, the competence approach is also found to cross-fertilize and dialogue with the process stream of M&A research, and by and large have considerable merit in the analysis of the internal organization processes of M&A.

Both Appendix 1 and Appendix 2 have summaries that overview what has been done and put the conceptual analyses into perspective with the present study. In general, the Appendices act as a prelude for both the bibliometric analysis in Chapter 2 and the strive towards a governance approach of M&A in this Chapter. A proper analysis of the states of the M&A and governance discourses makes the performing of a bibliometric analysis a productive exercise, since it facilitates reflecting the results of the bibliometric study to the understanding of the M&A discourse identified in the conceptual analyses. This, then again, facilitates identifying whether there has been a contribution to the existing body of knowledge (See 3.1.4 below). What is more, the conceptual analyses also provide valuable content to the holistic governance approach to M&A presented in this Chapter and are thereby absolutely vital for this study.

The conceptual analyses yielded interesting insights into the nature of the M&A and governance theory of the firm discourses. The first general finding is that M&A literature, which is naturally in interplay with the factual M&A occurring in real life[52], seems to effectively omit direct reference to and mention of the governance theories of the firm. Nevertheless, the issues tackled by the different definitions, explanations/justifications/ motives and internal processes of M&A raise some acute questions that seek answers from the realm of the governance theories of the firm. The second general finding is that even though there is a wealth of criticism and evident shortcomings, the governance theory of the firm literature has discussed, and on the whole also contributed on broad front, to both specific M&A related issues and the M&A discourse in general. There thus seems to be something of a disparity between the way governance theories of the firm have 'offered help' to discussing M&A and the way M&A literature has 'accepted' this help.

Moreover, the above bibliometric analyses have produced some striking observations as well. It seems that governance theories of the firm, most importantly agency theory, transaction cost economics and the nexus of contracts perspective, assume a central role as

[52] It could be suggested that the managerial nature of the M&A discourse may be one of the factors underlying the fact that M&A literature includes few mentions of any governance theory of the firm, or any theory in general. It seems that empirical and phenomenon-centered researchers who concentrate on M&A as are somewhat less keen on applying the findings of conceptual researchers than the firm theoretic conceptual researchers are on selecting M&A as a research phenomenon.

the intellectual underpinnings of the M&A discourse. On the other hand, other governance theories, e.g. the incomplete contracting perspective that interlinks with organization theory and has also influenced the development of strategic and human resource management oriented perspectives of M&A, has received conspicuously little attention. Secondly, and perhaps a lot less surprisingly, corporate strategy and corporate finance perspectives are also well represented as references to M&A articles. Furthermore, there seem to be clear linkages between certain theories and between theories and antecedents, which need to be investigated in more detail. The network analysis has indicated that different theories assume different roles in the structuring of the discourse, and that some theories that are frequently used to discuss M&A do not appear to be central to the discourse at all.

On the basis of the above setting, the focus in Chapter 3 is turned to crystallizing the answer to the first research question and tackling the second research question of the present study by addressing the contribution of the governance theories of the firm to M&A. This is done by investigating the interplay of these two discourses and their intellectual origins in more detail and by pulling together and further elaborating the findings of the bibliometric and metatheoretical studies. Firstly, the dominant theoretical perspectives underlying the M&A discourse are identified and restructured using the results of the bibliometric study, and then compared to the conventional perception of the field presented in the conceptual study. On the basis of this comparison, a set of propositions insinuating key aspects of the current state of the M&A discourse are laid out.

Secondly, the linkages between the two discourses are investigated. Linkages are identified at three levels of analysis, namely in the roots and traditions of the discourses, in the academic research dialogue and the views they share about practical M&A affairs, together with the knowledge gaps and shortcomings identified in literature and in this study. The motivation here is to explore whether there is, on the basis of the bibliometric and conceptual research performed, sufficient grounds for moving towards an integrative approach, i.e. something of a governance perspective to M&A. In other words, this section aims at the development of propositions insinuating key reasons for the current state of the M&A discourse as laid out before.

Finally, the limitations considered, this Chapter discusses the possible features of such an integrative perspective. A bipartite theoretical construct with two interlinked avenues, an explanatory avenue and a prescriptive avenue, is proposed. The explanatory avenue operates at a deeper social scientific level, tracing back the existence of M&A by exploring the antecedents and theories of M&A, and linking them to the peculiarities of the institutional environment, social institutions and the characteristics of the contracting setting. It concentrates on discussing the paradigmatic linkages, linkages in tradition and linking theories. Its implications are propositions for future avenues of explanatory governance

research based on the identified knowledge gaps, shortcomings and limitations of the current research about M&A.

The prescriptive avenue focuses on *how* M&A deals are made and managed, on the processual nature of pragmatic M&A management and how governance thinking can be applied to this setting. This research concentrates on the discussion of governance aspects of strategy-making and corporate finance as well as on developing managerial frames of reference that utilize the governance point of view. It concentrates on discussing the applicability of the theories of the firm, with considerable attention paid to the criticism on the lack and limits of applying governance theories of the firm, and their relationship to strategy and finance as well as building managerial reference frames and mindsets in general.

As a part of the prescriptive avenue, propositions about potential forums and applications based on a 'governance perspective on M&A' are made. The forums include pragmatic decision-making areas as corporate governance, M&A decision-making, consulting, corporate strategy formulation, human resource management and development and marketing. The 'tools' designed for operating in these forums deal with such rather pragmatic issues as board activities, investment banking relationships, corporate communication via reference frames, value chain and diversification guidelines, employee share ownership plans (ESOPs) as well as distribution channels selection and branding.

3.1 Dominant perspectives in M&A research

A major finding of the bibliometric study in Chapter 2 is that even though the study of M&A is multidisciplinary to the extent that it could be argued to be fragmented and disjointed, a fairly limited number of concepts and theories consistently appear at the core of the body of research. Here, the dominant perspectives vis-à-vis key theories, linking theories and key antecedents are given, together with references to key contributors and seminal publications.

3.1.1 Identification, overview and propositions of key theories in M&A research

On the basis of the bibliometric and conceptual research results, M&A seems to prevail first and foremost as a management discourse. From this perspective, it is hardly surprising that the dominant strategy paradigms of the 1980s and 1990s, i.e. competitive strategy (most importantly Porter 1980, 1985, 1987, 1996, Porter and Fuller 1986, Besanko et al. 1990) and resource-based strategy (whose antecedents include Penrose 1959, Rumelt 1974, Nelson and Winter 1982 and major contributions include e.g. Hamel and Prahalad 1990, 1996, Singh and Montgomery 1987, Teece 1982, Barney 1988, Rumelt, Schendel and Teece 1994 and many others), play a major role also in the M&A discourse.

It seems evident, however, that M&A is not a pure strategy topic. The agglomeration of two economic entities, sometimes of ones the size of small countries, is a major driver of the organization of economic activity. The size and nature of M&A has made it a fruitful phenomenon for academic investigation using a richer array of theoretical perspectives.

The large size and increasing number of M&A transactions has *per se* pegged it an interesting subject for researchers with an industrial economics orientation. M&A is quantifiable in terms of both its market agglomeration and price level impacts, thus making it an interesting subject for studies focusing on economic efficiency and anticompetitive concerns. Few management research topics can be subjected to rigorous micro- as well as macroeconomic models in the manner of M&A. The analysis of the wealth and efficiency outcomes of mergers, focusing rather naturally on antitrust considerations, is an example of such a research area. It is rather illuminating that Gregory Werden tops the most-published first author list[53], given that his research is concentrated on the quantitative analysis of welfare effects and antitrust related issues (See e.g. Werden 1996, Werden and Hay 1993). With the rise of the quantitative-empirical methodological orientation in the 1980s, such quantifiable research avenues are bound to fare well in bibliometric analyses.

Then again, M&A transactions require extensive financial juggling and involve finance to the extent that there seems to be a rather separate field of M&A research performed by finance researchers. The finance stream incorporates, partly as separate streams and partly as interlinked fields, two perspectives, namely the capital markets perspective and the corporate finance perspective. The former, a more traditional perspective, employs capital market theory to analyze e.g. M&A success, the role of globalizing capital markets in the formation of cross-border M&As, the use of capital markets instruments (e.g. different bonds, medium term notes, asset backed securities, commercial papers, certificates of deposit, bankers acceptances, repurchase agreements) in performing as well as preventing M&A transactions and so on.

The research on anti-M&A maneuvers is specifically where the capital markets school most interlinks with the latter perspective, corporate finance. Anti-M&A provisions involve both capital markets tools as well as pure corporate finance issues. The corporate finance perspective, which, according to the results of this study, actually appears to be the dominant of the two, concentrates on the application of corporate finance tools, and related theories like option pricing theory or arbitrage pricing theory, that are available for performing the M&A transaction and the financial restructuring of the companies. Out of all topics highly related to

[53] As stated in the results, there is, however, no clearly dominant M&A author in the 1990s. Gregory Werden, who tops the most-published first author list has only six articles and seven authors have four or five first authored articles.

corporate strategy discourse, M&A is perhaps among the ones involving most finance content and, consequently, rigorous quantitative modeling.

A peculiar similarity of both the industrial organization and the financial approaches is that, according to the results of the bibliometric study, they do not assume central positions in the discourse despite the fact that they appear frequently in journal articles. The quantitative nature of the research using either of these perspectives might be an underlying reason. Quantitative analysis has two shortcomings, which hinder cross-fertilization between theoretical avenues. Firstly, quantitative research usually necessitates a close demarcation of the research topic, which hampers the applicability of their results. Paired with tight research settings are usually strict sets of assumptions that cannot be applied or accepted in qualitative research. Furthermore, quantitative M&A research employing microeconomic or finance theories does not necessarily yield, on the one hand, explicable and, on the other hand, intellectually tempting results to e.g. organization or strategy researchers. Here, the depth of familiarity about finance or industrial organization theories required to understand the research results inhibits the possibility of cross-fertilizing research, as does the lack of common terminology and shared research foci.

Where cross-fertilizing research between corporate strategy and corporate finance literature has most occurred is in the realm of institutional and organizational economics, which, in the results of this study, is elevated as a source of key theoretical perspectives in M&A in the form of the governance theories of the firm. Most importantly agency theory, but also transaction economics, tops most lists in the bibliometric study. Both of these theoretical approaches (see e.g. the so-called positivist agency theory, see e.g. Eisenhardt 1989, Fama 1980, Fama and Jensen 1983 and, on the other hand, Williamson 1985) as well as their quantitative applications (see e.g. Servaes and Zenner 1996, Schnitzer 1996 for transaction economics applications and Amihud and Lev 1981 for an example of a quantitative study using agency theory) incorporate quantitative analyses.

Michael Jensen's cross-fertilizing research in finance and corporate governance is an example of the type of research that receives most attention. This is natural, since not only is the potential audience consisting of scholars in various disciplines much broader than for intra-disciplinary oriented research, but the findings have also been very fruitful. Arguably, M&A is, in general, a fragmented research area (Haspeslagh and Jemison 1991, Schweiger and Walsh 1990) and the fragmentation has led to the erection of barriers to the development of integrative or cross-disciplinary research (Larsson and Finkelstein 1999). Since Jensen (1976), few have really attempted it (most prominent attempts include Haspeslagh and Jemison 1991, Buono and Bowditch 1989, Hunt 1990, Jemison 1987, Larsson and Finkelstein 1999).

Despite these integrative efforts, performing research across the disciplinary boundaries of management and organizational behavior research is not very popular. As mentioned above, some seminal organization theory authors and their works (e.g. March and Simon 1958, Argyris and Schön 1978, Perrow 1972) or authors discussing the cultural aspects of M&A (e.g. Hofstede 1980, 1991, Sales and Mirvis 1985, Buono, Bowditch and Lewis 1985, Buono and Bowditch 1989) do not appear high up in the citation analyses. Interdisciplinary research utilizing these theory streams, however, has increased remarkably during the 1990s, to the extent that the culture and HRM theories assumes a relatively high position in the theory frequency ranking of the network analysis in Chapter 2, and organization theory and behavior is located right after them.

The incomplete contracting perspective (e.g. Simon 1951, Coase 1937, 1960) that underlies much of organization theory and has influenced the development of strategic and human resource management oriented perspectives of M&A, has also received conspicuously little attention. Furthermore, property rights theory, either traditional (e.g. Coase 1960, Alchian and Demsetz 1972 and the Austrian school, see e.g. Foss 1994) or new (e.g. Hart 1990, Grossman and Hart 1986, Hart and Moore 1990), does not appear as a very prominent theoretical underpinning of M&A in the bibliometric analysis.

If agency theory and transaction cost economics represent such prominent foundations of the M&A discourse, why haven't the incomplete contracting and property rights perspectives, or neoclassical economics theory of the firm for that matter, assumed equally important positions?

Arguably, neoclassical economics enjoyed a wealth of attention all through the 1970s and 1980s and the tradition of researching M&A from an economics perspective is by no means dead. Evidence of this are the high rankings of economists and industrial organization authors in the author and text citation analyses and the appearance of numerous economics journals close to the top of the citation outlet pattern. Equally, industrial organization was identified as one of the most prominent theories used in the 567 journal articles, which also showed the low appreciation of neoclassical economics in the 1990s. Three concerns should be raised. Firstly, it seems evident that time has driven past the neoclassical economics of e.g. Arrow (Arrow 1951, Arrow and Debreu 1954) and microeconomics-related industrial organization research has inherited its position in the monopoly power, market efficiency and wealth related discussions. Secondly, the increasing attention on finance research can be argued to have provided a further backbone for economics-minded M&A researchers[54]. Finally, as the network centrality analysis findings indicate, economics in general and industrial

[54] This has happened to the extent that when asked what their disciplinary background is, many especially US finance professors would answer "economics". I thank professor Henrikki Tikkanen for providing this valuable comment on the basis of his dialogue with top MIT, Harvard Business School and Harvard University finance professors.

organization in particular have, much in the same manner as finance, become segregated due to their theoretical narrowness and quantitative empirical research orientations, which hinder the possibility for cross-fertilizing research.

The incomplete contracting tradition pioneered by Ronald Coase and Herbert Simon owes much of its attention to the concepts of bounded rationality and moral hazard (Simon 1951, Cyert and March 1963). Even though bounded rationality was initially systematically applied to theorizing, the use of bounded rationality has declined (see Foss 2001a, Foss 2001b, Foss 2001c). The reasons for this are numerous. One of the most prominent explanations is that bounded rationality is an imprecise concept, which has, particularly in later contract theory (Hart 1990) been substituted by information asymmetry, which is a precise, quantifiable construct. Additionally, as Foss (2001a) mentions, we have actually never been given a precise definition of what bounded rationality is. Bounded rationality is most often seen as a vague environmental assumption, which sets limits to the contracting situation but which cannot be quantified and is thus not operationalizable. Foss (2001a) also mentions that bounded rationality is much cited but little used. In M&A, however, it is not even much cited. This is surely rooted in the fact that organization theory and behavior literature is poorly represented in the M&A articles analyzed in Chapter 2. As the analysis focuses more and more tightly on the a specific issue such as M&A or its particular forms, bounded rationality is left increasingly as a background assumption that is introduced only to help to explain other more central concepts such as contractual incompleteness and organizational routines (Foss 2001a, p. 1), if even they are aired.

The theory of property rights consists of a number of strands that are somewhat discrete in time and philosophical orientation, which makes it sometimes difficult to analyze them as a meaningful whole. At least three strands, namely the Austrian (Hayek 1937, 1945, Kirzner 1973), the traditional (Coase 1960, Alchian 1965, Demsetz 1964, Alchian and Demsetz 1972, for an overview see Furubotn and Pejovich 1972) and the new property rights (Barzel 1997, Hart 1995, North 1990, Eggertson 1990, Hart and Moore 1990, Grossman and Hart 1986), can be distinguished[55]. Despite their differences, these strands can be argued to suffer from the same limitations, namely an abstract nature, omission of soft sides of human interaction and organizational realities such as power and capabilities (Rajan and Zingales 1998), cooperation and corporate culture (Kreps 1990) as well as teams and the inalienability of human capital (Klein 1988). These limitations might be responsible for the relative lack of attention in the M&A discourse.

The peril of the property rights theory is that it offers a simplistic, quasi-economic justification theory to back up an ownership-centered approach, which might withdraw high-level attention away from the organization(s) as such (Foss and Foss 2000). Property rights

[55] For a further elaboration, see Appendix 2.

theorists unequivocally deny the need for bounded rationality as a primary behavioral assumption (Hart 1990) and thereby lose the explanatory power of ex post contractual reasoning. In other words, property rights theory still omits the importance of ex post opportunistic behavior in contracting. Consequently, new property rights theorists overlook the importance of the employment relationship as well as softer aspects of the organization like power, capabilities and culture (Rajan and Zingales 1998). Another serious (arguably intentional, cf. Hart 1989) omission is the fact that new property rights theory fails to incorporate other aspects of the organization beyond ownership, e.g. structure and communication as independent determinants of the efficient contracting setting. Property rights theory simply mitigates the importance of internal processes, elevating the impact of ownership on efficiency far beyond e.g. organizational structures and information channels. Considering this, it is hardly surprising that e.g. the resource-based view and the process approach in M&A, which explicitly address the details of internal organization in M&A, have absorbed much of the attention and left property rights theory as an underlying philosophy. Lately, there have been attempts to broaden the theoretical shoulders of the property rights approach, addressing e.g. power and capabilities (Rajan and Zingales 1998), cooperation and corporate culture (Kreps 1990), learning (Foss and Foss 2000) as well as teams and the inalienability of human capital (Klein 1988), but explicit linkages to M&A or its shareholder value considerations still seem to be lacking. Furthermore, the inability to tackle ex post opportunistic behavior weakens the property rights perspective in analyzing M&A, where e.g. target company management have considerable undermining opportunities after the deal has been struck.

Beyond the presented reasons for the relatively weak positions of neoclassical economics, the incomplete contracting tradition and property rights theory, they seem to have one aspect in common that could be seen as a major obstacle to their popularity in M&A, or pragmatically oriented management research in general. Namely, all of them have been pegged inapplicable. Neoclassical economics suffers from its tight, unrealistic assumptions, bounded rationality suffers from vagueness and the lack of a working definition and property rights theories are pegged more as an underlying capitalist philosophy than operable theories of the firm (Mueller 1995, Williamson 1975, Foss and Foss 2000, cf. Hart 1989). All of these reduce their applicability to concrete real-life M&A problems.

Despite the fact that the transaction cost economics of Williamson (see e.g. Williamson 1975, 1985) has received considerable attention as an underlying theory to the M&A discourse, the lack of applicability criticism can be applied to it as well. Moreover, Ghoshal and Moran (1996, p. 13) argue that prescriptions drawn from transaction cost economics are likely to be not only wrong but also dangerous because of the assumptions and market economy logic on which it is grounded. These assumptions include the opportunistic human nature, i.e. the Macchiavellian man, and the requirement for efficiency and success (Ghoshal

and Moran 1996, p. 14)[56]. A similar message about the use of transaction cost economics in the academia is provided by the network centrality analysis in Chapter 2, which indicates that transaction cost economics, as a theory, is relatively more central to the discourse network than its explicit frequency of appearance would designate. The lack of applicability shows in the low number of articles, which hold transaction cost economics as a primary theoretical reference. Namely, transaction cost economics only ranks 7th in the theory network centrality analysis. This is not to say that transaction cost economics is unimportant, but only that it assumes a different role as a linking theory. Its centrality, not to mention the bridging ability, results (see Section 3.1.2 below) are reinforced by the large number of articles which include transaction cost economics as one of many theoretical perspectives.

Arguably, the M&A discourse is a phenomenon-centered discourse. Consequently, much of the literature automatically rejects vague, imprecise and inapplicable concepts and theories, which cannot be operationalized to the benefit of the analysis. As stated above, the more specific the phenomenon under investigation, the more seldom higher-level contractual assumptions (e.g. bounded rationality), underlying property rights philosophy or specific economic models with tight assumptions and narrow foci are incorporated in the analysis. While particularly agency theory and partly also transaction cost economics have succeeded at formulating acute points which can be applied to real-life phenomena, departing from the 'organizational economic' and descending to the 'organizational' level of analysis, other governance theories of the firm have remained rather abstract. This is visible in the fact that only some relationships between particular forms of M&A and particular governance theories can be made (e.g. transaction cost economics vs. vertical integration, agency theory vs. hostile takeovers and risk-reducing diversifying M&A).

Propositions related to key theories in M&A

Proposition 1: M&A is still first and foremost a management discourse, where competitive and resource based strategy paradigms play a significant role.

Proposition 2: The investigation of M&A incorporates a rich array of disciplinary orientations, giving reason to seek for a common denominator between the different approaches, i.e. the concept of the organization of economic activity.

Proposition 3a: M&A has received, for a management research topic, exceptional amounts of attention in economics, finance and industrial organization research. One major explanation for this is that M&A can be subjected to nomothetical and quantitative research approaches practiced within these fields.

[56] For a further analysis of the criticism on transaction cost economics, as well as other governance theories of the firm and their application to M&A, see Section 3.3.3 and Section 7.1.7 in Appendix 2.

Proposition 3b: The nomothetic/quantitative methodological orientation in M&A research has segregated finance, economics and industrial organization research as research fields separate from managerial and organizational approaches.

Proposition 3c: The segregation of research approaches has played a significant part in hampering interdisciplinary research. Nevertheless, the interdisciplinary research that has been published has received considerable attention and thus performing it more should be encouraged.

Proposition 4: Finance oriented M&A research has two distinct streams, corporate finance and capital markets, of which the prior actually seems somewhat more dominant.

Proposition 5: The governance theories of the firm, particularly agency theory and transaction cost economics, are primary and fundamental theoretical perspectives underpinning the M&A discourse.

Proposition 6a: Neoclassical economics, early incomplete contracting literature and property rights theory have not been as valuable in the M&A discourse. They seem to share the problem of inapplicability and inoperationalizability.

Proposition 6b: Industrial organization research has overtaken neoclassical economics, constrained by rigorous assumptions, in the M&A discourse as the primary theoretical basis for analyzing efficiency, wealth and market power effects.

Proposition 6c: The incomplete contracting perspective, as such, has not been useful in M&A research due to general vagueness and a lack of a precise definition for the key term 'bounded rationality'.

Proposition 6d: Property rights literature omits organizational issues, e.g. M&A processes. Additionally, the intuitively compelling linkage between property rights ideology and shareholder value ideology has not been established in the discourse. Thus, despite apparent potential, property rights theory remains an abstract 'quasi-philosophy' in M&A.

3.1.2 Identification, overview and propositions of linking theories in M&A research

The bibliometric study results presented in Chapter 2 incorporate an analysis of the Betweenness centrality of the various theories used in the M&A discourse. In general high Betweenness centrality and bridging ability of a member in a theory network indicate high cross-fertilizing ability (Wassermann and Faust 1993, Scott 1992). In other studies, high

Betweenness centrality has been assimilated especially with a theory's unleashed potential to develop the discourse in which it is able link other theories together (Oliver and Ebers 1998). Hence, such theories with high Betweenness are called 'linking theories' in the context of this study.

The Betweenness centrality results of the network analysis reveal up to five theories, which could assume the role of linking theories within the field, most importantly transaction cost economics, resource dependence and political power, but also theories of hybrid organization forms (alliances, networks, joint ventures, clans) and property rights theory. Of these five, resource dependence (e.g. Pfeffer and Salancik 1978) and transaction cost economics (e.g. Williamson 1975, 1985) have also been identified as key linking theories in a bibliometric analysis of the field of network research (Oliver and Ebers 1998, p. 566).

Transaction cost economics, with its explicit emphasis on discussing the boundaries of the firm, is a theoretical stream, which, despite the aforementioned difficulties of applying it to managerial reality or decision-making, is appealing to many more theoretical and academic exercises and applications. The concept of a (quantifiable) transaction cost (Williamson 1967), the markets-hierarchies (Williamson 1975) and markets-hybrids-hierarchies (Williamson 1985) dicho-/trichotomies, the further elaboration of *ex ante* and *ex post* governance (Williamson 1975), the formalization of the make-or-buy decision (Williamson 1975) and the recent comparison and contrasting of the governance and competence perspectives (Williamson 1999), to mention a few, are useful for finance, management, business, law and economics authors alike.

The linking role of dependence theory is equally understandable. Dependence theory explicitly addresses M&A, or the total absorption of a firm through acquisition or merger (Pfeffer and Salancik 1978, Chapter 6) as response to interdependence between firms. Pfeffer and Salancik (1978) spurred a wealth of literature providing empirical evidence to mergers of organizations that had resource interdependence, and thus underpin much of the strategy studies on synergies and relatedness. Resource dependence theory, advocating that M&A can often be a strategy for stability and not so much for profitability, also provides alternative explanations to M&A success studies and is definitely also a source for organizational behavior, corporate governance and human resource management-oriented M&A articles. It is thus hardly surprising that resource dependency theory, which is very seldom identified as a core theory in M&A articles (i.e. it assumed a low ranking in the theory frequencies), enjoys high citation statistics (Pfeffer and Salancik 1978 ranks 4th in the temporally adjusted most-cited text analysis) and an apparent role as a linking theory. This profile might be something resource dependence and transaction cost economics apparently have in common in a number of management discourses (cf. Oliver and Ebers 1998).

The role of political power as a linking theory is, again, similar. Much of what has been said about resource dependence in this context applies to political power as well. Pfeffer's (1992) book "Managing with Power: Power and Influence in Organizations" derives on resource dependence and the same human resource management principles. It discusses, among other issues, personal networking, language, pragmatic relationships, symbolic action, conflict, trust and reliance, which e.g. provide an interesting alternative to agency theory in the M&A related corporate governance discussions. The more generic discussions of the role of power in organizations (see e.g. Zald 1990a, 1990b) act as linking theories between human resource, sociology, management, business, social psychology and organizational behavior literature.

It is hardly surprising that theories of hybrid organization forms, e.g. networks, alliances, joint ventures and clans, are used as linking theories too. M&A and the hybrid literature share a common theme in the reorganization of economic activity in the sense that hybrid organization forms can be seen as alternative to M&A[57]. As with M&A, research on hybrid organization forms is often phenomenon, and not theory, centered. Since many of the same theoretical analyses that can be employed to analyze M&A can also be employed to analyze hybrid organization modes, it is only natural that the theories of hybrids are able to link between them. To pick an example, Steensma and Corley (2000) discuss the performance of technology-sourcing partnerships and focus on the interaction between partner interdependence and technology attributes. Here, the theory of alliance relationships (e.g. Contractor & Lorange 1988, Mowery et al 1996, Robertson and Gatignon 1998, Hagedoorn and Narula 1996), acts as a comfortable bridge between transaction cost economics (Williamson 1985), the resource-based view (e.g. Barney 1991, Grant 1996, Peteraf 1993 and Wernerfelt 1984), the knowledge-based view (Kogut & Zander 1992, 1996) and even neoclassical theory of the firm (Arrow 1962). Similarly, relationship and network literature (see e.g. Håkansson 1989, Håkansson and Snehota 1995) is keen on bridging between organization theory, transaction cost economics and so on. Very few articles, then again, take the theory of hybrids, if there even is one, as the sole theoretical basis, which partly explains a development of roles similar to transaction cost economics, resource dependence and political power.

The last, and perhaps the most problematic, is the role of property rights theory of the firm as a linking theory in the M&A discourse. One key finding in the bibliometric study is that neither traditional property rights literature (Coase 1960, Alchian and Demsetz 1972, Jensen and Meckling 1979, Furubotn and Pejovich 1972), the so-called new property rights theory (e.g. Hart 1990, Grossman and Hart 1986, Hart and Moore 1990) nor the traditional, abstract and very property rights minded Austrian Economics (e.g. Hayek 1937, 1945, Kirzner 1973,

[57] This does not imply that they cannot be seen as complementary. M&A can, for example, occur as a natural part of a network's evolution.

Foss 1997, Foss and Foss 2000) appear as important or central in the bibliometric analysis. An intuitive linkage between the key (also M&A related) shareholder value rationales and property rights thinking exists, but this has not realized to a significant extent in research. The shareholder value linkage, however, might give property rights a number of mentions, not as a primary and focal theory, but as a linking theory between management, law, finance and some industrial organization-related theories.

The case of property rights theory raises a more general observation related to linking theories, i.e. ones with high Betweenness centrality in the network analysis results. High betweenness centrality can be interpreted both as a weakness or a strength. On the one hand, these theories seemingly attract and link complementary research and can thus foster dialogue among otherwise often unconnected perspectives as seen above. On the other hand, it could be argued that the theories play a linking role because they are not fully developed to be applied directly to the research area at hand but, as a part of the unresolved paradigmatic discussions around the many theories attempting to establish a 'theory of M&A', are drawn in to this arena. The linking theory role can, however, be regarded also as useful for developing further the entire discourse and subsequently be interpreted as a sign that M&A research using the linking theories as key theoretical foci could possibly have much to offer. This should be acknowledged in future research aspirations[58].

Propositions related to linking theories in M&A

*Proposition 7:*Transaction cost economics is a primary linking theory in M&A, primarily due to ground-breaking conceptual innovations like the *transaction cost*, the *markets-hybrids-hierarchies dichotomy*, *ex ante and ex post governance*, the *formal make-or-buy setting* and the *governance vs. competence debate*.

Proposition 8: Resource dependence theory, with its fundamental intellectual input to the study of synergy and relatedness, acts as a key linking theory in M&A discourse, especially given the key role of corporate strategy theories.

Proposition 9: Political power, too, is a linking theory in the M&A discourse, most importantly because it discusses softer aspects in a way that is accessible to a wide array of disciplines.

Proposition 10: M&A literature and hybrid organization literature share much, e.g. the common theme of the reorganization of economic activity and the phenomenon, not theory, centered research orientations. Since the same theoretical approaches are used to scrutinize both, the are many links between hybrid organization form and M&A literatures.

[58] For an elaboration of the future research avenues, see Section 3.3.4 below

Proposition 11: The role as a linking theory can be interpreted as a sign of either weakness, signifying inability to act as a central theoretical focus, or strength, signifying potential for developing further the entire M&A discourse.

3.1.3 Identification, overview and propositions of antecedents in M&A research

An equally interesting issue as the theories and linking theories of the M&A discourse are the research subjects and foci, i.e. the antecedents to performing M&A research in the first place. As discussed above, this study analyzes the *antecedents for performing M&A research.* M&A research can just as well be motivated by an actual reason to perform M&A (antecedent to M&A occurring) as well as a number of other issues, e.g. the outcome of M&A project, a particularly interesting methodology and so on. Attention here is thus turned to which antecedents have motivated M&A research most, together with a brief speculation of how and why this is the case.

Clearly the most common antecedent in the M&A discourse deals with firm performance (the 'productivity, profit and performance' antecedent). While this is partly due to the fact that this antecedent category is very broad given that it engulfs productivity, profit *and* other performance measures, it is hardly surprising that it is this category that assumes priority. One reason is surely that it renders itself to a number of theoretical research angles. Productivity, profit and/or performance can be used as a measure just as well in economics and finance as it can be used in management and international business research, and quantitative measures are readily available from profit and loss statements, company databases, internal accounting systems, industry level statistics etc. Furthermore, this category can refer to a number of different kinds of performance, e.g. financial performance, market share performance, growth performance, product-level performance and industry performance just to mention a few. It is important to note that shareholder value performance is excluded from this category given that it is dangerous to make an explicit link between firm performance and share price performance due to the presence of a number of exogenous factors determining the share price of a company. In some sense, it is comforting and intuitively reasonable that firm performance still prevails at the top of the antecedents list.

The second most common antecedent is shareholder value, whose role in the M&A discourse is thereby somewhat more accentuated than in management research in general. A typical M&A shareholder value study deals with an event study measuring the stock market reaction to a diversifying merger, the shareholder value effect of M&A in general or the impact of cross-border technology-intensive acquisitions on high-tech companies share performance. Much like the performance measures, also shareholder value is a common measure in various types of management research, and it also renders itself to analyses using

nearly any theoretical angle. As an example, there are 13 theoretical angles that include six or more studies focusing on shareholder value outcomes in the bibliometric study of the M&A articles[59]. Arguably, shareholder value research has assumed such a principal role in the M&A discourse that it has focused M&A research as a whole more to the study of publicly listed companies whose share price changes can be observed objectively.

After these two rather generic antecedents of management research, a group of rather M&A-specific antecedents emerge. The third most common antecedent, still a rather generic one, is goal conflict and congruence. The prominent role of agency theoretic research perspectives is obviously partly responsible for its appearance so close to the top. Goal conflict and congruence is a major issue in M&A articles dealing with hostile takeovers, CEO retention, employee-management relations, corporate governance and board mechanisms as well as a remarkable share of the diversification-oriented literature, starting with Amihud and Lev's (1981) seminal article.

Among the next most common antecedents are antitrust, monopoly and cartels, diversification and conglomerates, uncertainty and change, geographical expansion and market entry as well as consolidation and merger waves. These are apparently M&A related topics whose relative dominance over some more generic research antecedents (e.g. competitive advantage, organizational learning, growth, R&D and innovation) can be easily understood. In short, anticompetitive concerns are central foci of the extensive economics-oriented M&A literature, M&A is a prime vehicle of conglomeration, post-merger process studies often focus on the organizational trauma, uncertainty and change, acquisitions are a clear and prominent market entry mechanism and merger and consolidation waves are a traditional object of enquiry as such[60].

The slightly lower ranking of hostile takeover protection and resistance as an antecedent, then again, is partly explained by the exclusion of pure takeover articles, i.e. ones that do not mention either mergers or acquisitions, from the M&A article population in the article selection phase of this study. However, there are two antecedents whose particularly low ranking demand some further attention. Firstly, it seems that despite a significant increase in the level of demerger activity in 1980s and 1990s (Kirchmaier 2001) and the resource-based view acts as a convenient theoretical backbone for corporate refocusing literature, the attention these related perspectives enjoy in the 1990s M&A discourse is rather limited. It

[59] This is a diverse list including theories of hybrid organization modes, legal and institutional frameworks, culture and HRM theories, resource based and competitive strategy, the knowledge based view, internationalisation, organizational behavior, capital markets, corporate finance, agency, transaction cost economics and property rights.

[60] One comment about the consolidation and merger wave antecedent has to be made. The articles in the 1990s, perhaps surprisingly, deal much more with industry level merger waves and consolidation than with general merger waves. Considerable attention has been paid to e.g. the consolidation of the US hospital and retail banking industries as well as the industry-specific merger waves caused by European integration.

seems that despite speculation, demerger-type of activities are still the exception and have not become the rule (Neary and O'Sullivan 1999). Secondly, despite a) the considerable attention in trade journals and the media and b) earning a position as one of the established hypotheses of especially takeover activity but also M&A in general (Roll 1986), managerial hubris and empire-building have not been central to many articles in core academic journals. The appearance of Roll's 1986 seminal article high up in the citation analyses demonstrates that the hubris explanation is often-mentioned in M&A literature, but has not enjoyed wide and central attention in empirical M&A research.

A further interesting issue about the antecedents and the role they assume in the M&A deals with the configurations or clusters in which they appear. As demonstrated in section 2.3.4, the clusters are pointed out by the theory-antecedent co-occurrence analysis. The most obvious cluster consists of agency theoretic issues involving inter-*stakeholder* group issues and differing *incentives*. The goal conflict and congruence antecedents co-exist often with commitment, hubris and empire-building as well as hostile takeover protection and resistance. A second cluster consists of *business objectives* in the sense that it consists of the three easily combinable and comprehensible M&A issues of performance (the productivity, profit and performance antecedent), growth and geographical expansion and market entry. Thirdly, a cluster concentrating on *organizational learning* in the context of e.g. the introduction of new technology exists, given that organizational learning, R&D and innovation and immaterial resources combine heavily. Finally, two less well-demarcated clusters consisting of a) central strategy related antecedents (competitive advantage and synergy, productivity, profit and performance, diversification and conglomerates and shareholder value) and b) efficiency- and economic-minded industrial organization antecedents (antitrust, monopolies and cartels, wealth and economic efficiency and consolidation wave) exist, even though these two are not particularly conspicuous.

Propositions related to key antecedents in M&A

Proposition 12: Productivity, profit and performance is the most common antecedent given that it engulfs all studies dealing with basic firm-level success and incorporates a wide array of quantitative and qualitative measures.

Proposition 13: Shareholder value is the second most popular antecedent in M&A research, because it is easily quantifiable, has been employed from numerous theoretical perspectives and M&A research concentrates on publicly listed companies.

Proposition 14: Among the M&A research antecedents, the generic management research antecedents such as firm performance, shareholder value and goal congruence outweigh antecedents specific to the M&A discourse such as antitrust, market power, diversification/conglomeration, takeover resistance and merger waves.

Proposition 15: Five M&A research antecedents appear in conspicuous clusters, which can be characterized as:

a) 'Stakeholder incentives' cluster
b) 'Business objectives' cluster
c) 'Organizational learning' cluster
d) 'Strategy antecedent' cluster (less prominent)
e) 'Efficiency and economics' cluster (less prominent)

3.1.4 Towards a new picture of the M&A discourse

As briefly discussed in the summary of the bibliometric findings in Section 2.3.5, the research perspectives on M&A identified in the bibliometric analyses of Chapter 2 follow rather discrete research streams, which fall reasonably well in line with pre-existing categorizations of M&A research into schools of thought, one of which is the division into the capital markets school, the strategy stream, the organizational behavior school and the process school (Haspeslagh and Jemison 1991). Some research streams, however, seem to be surprisingly poorly represented in the bibliometric results and some of the schools proposed in earlier studies seem to consist of various separate streams.

In order to determine what potential novelties the bibliometric study is able to reveal concerning the structuring of the M&A discourse, the differences between the bibliometric findings and the current state of knowledge has to be scrutinized more carefully. Here, the analysis concentrates on the comparison of the bibliometric results to the conventional view of M&A presented in Appendix B. The aim is to determine *what is similar, what is missing*, *what is different* and *what is more*.

The purpose of this investigation is to exploit the findings that Chapter 2 revealed about the *de facto* structuring of the M&A discourse to the purpose of developing a new, governance perspective to M&A. Therefore, it can be argued that the discussion should be focused increasingly on the differences between the conceptual and bibliometric findings, and not so much on which aspects of previous knowledge the bibliometric studies confirm. By identifying differences between the bibliometric studies and existing categorizations of M&A research, some acute and underdeveloped avenues, mainly in terms of theory but also in terms of shared issues (i.e. antecedents), can be pointed out. These aspects then constitute a part of the substance of a new perspective to M&A, i.e. they are used as a way into the governance perspective of M&A presented in Section 3.3. Hence, a brief overview of the similarities between the bibliometric study and the existing M&A categorizations (with emphasis on Haspeslagh and Jemison 1991) is given, together with a close investigation of the new findings.

What is similar?

As was preliminarily suggested already above, there is a conspicuous similarity between the results of the bibliometric analyses and some particular research avenues presented in other overviews of M&A research (e.g. Haspeslagh and Jemison 1991, Weston, Siu and Johnson 2001, Larsson and Finkelstein 1999 and Cording, Christmann and Bourgeois 2002).

Namely, there seems to be an agreement over the significant positions of a) strategic management, b) finance-oriented, c) economics, d) process and e) culture/HRM research (cf. Table 14). The overviews listed in Table 14 have emphasized these views somewhat differently. For example, only Larsson and Finkelstein (1999) iterate explicitly between economics and finance research, and only two studies (Larsson and Finkelstein 1999, Haspeslagh and Jemison 1991) have not listed agency as a separate school. In any case, there nevertheless seems to be some general appreciation of the aforementioned research avenues.

Table 14: The representation of M&A research streams and schools of thought identified in recent overviews of the field according to the results of the bibliometric study.

Cording et al. 2002	Larsson and Finkelstein 1999	Weston et al. 2001	Haspeslagh and Jemison 1991
Overpayment	Strategic management	Process	Capital markets
Agency problems	Economics	Strategy	Strategy
CEO hubris	Finance	Finance	Organizational behavior
Top management complementarity	Organizational Research	Agency problems	Process
Experience	Human resource management	Hubris	
Employee distress		Redistribution	
Conflicting cultures			
Process			

Well represented in bibliometric study

Not well represented in bibliometric study

What is missing?

Table 14 above also illustrates some of the research streams that are missing from the bibliometric results that, judging by the overviews of the recent M&A literature, should be present. In addition to entire research streams that are not well represented in the bibliometric

analysis, some particular research angles and contributions within the better-represented research fields can also be identified to be missing.

Most importantly, it seems that classical organization theory and research, as well as some of its tenets to culture research, are lacking. Seminal organization theory authors and their works (e.g. March and Simon 1958, Argyris and Schön 1978, Perrow 1972) and authors discussing the cultural aspects of M&A (e.g. Sales and Mirvis 1985, Buono, Bowditch and Lewis 1988) do not appear high up in the citation analyses. As discussed above, the lack of organization theoretical contributions can be at least partly be assigned to the inapplicability of central theoretical concepts such as bounded rationality (Simon 1951), but this is not felt to be a sufficient explanation. Research focusing on the organizational aspects of M&A integration (e.g. Searby 1969, Yunker 1983, Shrivastava 1986 and Pablo 1994) is not well represented in the bibliometric analyses either. As is seen in the analysis of theory-antecedent pairings and clusters, organization theory, culture and HRM theories and uncertainty and change research form a clear research area, which received considerably more attention in the 1990s. Research in this stream is not, however, cohesive, and it, too, sometimes lacks interdisciplinary orientation in that it "does not integrate important notions drawn from the strategy and finance literatures" (Larsson and Finkelstein 1999, p. 2, see also Schweiger and Walsh 1990). The more general proposition of this study that integrative and interdisciplinary research is valuable might apply particularly well here. In other words, research integrating the soft sides of M&A with harder finance and/or strategy considerations might be in order.

In order to apply organization theory to the M&A discourse one could, instead of highlighting a human resource and/or relations oriented organizational behavior school, integrate the key underlying messages regarding e.g. the employment contract (e.g. Simon 1951) from this discussion to a broader framework that also considers organizational economics. A holistic perspective concentrating on the governance theories of the firm could integrate these issues and rise to prominence as an equally significant ‘theory’ or ‘school’ of M&A as the capital markets, strategy or process streams.

Another conspicuously missing issue is that empire-building and CEO hubris have not remained important research foci. Roll’s (1986) seminal article is well cited, yet the ‘hubris and empire-building’ antecedent to M&A research falls near the bottom of the network analysis antecedent frequency list. Managerial hubris, as such, has not remained a key concept, but the ample research on goal conflict and congruence, much of which relates to the owner-manager relationship, has certainly been influenced by the hubris discussion. For example, much of the currently popular corporate governance literature admits the central role of managerial hubris, albeit with varying emphases (Weston, Siu and Johnston 2001, Monks and Minow 2002).

Furthermore, there are some contributions within the well-represented fields of strategy, culture and human resource management, which have not received a significant position in the M&A discourse according to the citation analyses even though they, intuitively and according to the many overviews, should. It is curious that e.g. some key resource based view contributions (e.g. Hamel and Prahalad 1990, Rumelt, Schendel and Teece 1994, Walter and Barney 1990) do not appear in the citation analyses. Likewise, Hofstede's (1980, 1990) much cited national culture analyses or M&A related corporate culture articles (e.g. Buono, Bowditch and Lewis 1985, Buono and Bowditch 1989, Sales and Mirvis 1985) do not appear any higher in the citation analyses than they currently do[61].

There are also some strands of research whose rather surprising absence from particularly the citation analysis results could be at least partly explained by the fact that they have only recently been affixed to M&A research. These include top management complementarity (e.g. Shanley and Correa 1992, Datta 1991, Walsh 1988), M&A experience (e.g. Haleblian and Finkelstein 1999, Singh and Zollo 1998) and trust and social capital (Coleman 1990, Putnam 1993, Fukuyama 1995). These can be argued to be up-and-coming research avenues, which have only taken off in the 1990s. This is supported by e.g. the observation that the oldest top management complementarity article (Walsh 1988) appears high up in the most-cited article analysis.

Finally, missing from the bibliometric analyses are also a number of theory of the firm related perspectives, namely property rights theory, early incomplete contracting and neoclassical theory of the firm as well as the resource dependence perspective. In Section 3.1.2, property rights and resource dependence theories are proposed to act as linking theories much in the same way as much-cited transaction cost economics. Neoclassical theory of the firm and early incomplete contracting, then again, can argued to suffer, despite their intellectual and intuitive appeal, from their lack of applicability (see Section 3.1.1).

What is different?

In addition to the aspects that are somehow perceived missing from the bibliometric analysis, there are also multiple theoretical angles and issues within e.g. the strategy, finance and process streams that seem to be somewhat more multifaceted or complicated than is generally acknowledged.

Firstly, there is a striking bipartite balance between the competitive strategy perspective (or 'positioning school' as coined by Mintzberg, Ahlstrand and Lampel 1999) and the

[61] It must be noted, however, that Anthony Buono appears as 35th on the most cited first author list, the Buono, Bowditch and Lewis (1985) article in *Human Relations* is the 38th and the Buono and Bowditch (1985) book the 51st most-cited text. This strand of research is thus represented in the analysis, but is not (yet) as high up as one might assume.

resource-based view (RBV). While the resource-based view can be argued to have dominated the strategy landscape through the 1990s, the influence of Michael Porter's (see e.g. 1980, 1985, 1987, 1996) competitive literature has been persistent and matches the impact of the RBV in the M&A discourse. Both the competitive strategy literature and the RBV have particular issues, in addition to their general corporate strategy statements, that appeal to M&A writers. For example, Porter (1987) has applied his thinking to build around the concept of synergy and argued for the relevance of managing a portfolio of, not only products, but also firms and strategic business units. This has apparent strategic implications on M&A and particularly diversification. Likewise, the resource-based view discusses relatedness as well as competence and resource transfer extensively, both of which are key M&A issues. The popularity of both strategy perspectives is manifested by the high rankings of the 'synergy and competitive advantage' and 'diversification and conglomerates' antecedents in the network analysis.

Secondly, the role of corporate finance theory seems to match if not exceed the significance of capital markets theory in the finance-oriented M&A research. This is somewhat contrary to Haspeslagh and Jemison (1991), who emphasize the capital markets orientation. Corporate finance authors and economists (e.g. Allen Berger, David Ravenscraft, Paul Asquith, Randall Morck and Andrei Schleifer) rank highly in the citation analyses and corporate finance theory also seems more frequent in the theory frequency statistics of the network centrality analysis. The prominence of shareholder value as a research subject and event studies as methodology might be partially responsible for the initial impression of the significance of the capital markets perspective. As an intellectual basis for the M&A discourse, corporate finance theory seems to hold an equally strong if not superior position.

Additionally, the process stream is not simply about a chain of events preceding and following an M&A announcement. The discussion between the traditional and novel types of M&A processes (Jemison and Sitkin 1986, Haspeslagh and Jemison 1991) has been complemented with a discussion of the strategy process (e.g. Mintzberg, Quinn and Ghoshal 1998) and the takeover process (e.g. Eckbo 1983, 1985, Weston et. al 2001).

What is more?

Despite the many somewhat surprising and subsequently interesting points raised about what is similar, missing and different in the bibliometric results compared to the existing knowledge about the state of the M&A discourse, the most fruitful inquiry concerns the question *what is more*, i.e. what is there in the bibliometric results that has not been identified and acknowledged before.

In essence, the bibliometric analysis raises two major issues, which can be considered novel contributions to our understanding of M&A discourse. Firstly, it seems that yet another categorization of the schools and streams of the M&A discourse, one that slightly refines and adds to the previous ones, is needed. Secondly, it seems that a governance perspective, embodied by the governance theories of the firm that play an important part in the M&A discourse, could potentially offer a fruitful holistic perspective both to researching and performing M&A. The governance theories of the firm, in their various levels of significance and different roles they assume, arguably present the most interesting finding of the bibliometric analysis.

Even though the recent M&A categorizations by e.g. Cording et al. (2002), Larsson and Finkelstein (1999), Weston et al. (2001) and Haspeslagh and Jemison (1991) have helped understand the various research perspectives to M&A, the bibliometric study raises some concerns about the need for yet another, slightly refined categorization of M&A streams. The conceptual analysis of the M&A literature, which bases not on the bibliometric analysis but on the analysis of the M&A literature and previously written overviews, utilizes a slightly altered version of Haspeslagh and Jemison's (1991) M&A schools[62]. The bibliometric analysis has provided converging results from both the intellectual bases (in the form of the citation analysis results) and the theoretical and topic-related cornerstones (in the form of the network analysis results) indicating that some further alterations to this categorization need to be made.

The expression 'capital markets school' implies that capital markets theories and literature[63] would be dominant among finance oriented M&A research. As identified above, corporate finance literature and its viewpoints[64] are an equally if not more significant part of the M&A discourse. Along the lines of Larsson and Finkelstein (1999), it would arguably be more justified to speak of a 'finance stream' in M&A research, with possibly two different orientations, namely 'capital markets' and 'corporate finance'. Furthermore, it must be acknowledged that these areas of corporate finance and capital markets are not totally separable and broad-level finance experts can also be coined 'financial economists'. Here, however, the distinction between finance and economics is made.

The existence of a strategic school or a 'strategy stream' in M&A research seems self-evident. As identified in the bibliometric study, this stream is relatively similar in overall

[62] i.e a division into the *capital markets stream*, the *strategy stream*, the *humans and organizations stream* and the *process stream.* This is very reminiscent of Haspeslagh and Jemison's (1991) division into the capital markets school, the strategic school, the organizational behavior school and the process school.

[63] Concentrating on primarily on the financing of M&A, the efficient markets hypothesis, stock market reactions, free cash flow measures, the capital asset pricing model, the market for corporate control etc., see Appendix 1 and Haspeslagh and Jemison 1991, p. 293.

[64] e.g. financial restructuring, debt/equity considerations, investment banking, anti-takeover provisions, non-cash flow based corporate valuation techniques etc.

weight to the finance stream. Given the plentitude of strategy research and the fact that nearly everything can be called strategic[65], the more interesting question deals with what should be included under this heading, what should be placed under some other major heading and what deserves a heading of its own. The strategy stream can be perceived to operate at the level of the firm and deal mostly with firm-specific outcomes (Haspeslagh and Jemison 1991) with some inputs to industry level analysis. If this demarcation is accepted, it sets some acute boundaries for the school. It implies that analyses at the level of the global economy, national economy and industry level efficiency and wealth effects should be excluded. It would also imply that analyses dealing with sub-firm level issues, e.g. organizational change processes or M&A ramifications at the level of the individual should be excluded. The strategy stream would thus, as seems logical, be focused on core firm-level M&A research antecedents, e.g. the creation of synergies, the impact on competitive advantage, the impact on profit, productivity and performance using traditional strategy literature dealing with competitive strategy, resource based strategy, interorganizational strategy and industry level strategy.

It is evident that the M&A analyses operating on the level of the industry and higher must be accounted for. This analysis, to a very large extent, consists of economics and law flavored reasoning concentrating on e.g. wealth effects, efficiency, market power, antitrust considerations price level impacts and so on. The research capitalizes on traditional economics, law and industrial organization theories and can thus be pegged, the 'economics and law stream'. Here, it is crucial to make a distinction between the economics and law stream and governance theory. The economics and law stream is perceived to consist of efficiency oriented analyses of discrete M&A issues. The theories used in these articles are primarily pure neoclassical economics and industrial organization theories, not the institutionally and organizationally aware governance theories of the firm.

An overwhelming majority of the legal M&A literature has macroeconomic economic efficiency as its main concern. Both disciplines are interested in monopoly, market power and antitrust issues and economists are frequently consulted in designing M&A related legislation. In the bibliometric analysis, several modern economics and financial economics authors appear near the top. The network analyses, then again, indicate that industrial organization and legal frameworks, as well as the aforementioned antecedents dealing with wealth effects and market power, enjoy considerable attention outside the realm of financial M&A research. The economics and law stream seems worthy of a separate heading.

Arguably, a holistic governance perspective to the M&A resembles both the strategic and the economics and law streams. The economics background of the governance theories is responsible for conceptual overlap with the economics and law stream as it is described

[65] Arguably, the strategy paradigm is one of the more scattered ones in management research and exemplifies the problems associated with the paradigm proliferation problem (McKelvey 1997).

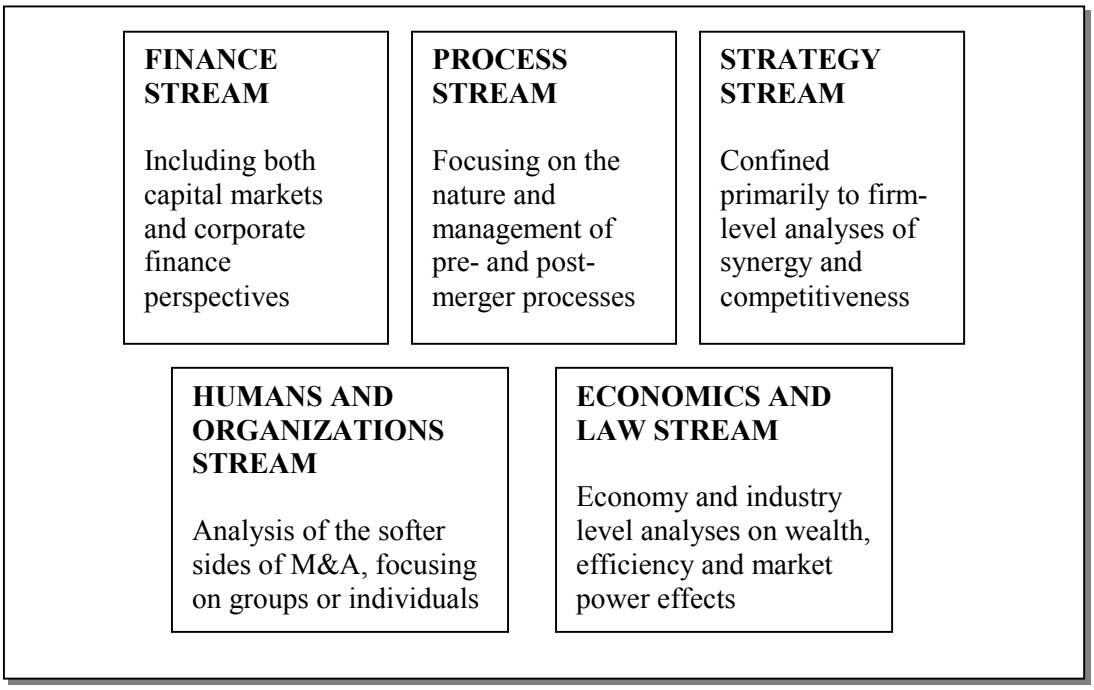
above. The use of the concept of the theory of the firm has, then again, become increasingly popular in strategic management discourse. The governance perspective to M&A and the strategic literature also have the primary unit of the analysis, the firm, in common.

Given the aforementioned foci on firm-level and macroeconomic issues, the level of the individual deserves distinct attention. In the citation analysis, culture, HRM and organization theory authors were not very well represented. In the network analysis, however, culture and HRM theories and organizational behavior theories, as well as related antecedents, e.g. uncertainty and change, goal conflict and congruence and organizational learning enjoyed considerable attention. Most notably, culture and HRM theories enjoyed more attention than organization theory and behavior literature, whose role in the bibliometric study was generally subdued. The general impression from the bibliometric study was that analysis of the 'softer side' of M&A represents a rather concurring set of literature, in which the level of the individual plays an important role. As is indicated in the conceptual analysis of the M&A literature, it would thus seem appropriate to peg this M&A literature the 'humans and organizations stream'.

What is left is what Haspeslagh and Jemison (1991) highlight in their research, i.e. the process stream, which emphasizes the role of pre- and post-merger processes in successful M&A management. Both Haspeslagh and Jemison's 1991 book and Jemison and Sitkin's 1986 seminal article are well represented in the bibliometric studies. The process stream has deep roots (e.g. Mace and Montgomery 1962) and has recently gathered more weight with considerable research attention being paid to the role of a wide array of post-merger processes in M&A success (see e.g. Shrivastava 1986, Larsson 1989, Larsson and Finkelstein 1999, Weber and Pliskin 1996, Robbins and Stylianou 1999, Weber and Ganzach 1995 and Olie 1994). The management of the M&A process can be seen to be influenced by financial, strategic, human and organizational aspects respectively, and it would thus seem unsuitable to include it in any of these research streams. Thus, along the lines of Haspeslagh and Jemison (1991), it seems logical to include the 'process stream' as a separate conceptual entity.

Figure 3 summarizes the new proposed categorization of M&A research embodied in the five distinct research streams, together with some of their key characteristics.

Figure 3: A new proposed categorization of the M&A discourse into five distinct research streams



So far, this study has succeeded at highlighting the role of the governance theories of the firm in the M&A discourse by:

a) Identifying the explicit dominance of primarily agency theory but also transaction economics in the M&A discourse
b) Identifying that despite the central role of agency theory, agency theoretic research antecedents, i.e. 'the stakeholder incentives' antecedents, appear in a very segregated cluster
c) Identifying that transaction cost economics, while it is extremely well cited, is not as frequent and central in the M&A discourse as the citation details might suggest, but assumes the role of a linking theory, fertilizing interdisciplinary research combining multiple theoretical perspectives and research antecedents
d) Identifying that property rights theory, too, assumes a significant linking theory role even though it is not frequently used as a central theoretical focus due to its fuzzy and intangible construction as more of a philosophy than a rigorous theoretical framework
e) Identifying that two important backbones against and along which the governance perspective to strategy research has developed, namely the early incomplete contracting perspective and neoclassical theory of the firm, enjoy less and less direct attention in the M&A discourse. This seems to be due to inapplicability and a general incompatibility with the empirical-quantitative M&A research mindset of the 1980s and 1990s.

Even though some texts (e.g. Cording et al. 2002, p. 13-14, Weston et. al 2001, p.146-148) have noted the role of agency theory in the M&A discourse, its dominance in the bibliometric analysis is overwhelming and can be considered a significant finding. The dominance of Jensen's (1976, 1986, Jensen and Ruback 1983, Fama and Jensen 1983) and Williamson's (1975, 1985, 1996) contributions as intellectual underpinnings to the M&A discourse should raise considerable interest in applying and utilizing these apparently closely related theoretical frameworks in more empirical M&A research and subsequently, M&A decision-making.

It is interesting that the literature and authors focusing on takeovers (e.g. Eckbo 1983, 1985) appear to be somewhat separate from the literature and authors that assume a generic M&A perspective such as the one employed in this study (see Introduction and Section 6.1). Especially the finance-oriented literature seems to be more interested in takeovers and measuring their outcomes. Could it be that the mindset and tools employed by the finance contributors necessitates a tighter, more acute demarcation of the phenomenon under investigation? Could a governance perspective of M&A, using the governance theories of the firm as its tools, engulf both the findings of the finance-oriented literature and a wider conceptual definition of M&A in general? In other words, a holistic governance approach could possibly utilize strengths of the various governance approaches and their varying disciplinary emphases to build a new, stronger picture of the entire M&A research landscape, not only a part of it.

It could be argued that, combined and with different roles suiting their nature, the various governance theories of the firm could constitute a holistic governance perspective of M&A. Using basic transaction cost economics reasoning to answer organizational boundary questions, engulfing stakeholder group and incentive related considerations using agency theory, employing property rights theory as an underlying philosophy reinforcing a shareholder value orientation, acknowledging organizational realities put forward by the incomplete contracting literature and its organization theory antecedents, using the simple logics of neoclassical economics for acute everyday calculation questions and, perhaps, incorporating a resource dependence perspective to relate to the world of resource based strategy would make sense.

In essence, this means that a holistic governance perspective would be able to:

a) Substitute for the relative lack of organizational behavior and theory considerations when complementing the finance, HRM, strategy and process perspectives to M&A, and/or

b) Act as an integrative theory engulfing necessary inputs from the finance, strategy, organizational behavior, HRM and process perspectives while concentrating on the

essentials of M&A, namely the effect an M&A has on the boundaries, existence and internal organization of the firm.

Before any of this, however, is possible, the concrete linkages between the governance perspective and various aspects of M&A need to be scrutinized. Without a careful analysis and listing of the ways in which the various theories and approaches could potentially be used to the benefit of M&A research and decision-making, the governance approach risks being left a high-level, abstract paradigm without much meaning or use. Thus the attention is next turned to investigating the linkages between the M&A and governance paradigms in general, as well as their issues, intellectual traditions and pragmatic business contexts. The new categorization of M&A research streams, characterized by the aforementioned refinements made to the previous categorizations on the basis of the bibliometric study, is used in this investigation.

Propositions related to a new picture of the M&A discourse

Proposition 16: There is a general consensus over the significant positions of strategic management, financial, economics, process and culture/HRM research in M&A research.

Proposition 17: Classical organization and social psychology theory and many of its upshots to M&A, e.g. culture and post-integration management, managerial hubris, social capital and experience, enjoy conspicuously little attention. The same applies to certain contributions of the resource-based view to corporate strategy.

Proposition 18: There is a conspicuous bipartite balance between competitive and competence-based (primarily resource-based) strategy on the one hand, and between corporate finance and capital markets literature on the other. Thus the competence perspective does not dominate strategic M&A research and the capital markets perspective does not dominate financial M&A research.

Proposition 19: It seems that yet another categorization of the M&A discourse, consisting of the strategy stream, the process stream, the finance stream and the economics and law stream, is needed.

Proposition 20: The governance theories of the firm, in their various levels of significance and different roles they assume, present the single most significant finding of the bibliometric analysis.

Proposition 21: The governance theories of the firm could potentially offer a fruitful holistic perspective to the analysis of M&A. This perspective could engulf necessary inputs

from the finance, strategy, organizational behavior, HRM and process perspectives while concentrating on the effect an M&A has on the essential questions of the boundaries, existence and internal organization of the firm.

3.2 Linkages between M&A and governance paradigms

In order to be able to gather substance for a holistic governance approach to M&A, the linkages between these two concepts, i.e. 'M&A' and 'governance', the latter of which refers to the holistic use of the ideas of the governance theories of the firm, need to be analyzed further. 'M&A' and 'governance' can be argued to resemble more paradigms or sub-paradigms in management research than e.g. theories or models. Therefore, this section attempts at tackling the paradigmatic linkages between these two approaches at three levels. This is done firstly by shortly outlining predominantly Kuhnian (Kuhn 1962) paradigm thinking and its application to the categorization and discussion of linkages between M&A and governance. Secondly, the linkages are analyzed and discussed at three levels, i.e. the level of traditions and intellectual foundations, the level of academic cross-fertilization and the level of factual managerial and pragmatic issues. Finally, the criticisms and shortcomings of the governance perspective in M&A are outlined, together with the impacts they have on the making of a stronger linkage between the two.

3.2.1 About paradigmatic linkages

The aim of this section is to clarify the epistemological shaping of the present attempt to restructure the M&A discourse by introducing a governance approach. In other words, the research performed in this study attempts to integrate, in many ways, a holistic governance approach to management research and the M&A discourse. The general notion of 'a paradigm', although often sloppily or simply wrongly used, is a useful concept when exploring the interlinkages of two such social scientific avenues as "M&A" and "the governance theories of the firm". The M&A paradigm and the governance paradigm can be argued to converge on a number of levels of analysis, evidence of which is presented in Sections 3.2.2-3.2.4.

But first, it is necessary to explore the notion of a paradigm in order to avoid the very sloppy and incorrect use that is criticized above. The paradigm discussion in the study is based on two different views of scientific paradigms, a Kuhnian (Kuhn 1962, 1970) perspective and Burrell and Morgan's (1979) groundbreaking organizational sociology perspective (Jackson and Carter 1991).

What is a paradigm? Kuhn (1962) has provided a seminal definition and analysis of the nature of a paradigm. According to Kuhn, a paradigm is an approach to inquiry in which:

> "Accepted examples of actual scientific practice--examples which include law, theory, application and instrumentation together--provide models from which spring particular coherent traditions of scientific research" (Kuhn 1962, p. 10)

Paradigms seem to share two characteristics, namely that:

> "Their achievement was sufficiently unprecedented to attract an enduring group of adherents away from competing modes of scientific activity. Simultaneously, it was sufficiently open-ended to leave all sorts of problems for the redefined group of practitioners to resolve." (Kuhn 1962, p. 10)

Kuhn's major contention was that scientific communities and their research are influenced by the beliefs, values and attitudes of the researchers. He also argued that all well-established scientific research areas, i.e. so-called 'mature sciences' consist of some or several recognized paradigms (Kuhn 1970, pp. 49-50). Paradigms exist in competition with each other, and there is a constant paradigmatic struggle over dominance in the contemporary scientific dialogue in field. The strongest paradigm, i.e. Kuhn's 'normal science', which may change and shift over the course of time, dominates the psycho-sociological landscape within that research field, which, thus, is also influenced by the values, attitudes and beliefs of the proponents of that particular paradigm (Kuhn 1970, p. 23-27).

Furthermore, paradigms have been argued to be incommensurable in the sense that dialogue between different paradigms would be somewhat impossible (Kuhn 1970, p. 149, Stegmüller 1976). The paradigm inconsummerability approach thus argues that different paradigms, while they establish themselves in the course of time, grow separate to the extent that they are only able to interact on a rhetorical level without genuine, scientifically neutral conversations (Stegmüller 1976, p. 147).

Karl Popper (1970) has argued against the incompatibility of scientific paradigms. To Popper, rationality and rational truth are objective scientific conditions, which direct all scientific research through a pure philosophical metalanguage. Researchers advocating different paradigms have the same goal, namely rationality-seeking, and share certain scientific principles as well as a generic scientific world view.

Also Burrell and Morgan (1979) have advocated the Kuhnian perspective, adding that the notion of a sociological paradigm relies on number of assumptions about the nature of social scientific enquiry. Thus both Popper's (1970) and Burrell and Morgan's (1979) extensions to Kuhnian thinking discuss, among others, the assumptions and demarcations of research. Most importantly, Burrell and Morgan advocate that there can be a dialectical relationship between researchers within two or more simultaneously existing paradigms contributing to the development of all of these.

From the viewpoint of this study, these insights into the nature of paradigms are important. The governance paradigm has a clear influence on the structuring of the M&A discourse. A bureaucratic and mechanistic view of M&A, represented by and large by the finance and economics orientations is complemented with more psychologically and sociologically oriented approaches discussing human interaction, societal impacts as well as stakeholder group dynamics (see Appendix 1 and Section 3.1.4). In M&A research, it is precisely these types of 'disciplinary orientations' or 'sub-paradigms', rather than theories, which have battled each other out, manifesting the incompatibility or paradigm inconsummerability approach. Interdisciplinary research is thus, despite the interdisciplinary nature of the research area, i.e. M&A, itself, relatively scarce.

The governance paradigm, then again, could potentially act as an integrative element in the M&A discourse. A purer metalanguage and the more conceptual inclination of the governance paradigm could provide a bridge to what Popper (1968, 1970) describes as the common scientific rational truths and a conceptual shared world view. Burrell and Morgan's (1979) assumptions and functionalist paradigm of inquiry, then again, can be seen to engulf both the M&A and the governance sub-paradigms or approaches comfortably. This reinforces the intuitive impression that arose during the conceptual study that these worlds are actually metatheoretically and paradigmatically very close to each other. This study adopts the view of Burrell and Morgan (1979) that multiple incommensurable paradigms can exist both simultaneously and in perpetuity, and that, there is, indeed, possibility for mutual development through dialectical interaction between the two paradigms of 'M&A' and 'governance'

The investigation of the M&A and governance TOF paradigms is essentially interested in discovering the metatheoretical characteristics of these research areas. A research approach, which aims at understanding paradigm thinking and working at a paradigmatic level thus seems a appropriate for the research aims of this study. The implication is that this study attempts to discuss the linkages between the two paradigms at varying depths of analysis, including deep paradigmatic thinking.

How can paradigms be linked? Popper's (1970) arguments about metatheoretical level linkages, e.g. rationality and language, are a definite foundation for such linkages to exist.

Intuitively speaking, there are, at least three other levels, where paradigms are, if not linked, at least co-existing and interacting through their influence on people. Firstly, there are linkages in shared traditions and intellectual sources. Different paradigms and approaches can share a history, a tradition or an intellectual literal cornerstone. Secondly, paradigms can be linked through their use cross-fertilizing use in the academia. These first two types of linkages can often be revealed using bibliometric analyses. The third category is linkages that take the form of shared views on factual affairs. This is the realm closer to organizational reality in which e.g. empirical research and management consulting operate.

In this study, all the aforementioned levels of linkages are utilized. The linkages in tradition and intellectual underpinnings, linkages through academic cross-fertilization and linkages through shared views on factual matters between the M&A and governance paradigms are explored. Firstly, the shared roots of the two paradigms in the analysis of the concept of the organization of economic activity are investigated (see e.g. Williamson 1985, Madhok 2002). Secondly, the ways in which the governance and M&A discourses have cross-fertilized in academic arenas are explored. The focus is on identifying both general level disciplinary interaction and discussion as well as on identifying specific contributions, questions and other linkages between specific governance theories of the firm and the M&A discourse. Thirdly, linkages in the way M&A and governance theory approach factual M&A business and management affairs are outlined.

All this is done with the aim of attempting to reduce much of the M&A discourse to a simple cognitive framework, in which governance insights play a major role. Accomplishing this can be argued to have potentially great value to M&A research, given that it directly serves the need to control the number of paradigms for purposes of scientific cohesion and clarity. It has been argued that there are far too many scientific paradigms and that their division is artificial, given that they even both social and natural sciences can be seen to share the same microstate idiosyncrasy assumptions (McKelvey 1997). In other words, there is a need for more holistic research approaches, an example of which is the 'political science' or 'social science' approach to economics, management, sociology and finance that prevailed in the first part of the 20th century[66]. Conceptualizing a common paradigm for all of governance theory of the firm related literature serves as an antidote for the argued proliferation of scientific paradigms.

The underlying theoretical paradigms are, at least, undoubtedly the same. The concentration of different theoretical perspectives on one research domain brings ample opportunity for cross-fertilizing dialogue and learning. The broad forum of M&A research we are facing provides an opportunity for tackling and testing phenomenon-oriented predictions

[66] Arguably, the *Journal of Political Economics*, with its considerable historical traditions and sustained popularity, is the flagbearer of this wide paradigmatic approach to economic social sciences.

from multiple research angles. The M&A discourse, in this respect, has mirrored well the multi-paradigm problem presented by McKelvey (1997). Accordingly, as outlined above, there is a need for consolidation of, or at least bridging between, the paradigms. A governance perspective to M&A would seem promisingly able to do precisely this.

The same also applies to unifying our conception of the tradition of writing about and performing M&A as well. M&A decision-making involves nearly all aspects of managerial decision-making, ranging from corporate strategy formulation and corporate governance to accounting, information systems and administrative issues. A holistic governance perspective could potentially yield insights to numerous different M&A decision-making and researching problems dealing with very different parts and issues of the organization, which is something the narrowly, yet acutely, applicable strategy and finance paradigms, for example, are unable to do.

In the elaboration of the aforementioned linkages between the governance theories of the firm and M&A discourses, a novel approach is assumed. The three instances of the M&A identified above and in Appendix 2, i.e. the definitional boundaries, the justification for their existence and the internal organization processes, are used in the analyses. In practice, this means that whenever possible, the linkages identified between M&A and the governance theories of the firm are categorized according to these dimensions. The logic behind this is that in this way, the linkages, which essentially constitute the core substance of the governance approaches to M&A presented in Section 3.3, are organized cohesively. At the same time, the purpose is to bring forward the boundaries/justifications/processes-notion, which is arguably hitherto overlooked in management literature.

Propositions concerning paradigmatic linkages

Proposition 22: There are three levels at which the interlinkages between the M&A and governance theory discourses should be sought: a) shared traditions and intellectual roots, b) cross-fertilization in academic discourse and c) shared views on factual M&A decision-making affairs.

Proposition 23: A holistic governance perspective could reduce the multi-paradigm problem and interdisciplinary turf wars apparent in the M&A discourse at present.

3.2.2 Linkages in shared traditions and intellectual sources

This section discusses linkages between the M&A and governance paradigms in the light of their intellectual traditions and conceptual foundations. Essentially, the aim is to argue that there has been a sustained historical coexistence between the governance perspective to the firm and M&A research, and that whilst traditional contracting literature acts as an important intellectual foundation, modern governance research has assumed a more active role in the phenomenon-centered and conceptual dialogue with contemporary M&A research. Furthermore, the argument is that while this dialogue has undoubtedly enriched the M&A discourse, it has also had some methodologically constraining effects that could be perceived as undesirable.

In the conceptual and bibliometric studies, as well as the interpretation and analysis of their results in Section 3.1, it seems evident that particularly the governance theories of the firm, but also the competence theories of the firm, underpin the M&A discourse. The 'organization of economic activity' seems to be a conceptual cornerstone for all institutionally oriented research, including both the various different notions of the theory of the firm (Madhok 2002) as well as more phenomenon-centered management research, such as M&A. The organization of economic activity is thus a rare example of a concept, which assumes central importance in both theory- and phenomenon-centered research[67].

The notion of the organization of economic activity relates strongly to research in the institutional and organizational economics (IOE) traditions emphasizing the institutional structure of production. The IOE tradition arose partially as upshots and partially as disagreements and criticisms of neoclassical economics. Chronologically, they date back to Austrian/Schumpeterian (e.g. Hayek 1937, 1945, Schumpeter 1942) economics as well as the reasoning of Ronald Coase (1937).

In the times of early IE and OE, the research was far from being compartmentalized into segregated research fields with little disciplinary boundary-crossing and –spanning like today. Even though schools of thought existed and were rapidly emerging, all economics related research still belonged to the generic category of 'political' or 'social' science. M&A

[67] It seems evident to the author that there are essentially two types of management research. Firstly, there is research that starts of with the researcher's knowledge and/or interest in a particular theoretical construct or area, which leads to the seeking of potential application areas that would operationalize the theoretical knowledge. Secondly, there is research that starts with either a deep understanding about the fact-empirical environment or extraordinary ability to (often nomothetically/quantitatively) scrutinize the fact-empirical environment, which leads to the seeking of potential theoretical areas in which this fact-empirical setting would seem suitable. The author's subjective contention is that the governance perspective represents by and large the prior, where as the competence perspective represents the latter. The organization of economic activity seems to be an exceptional concept in the sense that it suits both worlds. There is a fact-empirical state of the current organization of economic activity that can be measured, and the organization of economic activity is also a rich tool in conceptual and theoretical research.

research was not a segregated area, but was rather researched through issues that can these days be found as motivations and themes of M&A research, e.g. diversification, growth, managerial influence, corporate reorganization and so on.

Before the early specialized M&A literature emerging in the 1960s (e.g. Kitching 1964, 1967, Newbold 1970, Lev and Mandelker 1972), M&A issues (including e.g. the contemporary analysis of the two first merger waves of 1897-1904 and 1916-1929) were dealt with by economic history literature that can be argued to have been very knowledgeable of both neoclassical economics theories and its early IOE departures. The development of literature addressing the key questions of the organization of economic activity at the level of the firm can thus be argued to have influenced the M&A dialogue of the times. Even though these connections are often implicit, major research findings, particularly acknowledged and/or otherwise successful departures from classical 'teachings', such as the seminal IOE contributions, were filtered actively and relatively quickly to many aspects of social scientific research, e.g. research orientations and methodology, but particularly the conceptual arsenal it used.

A peculiar feature of the dialogue between the seminal underpinnings of governance literature (e.g. Coase 1937, Simon 1951, March and Simon 1958, Alchian and Demetz 1972, Hayek 1937, 1945) and the M&A discourse is that the influence has prevailed for decades. For example Hayekian property rights ideology, Simonian bounded rationality and Schumpeterian creative destruction continue to inspire management researchers in a number of areas including M&A (See e.g. Foss 2001, Thompson 1996, Norton 1992). It can be argued that modern M&A literature is conceptually dependent on seminal governance literature, especially when it comes to the conceptualization of the contracting setting. As the results of the citation analysis reveal, however, influential authors of early governance literature have been surpassed by more recent governance theoretical inputs in particularly agency theory (e.g. Jensen and Meckling 1976, Jensen and Ruback 1983, Fama and Jensen 1983, Fama 1980) and transaction cost economics (e.g. Williamson 1975, 1985). Thus while the classic contributions are still present in the referencing statistics, the relatively scarce referencing to them suggest that they have assumed an indirect role as intellectual bases to the contemporary M&A discourse.

The research material of this study, i.e. M&A literature published in the 1990s, refers most to early 1980s firm theoretical findings. The gap between the average year of a 1990s publication and the age of the theoretical references at the time is thus considerably wider than in management or social scientific research in general[68], which suggests that a) the tendency is to wait and see which theories 'pull through' before applications are made and/or

[68] The average age of a reference in scientific research is found to be 6-7 years (see e.g. Garfield 1997, 1998), which is very much in line with the general temporal referencing pattern results of this study. The theoretical inputs of the 1990s M&A articles, however, are on average, roughly estimated, about 15 years old.

b) it takes some time for theories to diffuse and mature, and consequently for semi-theory building oriented applied research to be published, before phenomenon-centered research is performed. While the prior option seems intuitively appealing, this study also presents some evidence for the latter as significant articles that are *somewhat*, but not clearly or entirely, related to both governance theory and M&A (e.g. Jensen 1986, Amihud and Lev 1981, Morck, Shleifer and Vishny 1990) are also highly ranked in the most-cited text analysis.

Through M&A research of the 1990s, the interplay with (1980s and 1990s) governance theory development has continued, but is still to reach explicit acknowledgement. General governance theoretical reasoning and specific governance theories of the firm have increasingly been applied to numerous different M&A research settings during the past five years. Table 15 gives some examples of the type of governance theoretic research performed during the past couple of years. The author(s) and year or publication, the M&A research stream(s) they are perceived to belong to, the topic of the research and the governance theoretical perspective they employ are disclosed in the Table.

Table 15: Examples of governance theoretical M&A research published in 2000-2003

Author(s) and year(s)	**M&A Stream (disciplinary orientation**	**Research topic**	**Governance theory employed**
Holmström and Kaplan 2001	Strategy	Influence of corporate governance on US merger activity	General
Lins and Servaes 2002	Strategy	Diversifying M&A in emerging markets	Agency theory
Matsusaka and Nanda 2002	Finance, strategy	Internal capital markets and corporate refocusing	Agency theory, transaction cost economics
Hyland and Diltz 2002	Strategy	Motives for diversifying M&A	Agency theory
Klein 2002	Economics and law	Efficiency of acquisitive conglomerates	Agency theory
Kohers and Kohers 2001	Finance	Takeovers of technology firms	Agency theory
Schlossberg and Robins 2001	Economics and law	Safeguarding business secrets	Agency theory
Matsusaka 2001	Strategy	Corporate diversification, value maximization, and organizational capabilities	Agency theory
Palmer and Barber 2001	Humans and organizations	Social class theory of corporate acquisitions	Agency theory
Palich, Cardinal and Miller 2000	Strategy	The diversification-performance linkage	Agency theory
Schilling and Steensma 2002	Strategy	Motivation underlying firm boundaries	Transaction cost economics
Lu 2002	Strategy	Acquisitions as an entry mode choice	Transaction cost economics
Meyer and Estrin 2001	Strategy	Acquisitions in brownfield entry	Transaction cost

		to emerging markets	economics
Chi 2000	Strategy	Acquisition vs. Divestment of joint ventures	Transaction cost economics
Brouthers and Brouthers 2000	Strategy, humans and organizations	Institutional, cultural and transaction cost influences in acquisition start-up	Early incomplete contracting, transaction cost economics
Pagano 2000	Economics and law	Public markets, private orderings and corporate governance	(New) Property rights theory

Table 15 manifests the explanatory power of agency theoretic and transaction cost economic explanations in recent governance theory applications to M&A research. However, these studies represent a significant fraction of the total population of articles implicitly employing governance theories to M&A. Explicit M&A applications of governance theories are still an undeveloped area of study despite the coexistence of the two discourses during the past decades. On the whole, it can be argued that, with the development of governance theories and a resurging interest in them around the turn of the millennium, a resurgence of phenomenon-centered and conceptual dialogue between the two fields can be expected, as more and more of both conceptual and applied governance theoretical have started appearing in first-tier journals such as *Strategic Management Journal* and *The Academy of Management Journal* and *Review*.

This recollection of the parallel and intertwined coexistence of the M&A and governance discourses highlights contribution of the latter to the prior and reinforces the need to aim for the construction of a holistic governance perspective able to tackle the many sides of contemporary M&A research. The coexistence has, however, not only contributed to the contents of M&A research but also confined it to certain methodological orientations. Even though the methodologies used in the 567 identified M&A related studies were not systematically investigated in the network analysis, the citation analysis results indicate that M&A research is highly appreciative of quantitative, event study and non-linear regression methodologies (Brown and Warner 1985, White 1980). On the basis of the conceptual analysis, it seems that at least three M&A research streams, i.e. the economics, strategy and finance streams, are, perhaps even increasingly, confined to this methodological tradition. It could even be argued that there is a general lack of methodological breadth in M&A research across the different disciplinary research traditions. An arguable conclusion from this is that triangulative research orientations and conceptual research might deserve more attention in M&A research than they do at present.

One explanation that could be provided for this is the heritage of neoclassical economics. Largely a quantitative science, neoclassical microeconomics research has lent many of its research traditions to modern M&A research. For example, a strong philosophy of comparative statics prevails (Foss 2000). The habit of M&A research to concentrate on the analysis of discrete structural alternatives is nearly a praxeological exercise that is apparently

influenced by the (neo)classical economics tradition. Examples are plenty (see e.g. the output of currently active financial economist writers such as Gregory Werden, Allen Berger, Atul Gupta, John Matsusaka and Marcia Millon Cornett, Kenneth Carow, William Schwert and Joel Houston who dominated the most-published first author analysis in Chapter 2). Also most (if not all) transaction cost economic based research essentially deals with the analysis of discrete boundary options along the market-hybrid-hierarchy trichotomy (Williamson 1975)[69]. Diversification literature most often analyzes diversification vs. no diversification and entry mode studies peg fixed notions of e.g. an acquisition, a joint venture and a greenfield against each other. Types of diversification or unconventional combinations of operation or governance modes are seldom researched.

Similarly, 'number-crunching' is an equally distinctive feature of M&A. Event study methodology, hypothesis testing, regression analysis and structural equation modeling are dominant methodologies that derive from an economic-analytical mindset. Even though case study methodology is widely used in the strategy and humans and organizations streams, quantitative studies comprise an overwhelming majority of M&A research on the whole. In the spirit of Veblen (1904), one could argue that some modern management research, and M&A research in particular, has drifted to excesses of calculativeness and certain statistical methodologies have become more an end in itself than means to an end. Arguably, the different streams of M&A research could benefit enormously from not only conceptual and issue related dialogue, but from widening their methodological orientations.

Propositions about the shared traditions and intellectual sources of the governance and M&A discourses

Proposition 24: The deepest unifying concept between the governance discourse and the M&A discourse is the organization of economic activity.

Proposition 25a: The IOE and governance theoretical literature have acted as sustained intellectual stepping-stones for the development of M&A literature.

Proposition 25b: The governance perspective and M&A have coexistence and been conceptually intertwined for some 70 years but integrated research in the form of applications of the governance theories into M&A is a much newer research effort and still in its cradle.

[69] The analysis of dynamic transaction costs (e.g. Langlois and Foss 1999) is a notable departure from this tradition.

Proposition 21: The narrow-mindedness of neoclassical and institutional economics is reflected to M&A research as a lack of methodological breadth and a certain fixation to the economic and statistics-minded analysis of discrete structural alternatives.

3.2.3 Linkages through cross-fertilization in academic discourse

As mentioned in the introduction, a governance approach to M&A should be able to answer the primary governance theoretic questions, dealing with the boundaries, existence and internal organization, from the perspective of M&A. In M&A, these questions correspond to the conceptual definitions of M&A, justifications and motivations for M&A and pre- and post-merger processes respectively. However, it is hardly enough to imply that there are paradigmatic linkages between the M&A discourse and the governance perspective to the theory of the firm. It is also necessary to have a closer look at the linkages and focus particularly on categorizing them in a meaningful way.

Thus, this section reorganizes the findings of the conceptual analyses presented in Appendices 1 and 2 according into a format that respects the basic questions of the governance approach. More specifically, the questions addressing governance theoretical issues that have been identified in the conceptual analysis of the M&A literature in Appendix 1 are now organized vis-à-vis the existence, boundaries and internal organization of M&A. Similarly, the contribution of the governance theories of the firm to M&A, as identified in the conceptual analysis of the governance theories of the firm in Appendix 2, is organized in according to the same framework.

The aim of crystallizing the questions put forward by M&A literature, the contribution of the governance theories of the firm and the shortcomings of the governance approach in M&A is to lay the foundation for a holistic governance perspective to M&A. Particularly the more academic approach within this perspective would logically consist of an understanding concerning the key questions, hitherto contribution, current shortcomings and subsequent future research challenges in combining the governance approach with M&A. This is attempted in Section 3.3.1.

This section is organized in three parts. Firstly, the most interesting linkages found in the bibliometric study between governance theories of the firm and M&A are investigated[70]. Special attention is paid to governance theory – M&A antecedent linkages and the

[70] It is important to note that only some linkages are discussed here. During the analyses, a plethora of smaller and larger links between the worlds of the governance theories of the firm and M&A emerged. Of these, only the most significant ones are discussed here.

coexistence of the governance theories of the firm in M&A literature. Secondly, some key governance related questions emerging from the conceptual analysis of M&A are outlined. Thirdly, the contributions of the governance theories of the firm, as identified in the conceptual analysis in Appendix 2, are organized according to the key questions of the boundaries, existence and internal organization of M&A.

Linkages between governance theories and M&A antecedents

In the network analysis results presented in Sections 2.3.3-2.3.4, the governance theories of the firm seem to link extensively with a number of M&A research antecedents, implying a cross-fertilizing connection between the two discourses. According to the co-occurrence results, agency theory has been used extensively, unsurprisingly, in M&A goal conflict and congruence articles. Actually, agency theoretic M&A articles appear in a cluster of antecedents that also includes hostile takeover protection and resistance, commitment, managerial hubris and empire-building as well as risk-reducing (diversifying) M&A. Agency theory also appears as an important theoretical tenet in articles discussing M&A related shareholder value issues as well as debt/equity ratios. Moreover, M&A articles utilizing agency theoretic perspectives seem to often link with corporate finance theory and issues. The coexistence of agency theory, corporate finance, managerial incentives, hostile takeover issues and shareholder value seems logical. On the one hand, agency theoretic literature is financially oriented and deals with outcomes, financing decisions and risk reduction (Klein 2002, Matsusaka and Nanda 2002). On the other hand, it can also be managerial, discussing in depth the incentives and actions of various stakeholder groups, especially owners and managers, often in the context of hostile takeover attempts and often with shareholder value outcomes as measures.

Transaction cost economics, then again, plays an important role, arguably as a cross-fertilizing linking theory as indicated in Section 3.1, in articles discussing diversifying and conglomerate M&A. The input of transaction cost thinking in vertical M&A, which is not included as an antecedent by itself, is known. The fact that transaction cost economics is also used in articles discussing horizontal M&A, even as a linking theory, might suggest that there is future potential for research incorporating transaction cost logic to a wider field of M&A studies. What is more, transaction cost economics appears frequently in articles concentrating on the performance outcomes of M&A, which intuitively stems from and is facilitated by its quasi-analytical nature. Correspondingly, transaction cost economics appears as the most important theoretical perspective in articles discussing asset value maximization, most probably in the context of in/outsourcing decisions.

Also property rights theory has been utilized in M&A. The property rights perspective offers a valuable theoretical cornerstone to literature discussing market power issues, e.g.

monopolies, cartels and antitrust measures. With goal conflict and congruence being the second most common antecedent in articles using property rights theory, there might be reason to believe that the allocation of property rights could play a significant role in M&A articles focusing on stakeholder group incentives.

Neoclassical economics, then again, is naturally applied most frequently in articles discussing market power issues, and both micro- and macroeconomics theories are used. The calculativeness of the neoclassical theory of the firm is shown in the fact that (micro)economics theory is also applied extensively in firm performance related articles. It could be argued that neoclassical economics, even though withering as a source of direct academic referencing as proposed in Section 3.1, still provides M&A literature with the basic notions of calculativeness and maximizing behavior. The difference between contemporary M&A literature and that of the 1950s-60s is that the limits, effects and conditions of modeling and performing M&A are now better understood and calculation and maximizing, i.e. traditional neoclassical economic behavior, can only take place after these limits, effects and conditions have been understood and met.

Looking at the co-occurrence of the governance theories and M&A antecedents, it could be proposed that the governance theoretic issues seem to coexist in the same articles and discuss a wide yet commonly shared range of M&A topics. While agency theory is the most commonly coexisting theory in articles using transaction cost economics and property rights theory as central theoretical tenets, transaction cost economics and property rights on the one hand, and neoclassical theory of the firm and property rights on the other also coexist in the same articles. This gives reason to believe that, properly investigated, a integrative governance perspective to M&A is not an impossible thought, but a rather logical attempt to provide a unified, holistic approach.

There are, however, some concerns about these rather simplistic conclusions that were just drawn from the bibliometric statistics. Contrary to the anticipations of the conceptual study, there seems not to be a *de facto* connection between shareholder value and property rights theory, nor capital markets theory and property rights theory. Despite the intuitive appeal of the idea that shareholder value studies and literature, not to speak of capital markets theory, would be somehow grounded in the philosophy of the property rights perspective, which content-wise supports them somewhat perfectly, this is simply not the case.

A further concern deals with the possibly limited breadth of the governance theories of the firm. Regardless of the fact that there are several governance theories with different emphases, some of the antecedents, or even prominent clusters of antecedents (see

Proposition 15[71]), identified among the M&A articles are not covered by the governance theories. Most importantly the antecedents that are more or less clustered around the notion of 'organizational learning', but also 'strategy antecedents', have so far been somewhat left outside the foci of articles using the governance perspective. An interesting question deals with whether this is because the governance approach is unable to research these M&A antecedents or whether this kind of research has simply not been done. The subjective contention here is that there is potential for governance based research in these areas but complementation from other firm theoretical perspectives (e.g. the competence perspective) is needed.

M&A questions about governance issues

Paradigmatic linkages between the two discourses are also materialized in the investigation of essential questions in the M&A discourse that address issues close to the governance theories of the firm. Some of these questions are raised in the conceptual analysis of the M&A literature in Appendix 2, while others emerge here.

The analysis operates with three different dimensions. Most importantly, the questions emerging from the M&A discourse are organized according to whether they deal with the definitional *boundaries*, justification for the *existence* or the *internal organization* processes of M&A. The questions are categorized according to the novel categorization of M&A research streams proposed in this study, i.e. the *finance stream*, the *strategy stream*, the *economics and law stream*, the *humans and organizations stream* and the *process stream*. The questions that are included in the analysis are ones, which might present possible paradigmatic linkages to the governance perspective. Therefore, the analysis of Table 16 below is complemented with an attempt to identify which theories of the firm, in general or particular, the question areas directly or indirectly refer to.

Table 16: A collection of M&A questions regarding the definitional boundaries, existence and internal organization processes of M&A and the governance theories of the firm (GTOFs) they address

Questions Regarding the Definitional boundaries of M&A		GTOF Addressed
Finance Stream	To what extent is M&A defined by a change in financial structure and ownership vs. change in the organizational structure and functioning of the organization?	Property rights
	Can authority, information and incentive mechanisms define M&A?	Agency theory, transaction cost economics

[71] Proposition 15 states that Five M&A research antecedents appear in conspicuous clusters, which can be characterized as: the 'stakeholder incentives' cluster, the 'business objectives' cluster, the 'organizational learning' cluster, the 'strategy antecedent' cluster (less prominent) and the 'efficiency and economics' cluster (less prominent)

Strategy Stream	Can a change in the transaction cost balance define M&A or the type of M&A?	Transaction cost economics
Economics and Law Stream	Is the simplistic economic definition of M&A as a combining of factors of production too simplistic and, if so, how could it be amended?	All governance theories
Humans and Organizations Stream	What is the role of organizational and interpersonal considerations in redefining M&A?	Agency theory, Incomplete contracting
	Does the notion of incomplete contracting render all definitions of M&A incomplete?	Incomplete contracting

Questions Regarding the Justifications for the Existence of M&A		**GTOF Addressed**
Finance Stream	Does allocative efficiency override property rights in justifying M&A as an asset transfer (especially in hostile takeovers)?	Property rights
	Can authority, information and incentive mechanisms justify M&A?	Agency theory, transaction cost economics
	Is the creation of shareholder value the primary motivation for M&A?	Property rights
Strategy Stream	Does an ex ante indication of potential value creation suffice in justifying the performing of M&A?	Transaction cost economics
	What is the role of a change in the transaction cost balance in justifying (particularly horizontal) M&A?	Transaction cost economics
	What justifies industry level vertical integration?	Transaction cost economics
Economics and Law Stream	How could transaction cost rationales be better and further applied in the measurement of market power and antitrust issues?	Transaction cost economics
	How are the wealth and economic efficiency outcomes of M&A distributed across different stakeholder groups?	Agency theory
	To what extent can market failure considerations override an economic actor's right to freely reallocate resources through M&A?	Property rights
Humans and Organizations Stream	What is the relationship between financial justifications and organizational realities in performing M&A?	Agency theory, incomplete contracting, transaction cost economics
	What are the conceptual linkages between an organizational perspective to M&A and incomplete contracting?	Incomplete contracting
Process Stream	What is the influence of potential post-merger process problems on M&A justifications?	Agency theory, incomplete contracting
	What are the incentives of professional services providers in the justifications presented for M&A?	Agency theory, (property rights)

Questions Regarding the Internal Organization Processes of M&A		**GTOF Addressed**
Finance Stream	What are the implications of incentive and information asymmetries to due diligence processes?	Agency theory
Strategy Stream	What are the implications of incentive and information asymmetries to the setting of strategic objectives and the strategic evaluation of potential M&A partners?	Agency theory
	What is the influence of an ex ante indication of potential value creation in pre-M&A decision-making phases?	Transaction cost economics

	What is the influence of transaction frictions to M&A processes?	Transaction cost economics
Economics and Law Stream	Which M&A processes create market failure and how?	Transaction cost economics
	What determines the efficiency and wealth outcomes of the various M&A processes?	All governance theories
Humans and Organizations Stream	What kinds of boundaries and realities do organizational and individualistic considerations set for M&A contracting processes?	Incomplete contracting
Process Stream	What is the general influence of different M&A processes on the determination of governance structures?	All governance theories
	Which key inter-stakeholder group problems emerge in different phases of the M&A process?	Agency theory
	What is the impact of the use of professional services providers on M&A processes?	Agency theory
	What are the limitations of the contribution of governance insights on the internal organization processes of M&A?	All governance theories
	What are the similarities and differences of the contracting dynamics of pre- and post-merger processes?	Incomplete contracting, transaction cost economics

Table 16 illustrates how diverse the possible interlinkages between M&A and theories of the firm are. M&A literature poses numerous questions to the majority of theories of the firm. The questions, which are admittedly very subjective and identified by the author's own judgment, seem to suggest some patterns in how the M&A schools are linked to governance theory.

The finance stream seems to pose questions to and derive intellectual input vis-à-vis the organization of economic activity from agency theory, property rights theory as well as, to a slightly lesser extent, transaction cost economics. Questions regarding the role of ownership and shareholder value can be argued present an intuitively interesting theme for research using property rights theory as an ideological starting point. On the other hand, cross-fertilization between agency theory and the theory of finance seems to continue as an avenue for research on incentives, information and authority in the study of M&A.

The strategy stream can be suggested to be more linked to transaction cost economics. This interlinkage is apparent in how e.g. the relatedness/synergy arguments can be used in the transaction cost economic vertical integration/make-or-buy question. As argued by Williamson (1999), transaction cost economics can potentially provide useful tools for strategy research and analysis. Questions regarding the use of transaction cost economics in e.g. the analysis of horizontal M&A and the influence of ex ante indications of value creation opportunities on strategic M&A behavior. The issue of the boundaries of the firm seems to be closest to strategic M&A thinking. Examples of strategic boundary decisions include, in addition to pure yes-or-no-to-M&A decisions, the sourcing of supplies and inputs, supplier relations, the ability to mediate knowledge from best practices in the market as well as the

appropriation of rents in a negotiation situation. “Virtually all issues of corporate strategy, and many of business strategy, involve the boundaries of the firm” (Foss 2000, xlix).

Much of the literature in the economics and law stream has its roots in neoclassical economics reasoning and is embodied in the modern industrial organization analysis whose core M&A related research areas are antitrust, monopolies, cartels, market power, wealth, economic efficiency and price-level impacts of M&A. Economics based M&A research has, however, potentially fruitful streams in e.g. more socio-economical debates (discussing e.g. the demarcation of ownership rights in the face of economic efficiency) and the distribution of M&A wealth outcomes across sub-economy level units of analysis.

The humans and organizations stream, given its emphasis of human aspects and employment, derives from the same Simonian and Coasian principles that spurred early incomplete literature. Emergent questions from the M&A literature deal with the types of limitations that the incomplete contracting notion poses for the performing of M&A. Also individualistic and group behavior and organizational issues that involve several stakeholder groups and thus potential information and incentive asymmetry problems between them can provide a fruitful avenue. Agency theoretic insights can be speculated to be useful here.

The process stream, then again, has an unsurprising emphasis on the internal organization of M&A. The various steps in the M&A process incorporate numerous different aspects regarding humans, organizations, industries, relationships as well quantitative evaluation. This suggests that input could be derived from various theories of the firm. The listing of M&A questions at the end of Table 16 can be perceived have a considerable weakness in the sense that it might mislead to believe that all questions dealing with the internal organization of M&A arise from the process school. This is, however, not the case. As is seen in Table 16, there are numerous questions dealing with process issues that can be argued to arise from the other M&A schools. The correct way to interpret the Table 16 is that potential answers to the questions, should they arise with the help of agency theory, transaction cost economics, incomplete contracting or all of the governance theories of the firm, would belong more or less to the process school. This whole issue highlights the interdisciplinary nature of M&A and the potential for cross-fertilizing research between M&A research streams and the governance theories. Besides this, it must be noted that property rights theory, which arguably assumes more the role of an ideological background or philosophy than a directly applicable theory, is conspicuously absent from the last third of Table 16 that lists more pragmatic issues dealing with M&A processes.

Contribution of the governance theories to M&A

Yet another instance in which cross-fertilization between the governance perspective and M&A emerges are the contributions of the governance theories of the firm to the M&A discourse identified in the conceptual analysis in Appendix 2. These are two-fold. On the one hand, there are general level contributions between the two discourses, much of which have to do with their shared intellectual history and parallel development paths. These contributions follow along the lines identified in Section 3.2.1. On the other hand, there are a number of contributions from specific governance theories, often to specific M&A issues.

When discussing the general contribution of the governance theories to the firm, criticism concerning the differences between the governance theories emerges. It can be argued that literature discussing the governance approach as a whole (e.g. Williamson 1999, Madhok 2002) has a tendency to elevate key findings of specific governance theories of the firm as generic contributions of the entire governance perspective. After the analyses presented in this study, it seems increasingly likely that what is known as 'the governance approach' is not a single approach, but rather a holistic perspective consisting of a collection of intertwined governance approaches acting at different levels. This is also precisely where the strength of the governance perspective lies: it combines the strengths of a number of theories yet remains united by the focusing on three shared key questions dealing with the boundaries, existence and internal organization of firms.

Given this position, it is logical that the 'general level' contributions of the governance approach to M&A are limited to the nature of scientific thinking (discussed in Section 3.2.2.), key questions advocated (the boundaries, existence and internal organization of firms) and an arsenal of conceptual tools. Appendix 3 scrutinizes briefly a number of concepts that have arisen from organizational and institutional economics and have subsequently become routine terminology also in M&A. Concepts like the organization of economic activity, stakeholder groups, asymmetric information, incomplete contracting, incentive asymmetry, risk preferences, opportunism, asset specificity and bounded rationality are examples of such concepts.

Besides these rather abstract general contributions of the governance perspective to M&A, a number of inputs from specific theories of the firm can be identified. Here, an overview of these specific contributions is given by organizing them according to the key questions of the *boundaries, existence* and *internal organization of M&A*.

Table 17 illustrates the various instances in which governance theory of the firm can help us understand the justifications, definitions and processes present in the M&A discourse.

Table 17: Contribution of specific governance theories of the firm on M&A

Contribution to the Definitional Boundaries of M&A		M&A Research Streams Most Likely to Benefit
Neoclassical economics	Amalgamation of two production functions	Economics, Strategy
Nexus of contracts	Outcome-based thinking renders it unnecessary to define M&A as anything else than just another contract	Finance, Economics
Agency theories	Inter-actor group aspects of M&A definitions highlighted	Humans and organizations, Strategy, Process
Early incomplete contracting	M&A introduced as a way to extend of the boundaries of the firm	Strategy, Humans and organizations
Transaction cost economics	M&A as an efficiency seeking mechanism M&A defined in terms of the availability of information regarding different authority structures	Economics
Traditional and new property rights	M&A as resource allocation mechanism M&A as a mechanism for the transfer of control authority	Strategy, Finance

Contribution to the Justification for the Existence of M&A		M&A Research Stream Most Likely to Benefit
Neoclassical economics	Abnormal profits through monopoly power	Economics, Finance
Nexus of contracts	Through M&A, desired capital structure outcomes, implying a certain organization of economic activity, are reached	Finance
Agency theory	Owner-manager & conglomerate M&A explained by risk and incentives 'Boards as monitoring mechanisms' and other corporate governance explanations Information structure and communication related explanations M&A activity is a manifestation of the agency problems of inefficient external investments by managers ("managerialism")	Strategy, Humans and organizations Strategy Strategy, Humans and organizations Humans and organizations
Early incomplete contracting	M&A provides a solution for the coordination problem	Humans and organizations
Transaction cost economics	M&A leads to an efficient[72] governance structure under incomplete contracting and *ex post* governance M&A establishes authority to mitigate transaction costs	Economics, Strategy Economics, Strategy
Traditional and new property rights	M&A leads to efficiency gains through the resource allocation mechanism of property rights The market for the transferability and competitiveness of ownership	Economics, Finance, Strategy Finance, Strategy

[72] In terms of both pure economic costs and transaction costs

	creates M&A M&A drives towards more efficient corporate governance structures	 Economics, Strategy

Contribution to the Internal Organization of the M&A process		M&A Research Stream Most Likely to Benefit
Neoclassical economics	None	None
Nexus of contracts	A mere contracting process	Economics (?)
Agency theories	Multiple incentive and information asymmetry arguments all through the M&A process	Strategy, Humans and organizations, Process
Early incomplete contracting	The coordination problem in the selection of M&A candidates, modes, methods and the resulting organization structure	Process, strategy
Transaction cost economics	Numerous tools for analyzing internal transaction costs of M&A processes Human elements important in determining transaction costs in especially post-merger processes	Process Process, Humans and organizations
Traditional and new property rights	Attempts to discuss in terms of authority, suffers from the disregarding of behavioral assumptions and mitigation of internal issues such as structure and culture	None ?

Other contribution		M&A Research Stream Most Likely to Benefit
Neoclassical economics	Merger waves and M&A as an vehicle of agglomeration	Economics
Agency theories	Tool for modeling M&A problems at a number of levels of analysis	Strategy
Early incomplete contracting	Introduction of basic semantics for the discussion of incomplete contracts	All
Transaction cost economics	Introduction of a set of conceptual tools to analyze the markets and hierarchies and the boundaries of the firm: particularly vertical integration and horizontal and vertical relationships	All

As is seen above, particularly agency theory, transaction cost economics and property rights theory, but also the incomplete contracting tradition to some extent, seem to provide a number of significant contributions to the field of M&A. There are particularly many insights to justifications of the *existence* M&A.

The issue of the definitional boundaries of M&A, given the rather mechanistic definitions put forth by the governance theories, is not an equally interesting ferment from the governance theories' point of view, but the relatively thin contribution vis-à-vis the internal organization of M&A needs some analysis. The governance theories of the firm seem to complement the definitional boundaries of M&A with their own rather metaphoric semantics,

but still the outcome is surely a better understanding of what M&A really *is* (cf. Appendix 3). This is yet another example of the general contribution of the governance theories in enriching the language and conceptual arsenal of M&A research.

Ironically, it seems that the governance theories of the firm are somewhat weaker when it comes to firm level analyses of M&A processes. Regardless of the fact that one of the key foci of the governance theories of the firm is particularly the internal organization of firms, the insights on particular processes, such as the M&A process, can remain relatively thin. Especially property rights theory is particularly weak in analyzing the specifics of internal processes. What is more surprising, however, is that also transaction cost economics has narrow contributions to the internal organization of M&A. Among the five exemplary TCE general contributions vis-à-vis the internal organization of firms presented in Appendix 2[73], for example, there are only minor parallels to M&A thinking. Agency theory, despite its merits in helping to predict the influence of incentive and information asymmetries on M&A process outcomes, is rather limited in the scope of its analysis. It seems that the governance theories of the firm, as a whole, are not at their strongest in the analysis of the internal organization of M&A. It is here that the governance perspective arguably needs most support from the competence-based theory of the firm and its different, partially overlapping resource-, capability and knowledge-based approaches.

Propositions about cross-fertilization in academic discourse

Proposition 27: The governance theories of the firm are clearly interlinked with various M&A antecedents and clusters of antecedents.

Proposition 27a: Agency theory is deeply interlinked with both financially and managerially oriented M&A antecedents.

Proposition 27b: Transaction cost economics plays an important cross-fertilizing linking theory role particularly in articles dealing with diversifying and conglomerate M&A.

Proposition 27c: The property rights perspective offers a valuable theoretical cornerstone to literature discussing market power issues, e.g. monopolies, cartels and antitrust measures.

Proposition 27d: Neoclassical economics is interlinked with M&A articles discussing market power issues, and the traditional neoclassical notions of maximization and calculativeness are still visible in firm performance related M&A literature.

[73] The contribution areas being, namely, a) the formation of teams, b) the degree of decentralization, c) head office size and functions, d) number of management layers and the e) measurement of administrability (see Williamson 1975, 1985, 1993, Besanko et al. 1996, Barnard 1938, Simon 1951, Morgan 1986, Pugh 1997, Richter 1999)

Proposition 28: There is a plethora of M&A related questions that address governance issues. Patterns between particular M&A research streams and the governance theories seem to emerge.

Proposition 29: The governance perspective is, rather than a single approach, a holistic collection of individual approaches unified by common key interests and terminology.

Proposition 30: The specific contributions of the individual governance theories of the firm suggest that the governance perspective is at its strongest in the analysis of the existence of M&A and weakest in the analysis of the internal organization of M&A.

3.2.4 Linkages through shared views on real-life M&A situations

In addition to the converging intellectual and historical foundations and apparent academic cross-fertilization between the M&A discourse and the governance approach, there is a third way of linking the two. In essence, the aim of this Section is to show that the governance approach is also useful in a number of M&A decision-making settings, business contexts and pragmatic M&A management settings, particularly in the light of some contemporarily interesting M&A management issues.

In this section, a collection of examples of the usefulness of the governance approach in pragmatic business contexts is presented. These examples of practical governance insights to M&A have arisen during the entire research process starting from the conceptual studies, continuing with the bibliometric analyses and ending with the interpretation of the results. This is also why e.g. some of the mentioned examples resemble the interesting contemporary M&A sub-phenomena in Appendix 1. Even though they are somewhat unstructured and randomly selected, they succeed in illustrating the types of real-life M&A issues in which a governance perspective could be useful.

Timing and time pacing

The first relevant issue in M&A management deals with the general novel strategy imperative of timing and time pacing, which has direct implications for practitioners' decision-making (see especially Eisenhardt and Brown 1998, also Brown and Eisenhardt 1997). One of the very core ideas in time pacing involves the management of corporate transitions, the largest of which can be argued to be M&A. Particularly important for companies in fast-changing industries, the time pacing techniques help companies learn to complete M&A transitions more quickly and effectively. Timing and time pacing literature, which can be argued to also derive from the governance approach, presents an important

dynamic element in corporate strategy research and thus has to be incorporated in any novel, holistic approach to M&A. The design of governance mechanisms nimble enough to cope with high-velocity environments is an interesting avenue for future research aiming at introducing governance into the analysis of M&A.

Riding the merger wave, avoiding merger mania

Merger waves were a recurring phenomenon during the 20th century. A special timing and time pacing related M&A management talent has thus for a considerable amount of time been the skill to time M&A activities. In essence, this means catching the early bird by entering e.g. industry wide consolidation activity early on, riding the merger wave when the financial markets presents lucrative opportunities and avoiding merger mania when wave has reached the point of inanity. The governance perspective, with its broad approach combining a number of logics and levels of analysis could provide a more dependable check-list for decision-making in such times than, for example, simply staring at shareholder value rationales.

Demergers and divestiture

Another interesting phenomenon of the 1990s M&A 'market' is the significant role of divesting and de-merging as a part of M&A activity[74]. It is obvious that the M&A literature arguing for the significance of relatedness, which primarily communicates with the contributions of the resource-based theory of the firm, has foremost importance in the analysis of these demerger activities. However, it is evident that demergers, quite like all other M&A activity, present a transfer of the ownership and control of corporate assets (see e.g. Gadad and Thomas 1999). Divestiture decision-making is also an exercise explicitly involving the boundaries of the firm e.g. thus the transaction costs of in- and outsourcing different functions is an essential exercise. One of the primary motivations for management buy-outs (MBOs), then again, is the differing incentives and superior information of managers vis-à-vis owners. These kind of situations should thus be analyzed and interpreted with agency theoretic viewpoints in real-life MBO decision-making situations. On the whole, demergers and divestitures, as a whole, present a significant departure from the general M&A logic arguing for the benefits of establishing larger hierarchies.

Corporate governance and M&A

Corporate governance, as a management research topic, has enjoyed increasing practitioner and academic attention during the past few years. At the very basic level,

[74] For example, Gadad (1998) shows that demerger activity in the UK escalated significantly in the 1990s and the total value of transactions in the divestiture market equalled about 40% of the total M&A market during the period from 1985 to 1994.

corporate governance literature is interested in the power and control of organizations. Increasingly, it is admitted that the board of directors should not be under direct control of any particular stakeholder group, including shareholders, but should instead be trustees of the corporation itself (Blair and Stout 1999). The traditional agency setting concentrating on shareholder monitoring and aligning interests with managers is undoubtedly still valid, but has been complemented with multiple agency settings and a need to more generally understand the incentives, information and monitoring mechanisms of various stakeholder groups. M&A decision-making situations evoke the differing incentives and information of stakeholder groups in a drastic manner, and thus particularly hostile M&A and related corporate governance issues are an increasingly interesting application area for agency theoretic and governance-based approaches.

Silent institutional investors and shareholder value ideology

Yet another hot M&A management topic deals with the complexity of understanding the will and voice of a stakeholder group called 'shareholders'. The behavior of different shareholder types is increasingly understood. Particularly silent institutional investors, who vote with their feet and do not use voice even in M&A situations, are assuming a growing role in the M&A market. Shareholder value ideology can be argued to be sliding in the direction of ever-purer exercise of ownership or property rights and shareholders can be argued to be able or willing to act as a group with a single incentive to an ever-lesser degree. The governance approach, especially with property rights and agency theoretic viewpoints, should be able to contribute to the practitioner understanding of this changing landscape.

Measuring the success of M&A

In the management, and analysis, of M&A, a need to be able to measure the success of performed M&A and the need to iterate the reasons for M&A outcomes more closely prevails. Much of M&A success measurement research has resorted to event studies analyzing share price changes within a fixed time frame. However, a traditional metaphor argues that M&A projects create a cloud of dust around the organization and that it takes so long for the dust to settle that iterating between changes from M&A and changes all other dynamic factors is difficult if not impossible. There is a plethora of criticism on the relevance of particularly conditional event studies (see e.g. Stallworthy and Kharbanda 1988, Acharya 1988, 1993, Eckbo, Maksimovic and Williams 1990). The governance approach could be used to develop measurement mechanisms focusing on non-event study methodology or at least non-shareholder value based measures. As advocated by Ivo Welch in the provoking article "The Top Achievements, Challenges and Failures of Finance"[75], transaction cost based measures hold potential not only for qualitative M&A analysis but also rigorous quantitative

[75] Yale School of Management, 2001

use of the transaction cost equation (Welch 2001, p. 9). Other governance concepts, too, could most probably cross-fertilize into the development of alternative M&A success measurement mechanisms.

The non-prescribeability of post-merger processes

One of the major arguments in the process stream of M&A research is that there is a profound difference between pre- and post-merger processes in the significance and amount of attention they deserve. In short, it is argued that pre-merger processes are less unique case-to-case, are easier to manage and thus bear less risk. This, in turn, implies that post-merger processes are more significant vis-à-vis the success of the M&A and deserve much more attention. One of the core reasons for the non-prescribeability of post-merger processes is that integration projects and problems are multifaceted, can operate at different levels and involve complex tasks related to unpredictable incentive and information settings between people and groups. (See e.g. Haspeslagh and Jemison 1991, Shrivastava 1986, Habeck et al. 2000).

In post-merger settings, the analysis of incentives of different groups within the merged organization and the information available to these groups is vital. Decisions concerning monitoring, rewarding and boundary setting (e.g. in- and outsourcing) are a key part of post-merger planning and integration. Understanding the relationship between what is written in the contract and what the post-merger process is like is important. The omission of post-merger process considerations in the drafting of a financially oriented M&A contract is a typical example of incomplete contracting. Post-merger processes must most often be carried out within the boundaries defined by pre-merger processes, and conceptual and financial tools to facilitate calculativeness and benefit maximization under incomplete contracting are needed. The utilization of the governance approach thus needs to be mapped as a process, as is attempted in Section 3.3.2.

Post-merger organizational trauma

Post-merger trauma is another familiar managerial challenge in post-merger management. M&A acts as a shock and breaks the routines and conventions of everyday work. From the perspective of the governance approach, post-merger organizational trauma is a natural outcome of incomplete contracting processes that can and should be foreseen. Aligning incentives and writing contracts more carefully can thus reduce post-merger trauma. Alternatively, the cost incurred from post-merger trauma can be estimated and taken into consideration in boundary decisions related to e.g. in- and outsourcing and divestment activity.

Reasons for synergy capture failures

A well-known managerial phenomenon deals with the inability of merging firms to capture the anticipated synergies in the context of M&A integration. There are a few reasons for this. Firstly, synergies can be inflated to compensate for an escalation in the acquisitions price or to convince decision-makers about the potential behind the acquisition. Such behavior is related to incentive asymmetries between investment bankers and managers (see e.g. Sharma 1997, Kesner, Shapiro and Sharma 1994) or between managers and owners of the company. Investment bankers, with their percentage compensation of the total value of the deal, always have a principal incentive to increase the price (and thus the total value) of the deal. Managers, then again, can have incentive drivers such as turnover-related bonuses, share price related options or simply empire-building, which make them overestimate the potential synergies. Understanding the incentive asymmetries through the governance approach can help us understand and predict the overestimation of synergies in M&A.

Increased role of acquisitions in corporate strategies

Similar reasoning can be applied to whether and how many M&A projects are initiated in the first place. Managers see acquisitions as a potential empire-building exercise and are caught in acquisition hubris (see e.g. Roll 1986). Moreover, managers often become 'owners' of M&A projects, giving them a personal interest of performing them. As personified M&A experience amounts, companies can be hypothesized to be ever more prone to acquisitive behavior vs. organic growth. Likewise, without M&A, there is little work for M&A lawyers, consultants and investment bankers, who have a general incentive to make M&A deals happen. Again, understanding incentives through the governance approach is essential to explain why M&A happens in particular business settings.

Acquisition price escalation

There are several reasons for acquisition price escalation that relate to the governance theories of the firm. Skilled target company negotiators always have a feel for the transaction cost of the bidder in case the deal falls through or not. The transaction costs of participating in M&A negotiations and/or making a hostile bid instead of a friendly one are high to the extent that potential acquirers can be threatened with withdrawal from the negotiation. Similarly, also the aforementioned investment banker price escalation incentives and the managers becoming emotionally attached to M&A projects make way for price escalation. Then again, incentive related and game theoretic viewpoints could be utilized in the analysis of multi-bidder situations and situations involving several alternatives. All in all, acquisition price escalation avoidance is a fruitful application area for governance theoretic research.

Anti-takeover measures – which ones and why

What has just been argued for acquisition price escalation also applies to anti-takeover measures. The principal incentive for the employment of anti-takeover measures is the fear or realization of target company management that their incentives would not be aligned with the managers and owners of the acquiring company. Also the selection of specific anti-takeover instruments can be speculated to be influenced e.g. by the types of incentive asymmetry between the managers of the target company. It is evident that e.g. personally oriented corporate governance measures such as golden parachutes or bungee cords have a different incentive asymmetry behind them than organizationally oriented ones like greenmail, poison pills, antidilution provisions and so on.

Motivations of stakeholder groups in M&A negotiations

The final exemplary incentive related pragmatic repercussion of the governance approach relates to the understanding of stakeholder group motivations during M&A negotiations. Primary stakeholder groups, e.g. acquiring company owners, target company owners, acquiring company directors, target company directors, employees, professional service providers, suppliers, customers and governments all have different incentive structures and are likely to take different starting points in negotiations. Generally, acquiring company owners want to see the deal happen provided that the price stays reasonable. Target company owners, then again, want as high a price as possible. Employees are generally M&A resistant since they fear for the loss of their jobs and are generally change resistant. Acquiring company directors are generally in favor of the deal, while target directors have a skeptical starting point since they fear for their position. Professional service providers generally have an incentive to make things happen as much as possible, since that implies work and compensation. Suppliers see the possibility of a larger customer, but fear increased bargaining power and switching. Customers see a larger product mix but fear for problems in delivery reliability and other everyday routines as well as increased bargaining power. Finally, governments hope for increased investment, but fear for job cuts and increased market power. On the whole, going through and making a plan for aligning these incentives is a good idea in preparation for M&A negotiations, yet another piece of evidence about the prescriptive power of the governance approach.

The above issues provide examples of and evidence for the claim that governance thinking, embodied in the content of property rights ideology, transaction cost related boundary drawing exercises, neoclassical calculativeness and maximizing behavior, agency theoretic incentive, information and monitoring practices as well as issues related to incomplete and complete contracting, has significant application possibilities, managerially oriented research streams and general pragmatic relevance for decision-making.

With the aid of these exemplary contributions, six basic M&A decision-making areas can be refined.

Table 18: Six governance-related M&A decision-making areas and their key questions

1.	Basic philosophy for performing M&A	What are the fundamental goals of M&A?
2.	Understanding the limits of M&A operations	What *can* be done?
3.	The influence of M&A on stakeholder groups	Who influences / is influenced and why/how?
4.	Economizing the boundaries of the firm	How and where can we gain from M&A?
5.	Maximizing the M&A outcome	What needs to be calculated?
6.	Establishing the new corporate entity	What are the necessary (legal) operations?

From a more managerial decision-making point of view, there is an acute need to organize M&A frameworks as a process. As pointed out by proponents of the process stream (e.g. Haspeslagh and Jemison 1991, Jemison and Sitkin 1986, Shrivastava 1986), the chronological and sequential nature of the M&A decision-making process needs to be considered. For a closer elaboration of the process perspective to M&A research, see Appendix 1.

Out of the lessons presented by the M&A research streams about the existence, boundaries and internal organization of M&A, the processual models are perhaps closest to managerial decision-making. This is an important insight and should be considered in the formation of any novel M&A framework. In other words, the management of M&A in general has increasingly been focused around the management of the various steps of the M&A process. Thus, any managerial aspect of a holistic governance perspective to M&A should be organized to respect the processual view of M&A. This is attempted in Section 3.3. below.

Propositions about the use of governance insights in a building a managerial M&A decision-making framework:

Proposition 31: The governance perspective has some considerable contributions to practical M&A management and decision-making settings. Perhaps more importantly, future research could extend this contribution significantly.

Proposition 32: The contribution of the governance perspective can be seen in six M&A decision-making areas ranging from the underlying philosophy for performing M&A to the practicalities of establishing the new legal entity.

Proposition 33: Given that the processual view of M&A has received the most managerial attention, any new framework attempting to tackle real-life M&A decision-making should organized so that it is compatible with the view of M&A as a process.

Proposition 34: Assuming that the governance approach is theoretically not a single, monolithic approach but rather a perspective consisting of partially overlapping and contradictory approaches, managerial decision-making can potentially offer 'the governance perspective', as a whole, an equally important application area as academic research.

3.2.5 Shortcomings of governance theories of the firm in M&A

The issues discussed here are multifaceted and even complex to some extent. This is why the critical judgments and shortcomings, which are accounted for in other parts of the study, especially the conclusion, have not been presented amidst the arguments, but collected here. This section aims at summarizing the findings of the analysis in Appendix 2 regarding the shortcomings of the governance theories of the firm in understanding and analyzing M&A. Key attention is paid to crystallizing the relationship between the general level criticism, criticism regarding some key assumptions and criticism on specific governance theories of the firm. On the other hand, the perceived shortcomings are briefly mirrored against the perceived strengths and contributions emerging from the linkages in Section 3.2.3. This section is thus a compilation of critical judgments concerning the contribution of the governance theories of the firm on M&A. In a nutshell, this section briefly reiteratires the criticism presented against the governance theories of the firm and attempts to investigate what the repercussion on their applicability to the M&A discourse is.

General shortcomings and repercussions

As explained in Appendix 2, the governance perspective in general can be perceived to suffer from a) the limited scope it has in organizational analysis resulting from the omission of inter-organizational, industry level and, to some extent, macro-level considerations, b) the fixation to an economics mindset and methodology, c) the omission of the social and human perspective to M&A making the governance approach "bad for practice"[76] and d) the lack of decomposing and systematically analyzing specifics of the internal workings of the firm, particularly through empirical research.

There are four repercussions to the applicability of the governance perspective to M&A in general. Firstly, a governance perspective based on theories of the firm cannot exhaustively

[76] Ghoshal and Moran 1996: p. 1

deal with M&A but needs support from economics of organization that incorporates inter-inter-organizational, industry level and, to some extent, macro-level considerations. Secondly, the governance perspective is severely limited in tackling of managerial, psychological and organizational aspects of M&A (Mueller 1995). Thirdly, the governance perspective must be used with caution, given that it can be "dangerous" if used inappropriately (Ghoshal and Moran 1996). Finally, the governance perspective might not be able to give satisfactory answers regarding the internal organization of M&A. Thus complementation with lessons from the competence perspective and/or a great deal of related empirical research is needed.

Shortcomings and repercussions of particular assumptions

The following fundamental assumptions shared by some of the governance theories have been heavily criticized. Firstly, there is considerable criticism towards the simplified model of an opportunistically behaving human who does not collaborate and has no moral restraints (Yli-Renko 1999, Ghoshal and Moran 1996). Secondly, the emphasis of efficiency as a dominant measure of success for all economic actors can be criticized (Ghoshal and Moran 1996). Thirdly, the criticism of perfectly complete contracting has been abundant and the notion of incomplete contracting is in this day and age widely accepted.

The repercussions to the use of governance approaches in M&A are also three-fold. As analyzed in Appendix 2, the criticism on the assumptions implies a current inability of the governance approach to understand, and consequently a need to study, a) collaborative human action in M&A, b) managerial and other non-efficiency minded M&A motivations and success criteria[77] and c) the role of non-contractible (*ex post*) bargaining in M&A deals more carefully. Table 19 summarizes the general and assumption-specific criticisms as well as their repercussions to the use of the governance perspective in M&A research

Table 19: Summary of general and assumption-specific criticism of the governance perspective and the repercussions to the use of the governance perspective in M&A research

Issue under criticism	Criticism / shortcoming argument	Possible/argued implication for the compatibility of the governance perspective to M&A
Governance perspective in general	Limited scope in organizational analysis resulting from the omission of inter-organizational, industry level and macro-level considerations	Cannot exhaustively deal with M&A but needs support from economics of organization that incorporates inter- inter-organizational, industry level and, to some extent, macro-level considerations

[77] Starting with e.g. Roll 1986 and Becovich and Narayan 1993, such research already exists

	Fixation to an economics mindset and methodology	Severely and irreversible limited in tackling of some managerial, psychological and organisational aspects of M&A.
	Omission of the social and human perspective to organizational restructuring	Must be used with caution, given that can be dangerous if used ignorantly.
	Lack of particularly empirical analysis concerning the internal workings of the firm	Limited contribution regarding the internal organization of M&A. Help from competence perspective and/or more empirical research needed.
Assumptions behind some governance theories	The opportunistic human as an economic actor with no collaborative intent or moral is a simplistic and unrealistic assumption	Inability to understand and need to study collaborative human action in M&A.
	Efficiency as the sole measure of success is a simplistic and unrealistic assumption	Inability to understand and need to study managerial and other non-efficiency minded M&A motivations and success criteria
	Complete contracting is a simplistic and unrealistic assumption	Inability to understand and need to study the role of non-contractible (ex post) bargaining in M&A deals

Shortcomings and repercussions of specific theories

During the research performed for this study, a plethora of critical judgments concerning specific governance theories of the firm were identified. Table 20 summarizes the shortcomings of specific theories of the firm together with a note on the implications this criticism suggests on their application to M&A (See Appendix 2).

Table 20: A collection of criticisms on governance theories of the firm and repercussions to their use in M&A research

Governance theory under criticism	Criticism / shortcoming argument	Possible/argued implication for the compatibility of the governance perspective to M&A
Neoclassical economics	Neoclassical TOF is confined by strict assumptions concerning e.g. complete contracting, perfect information, utility maximization and the constraints of the production function.	Neoclassical TOF is deoperationalized vis-à-vis M&A.
	In neoclassical economics definitions, a merger is considered a mere amalgamation of two production functions[78].	Applicability to the discussion concerning definitional boundaries of M&A is limited.

[78] On the level of the industry and the level of the economy, the neoclassical literature is more interested in what the merging firms are like, since this might be significant from the point of view of monopoly power and macroeconomic stability respectively.

	Omission of other justification for the existence of M&A than the maximization of abnormal profit through monopoly power.	Applicability to the discussion concerning the justification for the existence of M&A is limited.
	Neoclassical economics assumes the firm as a 'black box' and is thus not interested in the managerial, psychological, legal or organizational internal processes of M&A.	Applicability to the discussion concerning the internal organisation of M&A processes is limited.
Agency theories	Are epistemologically not complete theories as such, but rather a collection of models and frameworks (Eisenhardt 1989)	Limited appreciation in academia reducing applicability to M&A literature
	Is particularly prone to assuming without exception that managers are involved in continuous utility maximization (Kaplan 1983)	Agency theory is a valid, but not a sufficiently generalizable method for analyzing complex organizational realities in the context of M&A
	Omits opportunistic behavior by principals (Perrow 1986)	Agency theory is a valid, but not a sufficiently generalizable method for analyzing complex organizational realities in the context of M&A
	Underestimates the importance of authority (Perrow 1986)	Agency theory is a valid, but not a sufficiently generalizable method for analyzing complex organizational realities in the context of M&A
	Fails to account for organizational slack and promotion policies which reduce the effects of adverse selection and moral hazard (Perrow 1986, Foss 2001)	Exceptions to the key findings of agency theory reduce the credibility of any attempt to apply it to e.g. M&A
	Omits a number of sources of outcome uncertainty within the organization and lacks consideration for the dynamics of incomplete knowledge (Nilakant and Rao 1994)	Reduces the applicability to particularly M&A involving immaterial resources and less developed organizations
	Positivist agency theory is abstract and minimalist, and formal P-A work has a constrained mathematical nature (Hirsch et al 1987, Perrow 1986)	Neither stream of agency theory has established sufficient merit to be seriously applied to M&A. Implies also inaccessibility to organizational theorists and other M&A related audiences.
	Agency theory is not interested in organizational boundaries. Given certain P-A conditions, agency theory doesn't care whether the change in governance structure involves the amalgamation of organizations or not.	Even though agency theory can be applied to analyze numerous M&A related issues, it does not address M&A *per se*.
Transaction cost economics[79]	TCE is crude: the models are primitive, the trade-offs between governance structures are underdeveloped and there are severe measurement problems (Williamson 1985).	The application of transaction cost economics theory to real life scenarios, e.g. M&A, is difficult
	TCE is instrumentalist: humans are unrealistically calculative and the theory omits irrationality (Williamson 1985, Ghoshal and Moran 1996).	TCE fails to accurately analyze the human side of M&A processes[80].
	TCE is incomplete (Williamson 1985)	Hinders the application of the theory to non-*ceteris paribus* situations, which real-life M&A surely represents.
	Lack of application of TCE into M&A issues beyond the simplified make-or-buy setting	TCE thinking could be applied to a number of issues close to a) the diversification and b) the

[79] Williamson 1985, p. 390-393

[80] e.g. the triggering of M&A ideas, selection of M&A strategy, initiation of the M&A dialogue as well as negotiation, contract writing and various post-merger processes.

	(Rumelt and Steven 1992, Richter 1999).	internal organization of firms, which are dramatically changed as a result of M&A decisions.
Traditional and new property rights	Offers a simplistic, quasi-economic justification theory to back up an ownership-centered approach to the boundaries of the firm discussion[81] Many concepts sacrificed 'on the altar of formalization' (Kreps 1996)	Focuses M&A analysis to mechanistic numerical exercises e.g. consolidated balance sheet valuations, share price estimates and market share analyses, withdrawing high-level attention away from the organizations as a key concern
	Ownership-centered property rights mindset omits softer sides of the organization (Rajan and Zingales 1998, Kreps 1990, Klein 1988)	The theory needs to develop to address e.g. power and capabilities, cooperation and corporate culture as well as teams and the inalienability of human capital to be able to relate to M&A
	Neglect of bounded rationality as a primary behavioral assumption leads to lack of assessment of *ex post* issues of ownership changes (Hart 1990)	Fails to consider the governance outcomes of ownership changes involving *ex post* anomalies, limiting application to real-life M&A.
	Elevation of the impact of ownership on efficiency far beyond that of e.g. organizational structures and information channels.	Mitigates the importance of internal processes in analyzing M&A.
	Fails to acknowledge that economizing on the organizational structure and information channels may have welfare consequences	Fails to understand the 'synergy' arguments in M&A and generally leads to an incomplete understanding of M&A

Generally, Table 20 echoes the general shortcomings of the governance theories of the firm in M&A. The most common criticism deals with the formality of the theories of the firm and the difficulty of applying them to M&A thinking and decision-making. The assumptions that the governance theories present regarding the perfectness of contracting, the contracting environment and the nature of human incentive formation are key targets for such criticisms. These assumptions rise from the economics background of the governance theories and are fundamental prerequisites to their rigorous model-like generalizability. However, their key ideas are valid for analyzing M&A from managerial, organizational and psychological perspectives that do not need or are not even familiar with the rigorous modeling needs, and this criticism thus raises a question about the need to use the governance theories in conceptualizing, not modeling, M&A settings. As economic theories, governance theories of the firm are weak at analyzing the managerial, organizational and psychological perspectives of M&A, but there is great potential in developing governance-based conceptual frameworks that suit these arenas.

Secondly, the sphere to which any specific governance theory of the firm can be applied seems to be limited, emphasizing the usefulness of a wider understanding. This produces the general implication that single governance theories are not able to cope with complex organizational realities alone and analysis based on them is inherently partial. Support can be seen to emerge from two directions. On the one hand, the insights of the governance theories need to be integrated, as together they offer a much wider set of perspectives. Given the many similarities of the theories (which are also reflected in the criticisms), this does not seem an

[81] For further discussion see e.g. Lloyd 1997 and Baker and Smith 1998

implausible exercise. On the other hand, the governance perspective can contribute to a wider firm theoretical framework of M&A, and strategy research in general, in which other perspectives, most importantly the competence perspective to strategy research (cf. Williamson 1999, Madhok 2002), covers the areas in which governance theory is weak.

Thirdly, some of criticism is "positive" and directed at identifying knowledge gaps in the theories and developing their applicability. These issues are highlighted in the discussion of the study, where conclusions are drawn concerning which and how theories of the firm could be applied to M&A rationales and future research avenues are identified.

Propositions about the shortcomings of the governance theories of the firm in M&A

Proposition 30: The governance theories of the firm are focused on firm-level analysis to be able to exhaustively deal with M&A. Support from economics of organization that incorporates inter- inter-organizational, industry level and, to some extent, macro-level considerations is needed.

Proposition 31: The governance perspective is severely limited in tackling of some managerial, psychological and organizational aspects of M&A, which are often most acute when analyzing the internal organization processes of M&A. Support from the competence perspective and/or a great deal of related empirical research is needed.

Proposition 32: There are numerous knowledge gaps in how governance theories are applicable and have been applied to M&A analysis. These diminish the credibility of the governance theories of the firm but simultaneously present potentially fruitful future research avenues.

Proposition 33: The sphere of M&A research to which any specific governance theory of the firm can be applied is limited. This emphasizes the need and usefulness of a wider, holistic governance perspective to M&A.

3.3 A governance approach to M&A

On the basis of the findings in the conceptual studies in Appendices 1-2 and the bibliometric studies in Chapter 2, as well as the interpretation of all of these studies in Sections 3.1-3.2, a holistic governance perspective to M&A is necessary and has considerable potential for future development. Here, a governance perspective is understood to comprise all theoretical approaches that study the firm-level institutional mechanisms by which M&A

are initiated, negotiated, designed, coordinated, monitored, adapted and terminated (cf. Heide 1994).

The findings of the bibliometric and conceptual studies indicate that a governance perspective to M&A consists of interlinkages between the governance discourse and the M&A discourse on levels ranging from deep intellectual roots to shared views on factual affairs. These paradigmatic linkages between the two discourses constitute the substance of the conceptual interaction between governance theories of the firm and M&A. While the governance theories of the firm answer the questions dealing with the boundaries, existence and internal organization of firms, a governance theory to M&A should be able to answer the questions dealing with the boundaries, existence and internal organization of M&A. Striving towards a governance approach to M&A thus requires an understanding about the nature of governance oriented theorizing in order to be able to organize conceptual research findings into appropriate categories dictated by the 'governance questions'.

Equally importantly, the cross-fertilization between the two discourses has two variants. On one hand, the governance perspective is seemingly able to explain why the M&A landscape and the research that has investigated it looks the way it does. On the other hand, the governance perspective seems to be able to yield some tools to managerial decision-making situations and definitely draws attention to the future development of such tools. The bibliometric and conceptual results can hence be suggested to indirectly propose an *explanatory* approach and a *prescriptive* approach, thus incorporating both *why* and *how* questions, should be combined in order to appropriately understand and restructure a paradigm from a governance perspective. Oliver and Ebers (1998) have manifested the value of bibliometric research in restructuring paradigms using a two-partite governance approach to analyzing the discourse interested in inter-organizational relationships. In a sense, the same is attempted here, albeit with somewhat more profound aims and deeper research material, for M&A.

Thus, Section 3.3 aims at proposing a novel, holistic and bi-partite governance-based perspective to the study of M&A. The first part of the perspective, an *explanatory governance approach to M&A*, attempts to *explain why* the M&A landscape looks the way it does by tracing back the fundamental institutional questions regarding the conceptual boundaries, justifications for existence and internal organization processes of M&A. It also attempts to summarize and clarify the answers governance theory has provided to these questions, together with speculation of why these particular answers have been given. The role of a) the disciplinary traditions of M&A research and b) the institutional environment in which M&A occurs are highlighted in these answers. Thirdly, the shortcomings in the governance-based M&A research landscape, ensuing from both the limitations, shortcomings and inabilities of the governance approach and simply the lack of particular types of research, are analyzed with an explanatory focus. Finally, the *explanatory governance approach to*

M&A attempts to point out acute research avenues arising from the outlined questions, answers and shortcomings. Again, the focus is to develop the cross-fertilization between governance theory and M&A research further.

The second part of the governance perspective consists of a *prescriptive governance approach to M&A*. The focus here is on how the governance approach can be used in making M&A related decisions, understanding the practical repercussions of institutional arrangements to areas of the organization's functioning and generally performing M&A better. In this analysis, the different roles of specific governance theories of the firm in managerial thinking, the use of governance thinking in particular fora and the development of a process model of the governance perspective, in order to match the managerial models of M&A processes, are highlighted. Some future research avenues in the *prescriptive governance approach to M&A* are also pointed out.

On the whole, Sections 3.3.1 and 3.3.2 constitute the M&A-specific grand proposal of how the governance perspective can be operationalized in the analysis of M&A. The explanatory and prescriptive governance approaches constitute the M&A-specific application of a holistic framework, 'a governance perspective', which can conceptually be seen to correspond to what has become known as the governance perspective to strategy or management research in recent dialogue (see e.g. Williamson 1999, Madhok 2002, Foss 1999, Langlois and Foss 1999). The attention is now turned to suggestions regarding the content of the explanatory and prescriptive approaches before the discussion of the overall contribution and shortcomings of this study as well as the general future of the governance perspective as a research paradigm in the future in Chapter 4.

3.3.1 Explanatory governance approach to M&A

This section describes the first part of the governance perspective, an *explanatory governance approach to M&A*, by attempting to explain why the M&A landscape looks the way it does. For academic purposes, the introduction of a new conceptual tool requires an overview of its central features and an account on how the proposed new concept relates to existing research.

More specifically, explanatory governance approach to M&A concentrates on:

a) Outlining the **structuring of the governance approach to M&A** vis-à-vis other key concepts such the governance perspective to management research and the governance theories of the firm

b) Explaining the **state and nature of governance-based M&A research** vis-à-vis its key questions, answers, shortcomings and implications.

c) Discussing ways in which the governance perspective can contribute to our **understanding** of **disciplinary traditions and institutional environments** in M&A research.

The explanatory governance approach to M&A is a collection of governance theoretical issues that answers questions regarding the basic questions of the conceptual boundaries, justifications for existence and internal organization processes of M&A. An important part of the explanatory governance approach is the acknowledgement of knowledge gaps and shortcomings in the governance-based M&A research landscape, ensuing from both the limitations, shortcomings and inabilities of the governance approach and simply the lack of particular types of research. Furthermore, implications on the future development of the explanations, many of which arise from the identified knowledge gaps are given. In this sense, the explanatory approach represents the past, present and future of governance related M&A research and is such a valuable tool for academics performing research in this area. Again, the primary focus is thus on developing the cross-fertilization between institutional governance theory and M&A research further.

Besides mapping the M&A questions, answers, shortcomings and implications of the different governance theories of the firm, a holistic framework will attempt to find common denominators for the different approaches. Special emphasis is paid on two common denominators, namely the disciplinary traditions of M&A research and the institutional environment in which M&A occurs.

The structuring of the governance perspective in M&A

The first task is to examine the relationship between the structuring of the governance perspective and M&A research. This also makes clear the difference between the prescriptive and explanatory approaches within the governance perspective. A fundamental starting point in governance theoretical constructs are their contracting assumptions. Contracting has assumed a central position in organizational and institutional economics and the many assumptions regarding e.g. the perfectness of contracting (incomplete vs. complete) and the contracting environment (e.g. asset specificity, bounded rationality, imperfect information etc.) are the heritage of the economics background.

These assumptions, in their different combinations, underlie the governance theories of the firm, as indicated in Appendix 2. There are various categorizations of the governance theories of the firm (see e.g. Foss 2000) that vary in e.g. whether the rather minimalist neoclassical

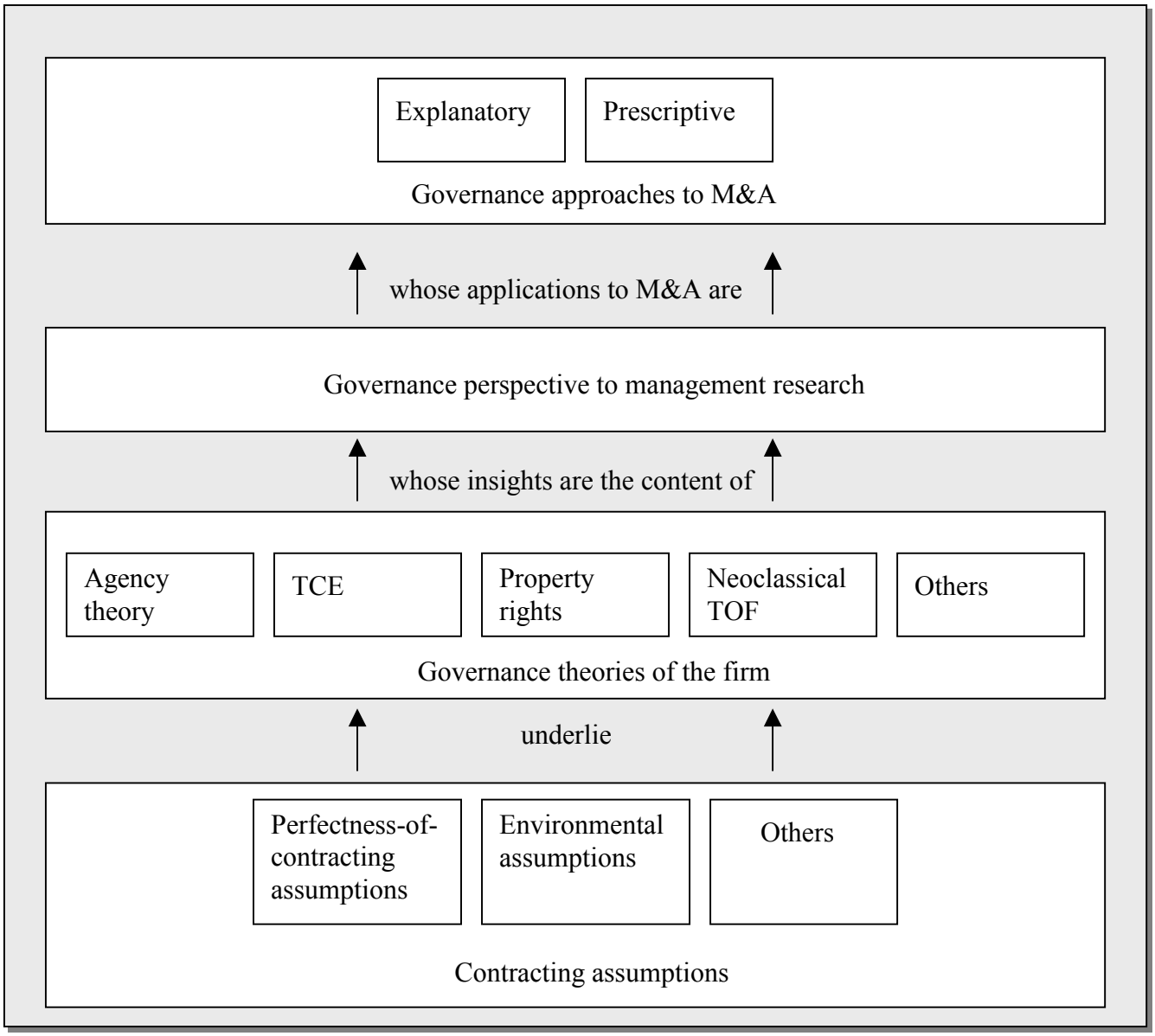
theory is included as a theory of the firm or not and whether the early complete and incomplete contracting perspectives are merited for being theories themselves. Even so, the four principal governance theories of the firm employed in this study, namely neoclassical TOF, agency theory, transaction cost economics and property rights theory, are widely considered as the major governance theories of the firm.

By iterating the insights of the governance theories to major questions regarding the boundaries, existence and internal organization of firms (see Appendix 2), this study builds an understanding of what the content of a holistic governance theoretical perspective to management research is. Out of this holistic perspective, phenomenon-specific approaches can be drawn. M&A is an example of such a phenomenon. The governance perspective, which essentially refers to the collection of insights from the governance theories of the firm, can be applied the phenomenon from different angles. Here, the explanatory and prescriptive approaches are examples of such angles. It seems logical to choose these approaches according to the audience of the argument, and in M&A the two principal audiences are the academic and professional communities respectively.

In essence, this means that all academically relevant governance theoretical insights fall into the explanatory governance approach to M&A and all managerially relevant insights into the prescriptive approach. Naturally, this implies that the two are overlapping and, in absolute terms, one could argue that they are the same; everything is relevant to everybody. However, the degree of relevance varies significantly, as does the way in which the insights should be presented, and there thus is a clear motivation for distinguishing between the two.

Figure 4 illustrates this interpretation of the linkages between the concepts.

Figure 4: A conceptual map of the governance perspective and its applications



Governance-based M&A research

The research questions, answers, knowledge gaps and implications are arguably the most interesting content of the governance perspective to M&A for research-oriented academic practitioners. That is, academics can be argued to be interested not only (or perhaps *at all*) in the M&A-the-phenomenon but also (or perhaps *only*) M&A-the-research-subject. In the following, the past, present and future of governance based M&A research is thus analyzed.

Three are three primary question areas about M&A that can be formulated (in a tone reminiscent of the governance perspective) as a) the definitional boundaries, b) the justifications for the existence and c) the internal organization processes of M&A. Figure 5 depicts the explanatory governance perspective to M&A in the light of these main questions, the answers provided by the governance theories of the firm, shortcomings and existing knowledge gaps as well as implications and avenues for future research.

The definitions that the governance theories of the firm provide for M&A concentrate on various different issues but all reflect the economics-oriented view of the world. While neoclassical economics holds the firm as a mere production function, the nexus of contracts perspective sees M&A as just another contract, or rather a set of complex contracts. In transaction cost economics, M&A is seen as an efficiency seeking mechanism, as market transactions are transferred under a common hierarchy by extending the boundaries of the firm. The boundary extension is also key to the definition provided by the incomplete contracting perspective. Traditional property rights theory, then again, concentrates on M&A as a resource allocation mechanism that assigns factors of production into a governance form that endorses their most efficient use, while newer strands of the same theory emphasize the transfer of authority. Altogether, the governance perspective consists of economics-minded, outcome-centered, mechanistic and simplistic conceptions of M&A. While the definitions shed light on the various efficiency mechanisms, there is altogether a shortage of organizational and human elements. Furthermore, the definitions omit hybrid organizational forms and other non-M&A contractual alternatives. Thus, the governance perspective does provide multiple definitions for M&A but is insufficient in determining the definitional boundaries of the concept. There are some clear implications. Obviously, the governance-based definitions do not provide a sufficient definition of M&A. More detailed definitions of e.g. the different types of M&A and the relationship of M&A vis-à-vis other contractual arrangements with similar outcomes are needed. This discussion could emerge from the transaction cost economic comparison of hybrids and hierarchies (Williamson 1985). On the other hand, the governance definitions, which bear much resemblance to each other, should be integrated to support the governance perspective as a holistic framework.

The governance perspective is perhaps at its strongest in the analysis of the motivations and justifications for the existence of M&A. Here, the disciplinary input is much broader and the governance perspective, despite its roots in fundamental economic theory, can be perceived to cover a much larger share and link better with the M&A reality. While the neoclassical explanation of the generation of abnormal profits via monopoly power addresses the competitive strategy of companies, the nexus of contracts perspective argues for the establishment of a certain, context-specific capital structure (Alchian and Demsetz 1972). The risk, information and incentive related agency theoretical justifications argue for the occurrence of risk-diversifying owner-manager and conglomerate M&A. M&A arising from

corporate governance related justifications is also within the sphere of agency theory. Lately, agency theory has also addressed information structure and communication related explanations to establishing hierarchies through M&A. The incomplete contracting tradition's idea of the coordination problem is very applicable to M&A in conceptualizing the unpredictability of post-merger processes, and transaction cost economics has refined this thought by manifesting how M&A removes transaction costs by establishing authority, removing difficulties arising from incomplete contracting and mitigating the possibility of asset specificity-based hold-up and resulting rent appropriation. Property rights theory, which is perhaps one of the strongest in defining M&A, argues that the market for the transferability and competitiveness of ownership justifies M&A through efficiency seeking and the establishment of authority. Contrary to agency theory, however, this 'market' is entirely motivated by efficiency gains and other mechanisms affecting the incentive structure, such as the unavailability of information, empire-building or 'taste' are left without concern.

Despite many merits, a number of shortcomings and knowledge gaps prevail in the governance perspective's justification for the existence of M&A. Firstly, there are few insights into the firm-internal organization related motivations of M&A, most importantly various synergy arguments (Chatterjee 1986, Lubatkin 1983). The governance explanation is also absolute in the sense that it leaves no room for chance or seemingly irrational behavior[82]. Similarly, the justifications put forth are, albeit the fact that they represent a wider understanding of the situation, still efficiency-minded and lack an appreciation for human and organizational motivations and explanations. Thus, much complementarity between the humans and organizations approach to M&A and the governance perspective is perceived.

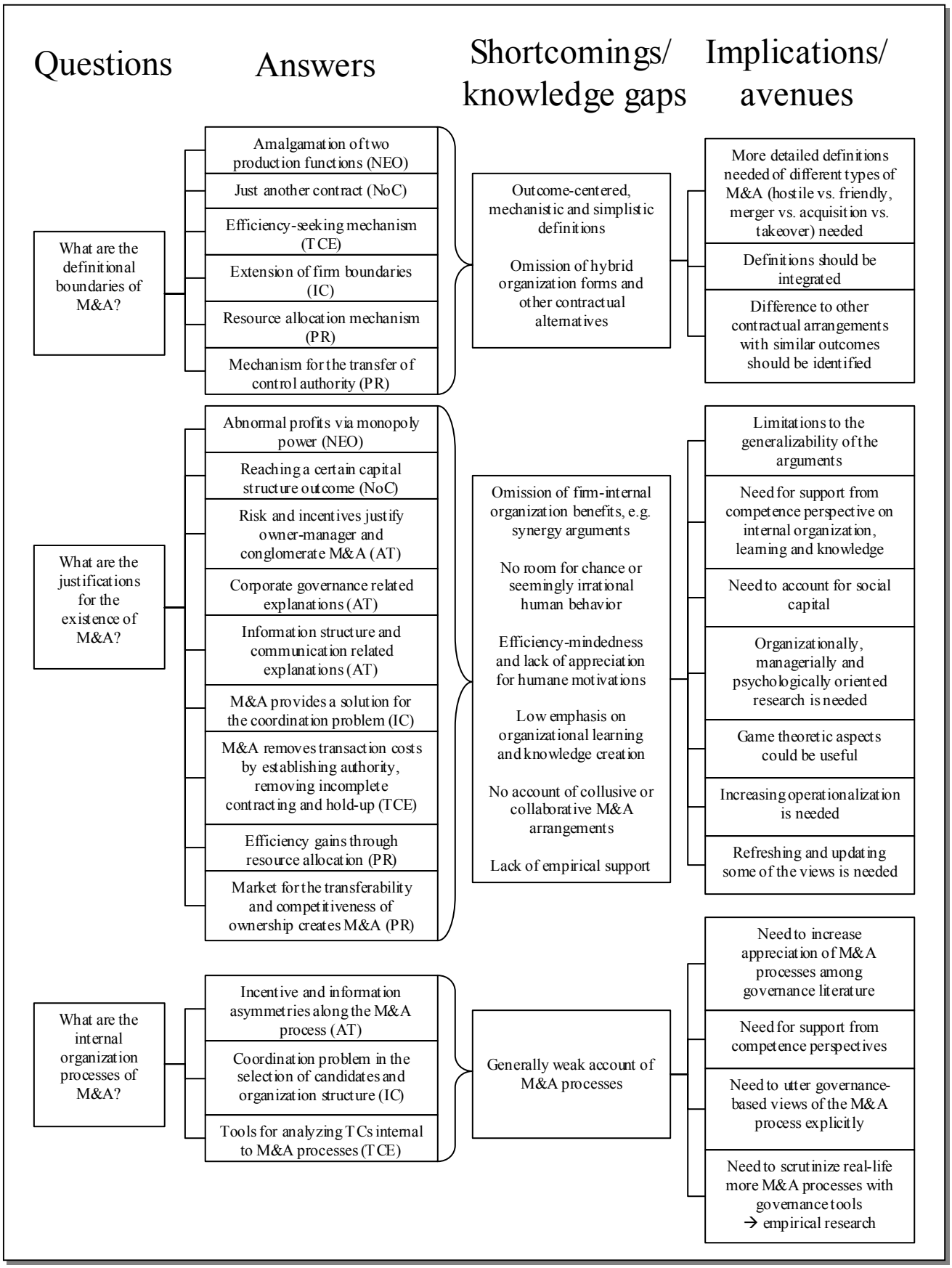
The research implications regarding the justifications for the existence of M&A are broad. One severe issue is the generalizability of the governance perspective to M&A cases. Are M&A settings so unique that a holistic governance perspective is nearly always partially wrong? Ignorantly applied, the governance perspective can indeed be dangerous (cf. Ghoshal and Moran's 1996 criticism of TCE) given that it is inherently partial. As such, the governance perspective operates as a meta-theory and is thus only theoretical frame of reference that directs thinking to certain key questions at the level of the firm. In order to develop the credibility of the governance approach, more applied research, empirical validation and, most probably, support from the competence perspective on issues related to the internal organization or firms, learning and knowledge. Organizationally, managerially and psychologically oriented discussions of M&A are needed. For example, extensions discussing the codification of knowledge and the iteration between tacit and explicit knowledge as well as the relationship between information and knowledge (e.g. Steinmueller 2000; Ancori, Bureth and Cohendet 2000) and organizational learning (cf. Loasby 1983;

[82] Though uncommon, there are examples of chance being incorporated in frameworks, even ones emerging from a microeconomics background. Porter's (1990) diamond model of international competitiveness depicts chance as one of the major determinants.

1999) in the context of M&A could be useful. Similarly, an account of social capital (E.g. Coleman 1990, Putnam 1993, Fukuyama 1995, Yli-Renko 1999) is lacking from the governance perspective even though it can act as an incentive alignment instrument contracting settings. Similarly, applied game theory could provide the governance perspective to M&A a tool for analyzing competitive M&A. In any case, increasing operationalization and a refreshing and updating of some of the governance theoretical perspectives to account for certain theoretical extensions is needed. Such updating is constantly underway (cf. the birth of new property rights theory admitting to incomplete contracting (e.g. Hart 1990), dynamic transaction costs (Langlois 1992), multiple agency settings (Holmström and Milgrom 1991) and so on). Nevertheless, knowledge gaps vis-à-vis e.g. the role of dynamics in contracting and stewardship theory, prevail and new ones emerge with novel conceptual research.

Finally, this study has found that the governance perspective's account of the M&A processes is generally weak. There are some promising avenues, e.g. the agency theoretic scrutiny of incentive and information asymmetries along the M&A process (e.g. Kesner, Shapiro and Sharma 1994, Parvinen and Tikkanen 2002), the apparent coordination problem in the selection of M&A candidates and organization modes as well as the tools transaction cost economics provides for certain M&A related firm-internal organization issues (see e.g. Richter 1999). In any case, governance theory is still undeveloped in this aspect of M&A analysis. The implications are already familiar. There is an increased need for real-life based analysis of M&A processes that employs governance theory or tools developed from it. Again, support is needed from the competence perspectives. Altogether, there is an increased need to increase the appreciation of M&A processes in governance literature, which can be done through a systematic selection of M&A process related topics for governance theory based research.

Figure 5: The explanatory governance approach to M&A. A map of the main M&A questions, answers provided by the governance theories of the firm, existing knowledge gaps and implications and avenues for future research (Neoclassical Economics = NEO, Nexus of Contracts = NoC, Agency Theory = AT, Incomplete Contracting = IC, Transaction Cost Economics = TCE, Property Rights = PR)



Contributions, disciplinary traditions and institutional environments

Besides a collection of research questions, answers, knowledge gaps and implications, the explanatory governance approach to M&A also aims at clarifying the role of a governance approach to management research. Arguably, the governance approach can be predicted to succeed in constructing considerable academic contributions. In the following, the way in which a holistic governance perspective can produce social scientific contributions is analyzed according to a contribution process identified in the literature, namely the *process of constructing intertextual coherence* (Locke and Golden-Biddle 1997).

The governance perspective manifests considerable potential to construct intertextual coherence. Locke and Golden-Biddle (1997) argue that literature making a contribution crafts networks of existing studies and each such network is conceptualized as an intertextual field. Here, the governance perspective assumes two forms. Firstly, the governance perspective to M&A is a thought construction that represents so-called *synthesized coherence*. Being a phenomenon-specific application of a more general governance perspective, the governance perspective to M&A demonstrates typical synthesized coherence as it "cites and draws connections between works and investigative streams not typically cited together to suggest the existence of undeveloped research areas" (Locke and Golden-Biddle 1997, p. 1030). By remapping the structuring of the M&A discourse from the perspective of the governance theories of the firm, identifying the paradigmatic linkages between the two discourses on three levels and identifying the potential shortcomings of applying governance theories to M&A, the governance perspective thus manifests synthesized coherence.

Secondly, there are features of *non-coherence* in the governance perspective, not as a perspective to M&A, but as a management research perspective as a whole.

> "In noncoherent intertextual fields, we find referenced works that are presented as belonging to a common research program but as linked by disagreement. In contrast to the previous two intertextual fields, in which the construction of consensus is figural, here the key textual action is the construction of discord, albeit among researchers who agree on the importance of a research domain" (Locke and Golden-Biddle 1997, p. 1038).

The different governance theories of the firm can be argued to represent exactly such an area. They all agree on the importance of governance in the analysis of organizations and the organization of economic activity and at least somehow address the key questions regarding the existence, boundaries and internal organization of firms (Foss 2000). Nevertheless, the emphases of the various governance theories are different and the assumptions (e.g. incomplete vs. complete contracting) and outcomes vis-à-vis the organization of economic

activity can be different. In other words, even though the governance theories are interested in similar issues, the answer they provide for a given problem can be conflicting[83]. The task of integrating the governance theories of the firm as one holistic perspective is a step in the direction of accepting these differences. In terms of the type of scientific tradition it represents, the governance perspective thus resembles more a general social scientific approach than an economics approach, which is arguably where it originates.

The way the governance perspective exhibits intertextual coherence is thus a sign of its ability to contribute to scientific thinking. It essentially draws together different pieces of a number of hitherto dispersed pieces of a puzzle. Typically, once the pieces have been set in place, anyone can see that there is a clear linkage as if one would be looking at a puzzle whose pieces fit. The difference between a puzzle and the governance perspective in M&A and management research in general is that governance theory operates in a field, which is academically featured by somewhat irreconcilable disciplinary orientations and de facto featured by the institutional environment in which the M&A, or any other phenomenon, takes place.

The disciplinary orientations have received a lot of attention in this study and it is easy to see why an interdisciplinary approach, such as the governance perspective to M&A attempts to be, would not be accepted from any single disciplinary angle. It is characteristic of discourses engaged in disciplinary turf wars to reject interdisciplinary research (cf. Frye 1999, Armstrong 1998). The concept of the organization of economic activity, with its various levels of analysis (individual, firm, interorganizational, industry, etc.) is a promising concept that can be operationalized from practically any disciplinary angle, finance as well as sociology. Yet, it seems evident in any case that the acceptance of the governance perspective requires the acknowledgement of a rather desperate need for interdisciplinary research. The governance perspective is not rigorous enough in any of its aspects to be otherwise accepted.

As for the institutional environment, it seems obvious that an explanatory governance perspective to M&A cannot explain all aspects of all M&A in all institutional environments. It is evident that e.g. the legislative and political environment determines whether the

[83] A good example of the conflicting predictions and prescriptions between governance theories of the firm in M&A is the treatment of post-merger processes. Transaction cost economics assumes that contractual incompleteness (i.e. the fact that not everything can be agreed upon in the M&A contract and that much is left to post-merger management) emerges from the bounded rationality of the human actors involved. Problems from bounded rationality can be alleviated by changes in organization structure and information channels (Williamson 1970). Property rights theorists, on the other hand, argue that it is simply impossible to contract the use of the assets in a relation and that organization structure and information channel changes are not likely to be able to have any effect on overall welfare (Hart 1990, Foss 2000). The implication is that transaction cost economics believes that active and radical post-merger management can yield considerable benefits, whereas property rights theory contends that the merging parties are more or less stuck with the level of non-contractibility resulting from integration.

governance theoretical insights to authority and contracting apply. The presence of 'capital market authority' or 'capital market governance' is a typical difference even between Western Anglo-Saxon and Central European economies (Kirchmaier 2000). The numerous social institutions influencing M&A, e.g. family ownership, investment banking inner circles as well as values and norms that can either act implicitly or disseminate all the way to national antitrust legislation. The governance perspective is, with its focus on contracting and the institutional environment, strong at discussing the effects of institutions and institutional differences to M&A settings. For example, the use of such key governance concepts as incompleteness of contracting, property rights and authority can are useful for e.g. analyzing the institutional environment in the context of M&A projects in developing countries.

The nature of the contribution by the exploratory governance perspective, the pressure from the dispersed disciplinary nature of M&A research and the significant role of the institutional environment in M&A are examples of factors that render the governance perspective to M&A a cognitive framework. As with the prescriptive governance approach to M&A presented in the following Section, also the exploratory framework operates through the minds of individuals, i.e. it works primarily through the influence it has on the cognitive frameworks of academics. This necessitates both an overview of the conceptual linkages between governance and M&A, as well as a discussion of their relationship and ability to contribute to scientific enquiry. Both have briefly been attempted in this Section.

3.3.2 Prescriptive governance approach to M&A

In order to be able to call the governance perspective a holistic way of researching, analyzing and conducting M&A, operationalization and reflection to managerial decision-making situations are arguably as necessary as the understanding of the state and nature of academic discourse established above.

The prescriptive governance approach to M&A focuses on *how* M&A decisions are made, how M&A processes are managed, and how governance thinking can be applied to this setting. There seem to be at least three different paths linking the general governance perspective to real-life M&A management, namely a) through the influence on managers' cognitive mindsets, b) through the respect of the process orientation in M&A research that has proven popular among managers, c) indirectly through the impact on corporate strategy thinking and more directly through lessons to specific functional areas of M&A management.

More specifically, this part of the research concentrates on:

a) Outlining the **different roles of the governance theories of the firm** in M&A decision-making, focusing particularly on the **cognitive mechanism** through which managers assume them

b) Arguing for the necessity of understanding the processual nature of M&A decision-making and proposing a **processual model of the governance perspective** to support managerial application

c) Understanding the **practical repercussions of governance thinking to corporate strategy-making** on the one hand and **various functional areas** within the company in the context of M&A on the other.

The more elevated aim of the prescriptive approach is to make the basic questions of the governance theories of the firm, i.e. the existence, boundaries and internal organization of the firm, a part of a manager's semantic arsenal and thereby contribute towards a general acceptance of an idea of a 'governance perspective to M&A'.

The roles of governance theories in managerial cognition and M&A decision-making

The investigation of some key managerial M&A issues in Section 3.2.4 raises two major concerns. Firstly, six governance related M&A decision-making areas, together with their key questions were identified from the topical M&A issues. Secondly, the central role of time and dynamic decision-making among the real-life M&A issues raises the need to incorporate a processual element to any novel M&A decision-making framework. Since both are prescriptive elements of the governance perspective to M&A, the prior is attempted here and the latter in the next section.

Arguably, the strength behind the governance perspective is the relative heterogeneity of how the various governance theories of the firm can contribute to decision-making situations. In the context of M&A, this is well illustrated in the different roles the governance theories can be argued to assume in answering key M&A related questions (Table 21).

Table 21: Governance theories of the firm and their roles in a prescriptive governance approach to M&A

	Governance theory	Role in governance approach to M&A	Primary question(s) answered
1.	Property rights theory	Basic philosophy for performing M&A	What is the fundamental goal of performing M&A in the first place?
2.	Incomplete contracting tradition	Understanding the limits of M&A operations	What can be done?
3.	Agency theory	The influence of M&A on stakeholder groups	Who influences / is influenced and why/how?
4.	Transaction cost economics	Economizing the boundaries of the firm	How and where can we gain from M&A?
5.	Neoclassical economics	Maximizing the M&A outcome	What needs to be calculated?
6.	Complete contracting tradition	Establishing the new corporate entity	What are the necessary (legal) operations?

As outlined earlier, property rights theory can be perceived more as a economic philosophical and ideological orientation to the organization of economic activity than an applicable and operationalizable theory of firm activity, which has attracted a fair amount of criticism (see e.g. Rajan and Zingales 1998, Foss and Foss 2000, Kreps 1990, Klein 1988). This is much due to the fact that particularly Austrian (Hayek 1937, 1945, Kirzner 1973) and traditional (Coase 1960, Alchian 1965, Demsetz 1964, Alchian and Demsetz 1972, for an overview see Furubotn and Pejovich 1972) but also new (Barzel 1997, Hart 1995, North 1990, Eggertson 1990, Hart and Moore 1990, Grossman and Hart 1986) property rights literature operates at a higher level of abstraction, dealing with the basic rights of the owner of an asset, resource or a factor of production to appropriate the rents from its use. Intuitively, this line of thought has direct answers to the first set of questions concerning the basic philosophy of performing M&A. Namely, from a property rights perspective, the fundamental goal of performing M&A is the securing and/or maximization of shareholders' rights and value. Again, it must be noted that even though this line of thought has strong philosophical roots dating back to at least John Locke (1772), the bibliometric results did not find very significant co-existence of property rights theory and shareholder value ideology. The relevant conclusion from that this linkage should be sought.

Another relevant M&A decision-making issue deals with the limits of M&A operations, i.e. realizing what the relevant alternatives for M&A are and which factors limit these alternatives. Arguably, literature based on the tradition of incomplete contracting and the coordination problem (Coase 1937, 1960) introduce a number of contractual limitations that can be applied to how M&A operations can be performed. These limitations operate on a

number of different levels and relate to different specifics (e.g. comprehensibility of legal documents, uncertainty regarding contingencies, bounded rationality of involved parties, available information etc.) of the contracting setting. A couple of examples are in order. Firstly, the incomplete contracting tradition has introduced the effect of cognitive limitations of humans into the contracting setting (Simon 1951, March and Simon 1958). In an M&A decision-making setting, for example, the bounded rationality of involved contracting parties limits the extent to which all possible due diligence scenarios, post-merger processes and legal contingency details can be included in the deal agreement, embodied by the legal deal document. On the other hand, managers or directors may suffer from information overload that limits their ability to take all available information into consideration while negotiating and contracting an M&A transaction.

Secondly, M&A presents such a complex setting that contracts are very seldom even close to complete. Ayres and Gertner (1989) have identified reasons for this. To start with, "contracts may be incomplete because the transaction costs of explicitly contracting for a given contingency are greater than the benefits. These transaction costs may include legal fees, negotiation costs, drafting and printing costs, the costs of researching the effects and probability of a contingency, and the costs to the parties and the courts of verifying whether a contingency occurred" (Ayres and Gertner 1989, p. 87-88). An outgrowth is that lawmakers have the tendency to attempt to minimize the costs of contracting by introducing ‘default solutions’ that are somewhat satisfactory to both parties. Sometimes companies leave disputable issues unresolved in M&A transactions even if they know they are likely to end up in court with the issue: contracting *ex ante* is simply perceived too costly.

Furthermore, Ayres and Gertner (1989) also present a second source of contractual incompleteness, namely strategic incompleteness. In essence, this refers to opportunistic behavior in the context of the contracting setting, e.g. the target company managers strategically withholding information in the negotiating and/or contracting phase of an M&A process in order to maximize the cost of an acquisition or takeover. Even more generally speaking, there is always an extent of asymmetric information, intentional or unintentional, in the contracting setting that renders contracts incomplete. Finally, the general uncertainty prevailing about the future contingencies and events of the negotiated contract often make it more appealing to leave issues unresolved rather than contract them and face the risk of costly discharge and renegotiation. In essence, all of these limits to contracting set the boundaries to what *can* be contracted about an M&A in the first place, which naturally has major repercussions to what can be done in M&A in the first place.

Another important M&A decision-making issue is concerned with the dynamic influence of M&A and different stakeholder groups on each other. As identified earlier, the related key questions deal with which stakeholder groups influence the processes and outcomes of M&A, which stakeholder groups are influenced by M&A as well as why and how this happens.

Agency theory literature and related M&A contributions (e.g. Jensen and Ruback 1983, Jensen 1986, Roll 1986, Kesner, Shapiro and Sharma 1994, Sharma 1997 and many others) provide a rich insight into the incentives of different stakeholder groups (owners and directors of merging, acquiring and target companies, the government, employees, middle managers, professional services providers, etc.). Incentive structures, then again, govern the M&A behavior of different actors groups and the influence on M&A outcomes can be mapped at least conceptually (see Parvinen and Tikkanen 2002). While the ability of agency theory to consider the human and organizational aspects of stakeholder group dynamics is admittedly limited, an incentive-based analysis can be seen as a useful tool for understanding and predicting the behavior of different stakeholder groups in M&A decision-making situations.

In M&A decision-making, it is also important to iterate on the details of the possible opportunities for creating gains through M&A. The situations in which gains can be created fall in roughly two categories that coincide with the notions of the boundaries and internal organization of firms. Transaction cost economics is at its strongest in analyzing decisions regarding the economizing of the boundaries of the firm, e.g. selecting between M&A modes (e.g. extent of integration), alternatives to M&A (e.g. hybrid organization modes such as joint ventures, alliances, etc.) as well as in- and outsourcing and divestment decisions (that often follow M&A decisions). Different boundary solutions can be explicitly compared by pegging them against each other by their respective transaction costs over time. On the other hand, gains from M&A through the better internal organization needs to be considered. Agency theory and the incomplete contracting tradition focus partly on internal organization processes, but their view can be argued to be mechanistic, efficiency-minded and confined to the analysis of the contracting settings within the internal organization processes of M&A, and not the very instances where M&A can create gains.

The analysis of 'gains from M&A' has orbited around the different notions, types and sources of synergy (Larsson and Lubatkin 1999), including operational synergies in production, R&D and administration (Bain 1959, Lloyd 1976) and economies of scope (Seth 1990), collusive synergies from market and purchasing power (Caves and Porter 1977, Chatterjee 1986, Scherer 1980), synergies from complementary managerial competencies and management turnover (Davis and Stout 1992, Lorsch and Allen 1973), synergies from sharing activities (Porter 1987), knowledge synergies (e.g. Lord and Ranft 2000) and financial synergies (Nielsen and Melicher 1973, Nickell 1978, Weston et. al 2001). Here, the governance approach is clearly weaker, given that none of the governance theories of the firm is specialized on, or even particularly strong at analyzing the internal synergy mechanisms. Clearly, complementing inputs from e.g. the direction of strategy literature concentrating on the competitive effects as well as resource, competence and knowledge aspects of M&A are needed to build a patchless approach to M&A.

Besides establishing a basic philosophy for performing M&A, understanding the limits of M&A operations, analyzing the effects on and of stakeholder groups and iterating the instances where the gains from M&A are created, there are two more mechanistic exercises closely related to M&A decision-making situations. Firstly, M&A is, despite its complexity and significant role as a re-organizer of the organization of economic activity, also a deal that needs to be calculated. Here, the neoclassical economics tradition of calculativeness and maximization of the estimated numerical outcome is useful. The calculation of marginal return inflexion points, maximization of investment yield, risk-adjusted valuation scenario building, acquisition premia and so on are pure economic exercises that need to be performed despite the fact that the deal is embedded in a certain philosophical, contracting and social environment and bound to a somewhat defined number of discrete structural alternatives. Secondly, the complete contracting tradition, i.e. view of the firm as a nexus of contracts, offers a number of useful tools and alternatives for performing the necessary legal operations in order to establish the new corporate entity. Despite the contracting limitations outlined above, there is still much room for legal maneuvering and the majority of the lessons in this stream come from literature integrating financial M&A management decisions and the legal aspects of M&A deal making (see e.g. Gilson and Black 1995).

These different roles that the governance theories of the firm can assume as elements of a M&A decision-making situation exemplify the fragmented nature of the contribution from the realm of governance theory to the realm of M&A in practice. As called for by Larsson and Finkelstein (1999), as well as the results of this study, it seems necessary to attempt to integrate dispersed research results into a more holistic framework. The core of the argument here is that while the different governance theories of the firm, however they are categorized or classified represent somewhat discrete 'governance approaches' to the firm, together they represent a holistic, even through not exhaustive, 'governance perspective to M&A'.

The distinction between fragmented lessons from individual governance theories of the firm and a holistic governance perspective to M&A is subtle but not meaningless. It is essential to understand the difference particularly in the context of the formation of a more decision-making oriented prescriptive side of a holistic M&A framework. The messages of managerial and decision-making oriented frameworks are conveyed to real-life M&A situations primarily through involved managers', but also owners' and professional service providers', cognitive mechanisms. Using Scott's (1995) classification, the governance approach can be perceived to have been rather successful at understanding, even prescribing, the 'coercive' and 'normative' institutions of decision-making and contracting settings, but has lacked understanding of the 'cognitive' institutions. While it would seem logical to seek for complementing advice from e.g. neo-institutional organization theory and sociology literature (e.g. Scott 1997, Perrow 1961, 1986**,** Mayer and Rowan 1977, DiMaggio and Powell 1983, Granovetter 1985) that is strong in its analysis of cognitive mechanisms, even

speaking of a holistic governance perspective would advance the cognitive value of the governance theories a great deal.

The expression ‘a holistic perspective’ is used intentionally here. The question might emerge: what is the ‘governance perspective to M&A’ if it is not a mere collection of fragmented lessons from individual governance theoretical approaches? Like in much of management research, it is yet another framework united by common theoretical cornerstones and, perhaps more importantly, it is a cognitive model characterized by the language, concepts and semantics it uses. Content-wise, it is nothing more than the collection lessons from the governance theoretical approaches to M&A, but establishing the expression ‘governance perspective to M&A’ already establishes it as a single cognitive institution. Integrating the M&A related lessons from the governance theories of the firm under a common conceptual heading already establishes a cognitive institution.

This discussion relates closely to analysis of rhetorics in economics discourse (Klamer, McCloskey and Solow 1988). Arguably, traditional economics does not acknowledge the role of rhetorics as an independent element of the body of knowledge, but thinks of the economic theories as conclusive truths that can be used to make objective predictions, given certain assumptions, of course. Especially the neoclassical economics tradition’s blindness for the social dimension has received massive criticism, to the extent that it is "becoming tedious" (Klamer 2002). As a result, integrative research in economics and sociology[84] has emerged, extending the findings of organizational and institutional economics, which themselves represent organizationally and institutionally aware alterations of the economics tradition, in a more socially aware dimension. By acknowledging the key role of language and rhetorics in the existence of a governance perspective to M&A, this study attempts to follow the same lines.

Figure 6 and Figure 7 attempt to depict the relationship established between the M&A lessons of the governance theories, the governance perspective as a holistic cognitive framework and a manager in an M&A decision-making situation. Figure 6 represents the situation before the establishment of a holistic governance perspective to M&A and Figure 7 after.

[84] Or alternatively socioeconomics, sociological economics, economic sociology or cultural economics

Figure 6: The relationship between M&A insights from governance theories and a manager in an M&A decision-making situation without a holistic cognitive framework

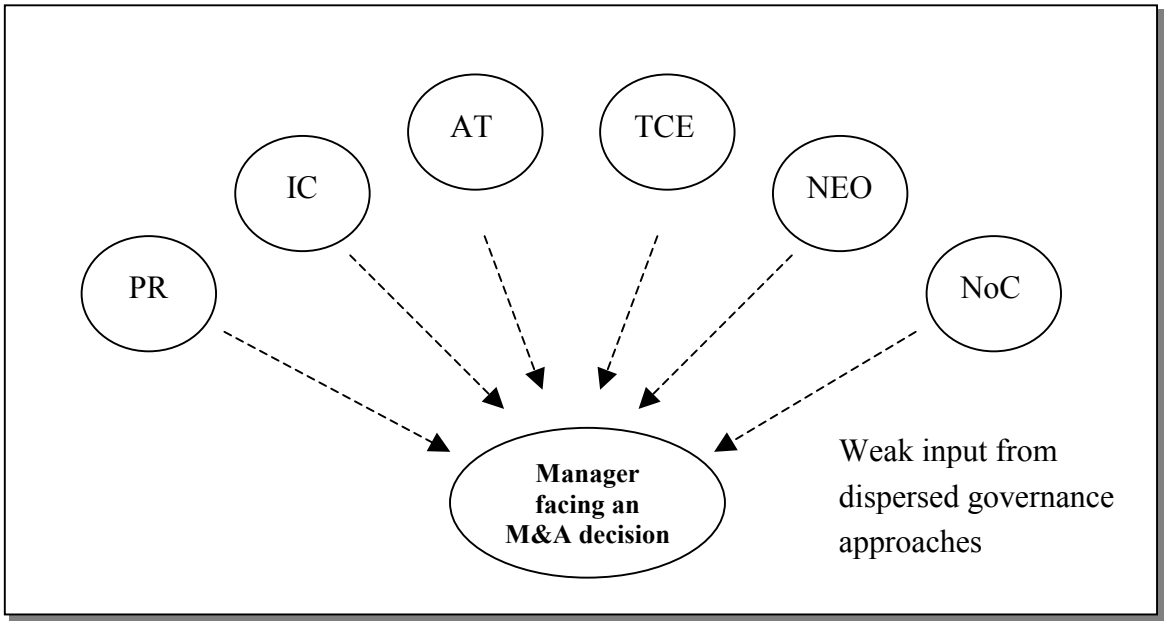
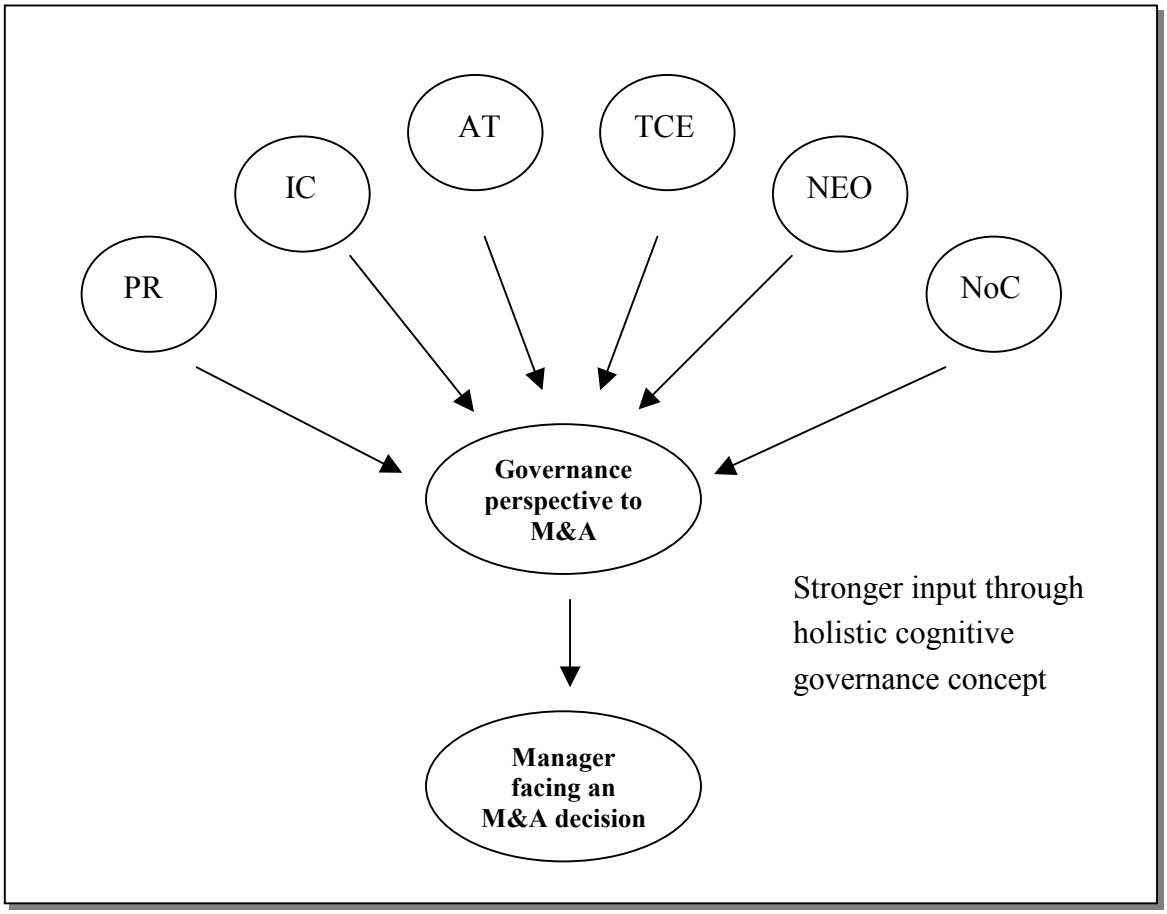


Figure 7: The relationship between M&A insights from governance theories and a manager in an M&A decision-making situation with a holistic cognitive framework



Attempting to unify the M&A insights from the governance theories of the firm under a common expression would not be a logical exercise if the lessons from the governance theories of the firm did not have a great deal in common. There are, however, a number of common determinants that justify the submission of the insights under one heading. Firstly, they ultimately derive from the same economics-minded meta-research tradition. The consistent use of such terms and measures as efficiency, wealth and market power provides evidence of this (cf. the glossary in Appendix 3).

Secondly, all of the governance theories of the firm have also developed as departures from or at least critical extension to neoclassical economics literature. As mentioned above, institutional and organizational economics was born as a response to the oversimplifying world-view and impracticable assumptions of the neoclassical tradition. Remnants of neoclassical methodology and world-view prevail to the extent that much of the criticism on the governance theories of the firm is still directed at these issues.

Thirdly, the criticism, as such, acts as a unifying factor. Besides oversimplification and unrealistic assumptions, all of the governance theories have been argued to suffer from a shortage of historical, longitudinal and empirical research (Foss 1997). Furthermore, they have been argued to be fixed to US capitalist modes of organization and production (Rose and Casson 1997).

The governance theories are also similar in methodological orientation. They most often rely on the analysis of comparative statics and discuss the relevant choice between few, discrete structural alternatives. With the recent resurging interest in the theories of the firm, varieties acknowledging the role of dynamic development, processes, plurality of outcome possibilities, multiplicity of actors and so on have emerged. Examples of such research developments include multiple principal-agent settings (e.g. Gupta and Romano 1998, Al-Najjar 1997, Tsoulouhas 1999) and dynamic transaction costs (e.g. Langlois 1992, Langlois and Robertson 1995).

Finally, the governance theories of the firm share a peculiar half-economics, half-organization theory language that allows them access to a common set of conceptual tools. For example, concepts such as ‘the organization of economic activity’, ‘risk preferences’, ‘institutions’, ‘governance’, various contracting terms, ‘moral hazard’, ‘incentive’, ‘asymmetry’, ‘firm boundaries’, ‘signaling’, ‘bounded rationality’, ‘opportunism’, ‘calculativeness’, ‘asset specificity’, ‘rent appropriation’ and ‘hold-up’ are, though not endemic, characteristically economics rather than management minded concepts of the governance discourse.

To conclude, the governance theories of the firm can be perceived to be sufficiently consistent with each other to justify submitting their M&A insights under a common heading. This heading is the 'governance perspective to M&A', which can be seen, among other things, as a cognitive institution, strengthening the governance M&A insights by mediating them to managerial decision-making situations through the use of a single rhetoric. Through this mechanism, the insights of the various governance theories can be mediated to M&A decision-making situations. These insights include:

a) Establishing a shareholder rights centered philosophy for performing M&A
b) Establishing the boundaries to what can be done via M&A by helping decision-makers understand contractual, cognitive and complexity limitations
c) Providing a framework for understanding the M&A influence of and on different stakeholder groups
d) Economizing between relevant M&A alternatives and alternatives to M&A
e) Advocating the necessity of calculativeness and maximizing behavior after the conditions and limits for M&A activity have been understood, and finally
f) Providing useful tools for performing the necessary legal operations in order to establish the new corporate entity.

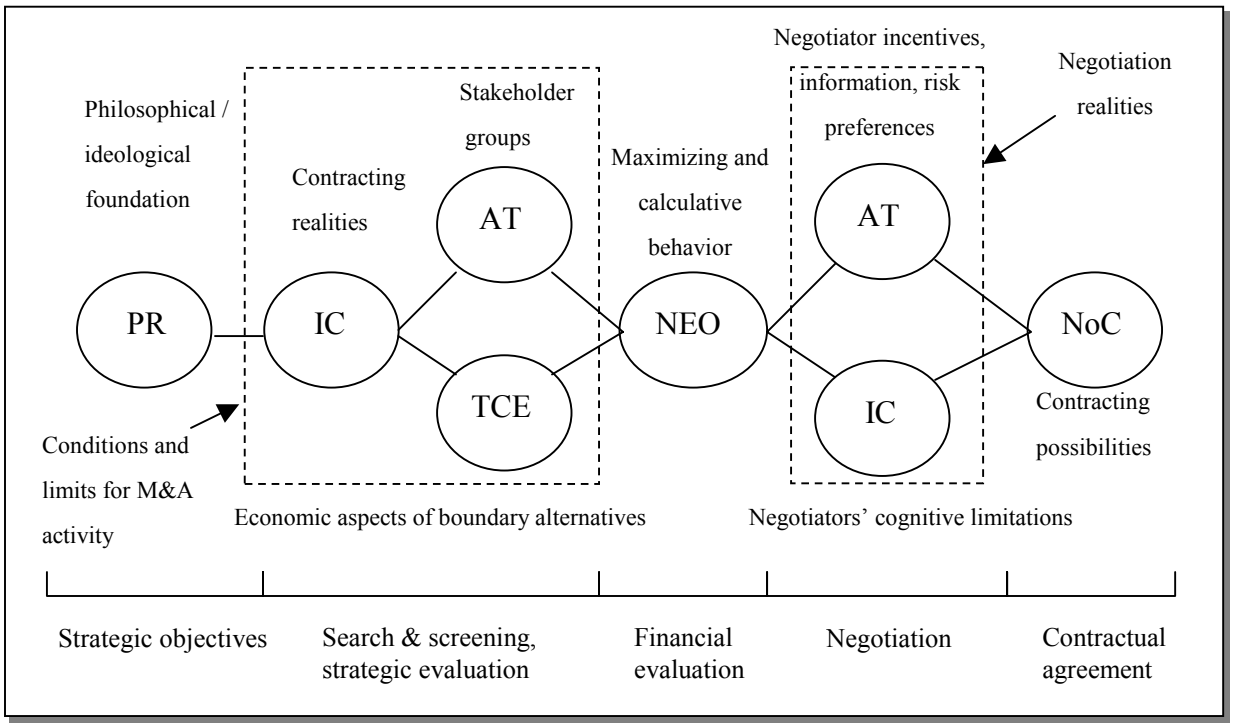
A processual model of governance rationales in M&A

From the perspective of M&A decision-making, understanding M&A as a process (see e.g. Haspeslagh and Jemison 1991, Jemison and Sitkin 1986) and managing the M&A process actively seems to have gained increasing attention (already since Mace and Montgomery 1962), with particular managerially oriented research attention being paid to post-merger integration issues (Hunt 1990, Searby 1969, Yunker 1983, Shrivastava 1986 and Pablo 1994). Essentially, the process stream in M&A argues that the M&A process, or a set of processes, is an underlying mechanism, which, if skillfully managed, can potentially help create value through corporate renewal (Haspeslagh and Jemison 1991). Despite the evident need for M&A process management paradigms, post-merger processes have been found to be somewhat non-prescribeable and need to be led with themes and mindsets rather than fixed frameworks (Habeck et al. 2001).

On the other hand, time and dynamic decision-making issues seem to attract considerable attention among the M&A topic outlined above. Furthermore, as this study has scrutinized the interdisciplinary nature of the M&A discourse and the rather different roles and insights of the governance theories of the firm in M&A, the question has emerged: is there any dynamic order or sequentiality between the governance rationales and how are they interlinked with each other?

Given this setting, this section argues for the necessity of understanding the processual nature of M&A decision-making and incorporating a processual element to any novel M&A decision-making framework. The following processual model of the governance perspective that supports managerial application and highlights the sequential interdependency between the governance insights, is proposed (see Figure 8).

Figure 8: A processual model of the governance perspective in M&A decision-making (Neoclassical Economics = NEO, Nexus of Contracts = NoC, Agency Theory = AT, Incomplete Contracting, Transaction Cost Economics = TCE, Property Rights = PR)



The pragmatic and managerial value of the conventional processual view of M&A (see Jemison and Sitkin 1986, Haspeslagh and Jemison 1991 and Appendix 1), usually consisting of 7-9 phases (e.g. the setting of strategic objectives, search and screening, strategic evaluation, financial evaluation, negotiation, contracting, designing the integration strategy, designing an integration plan and executing the integration plan) has been validated time and again in consulting and research. The governance process model can be related to this model.

Intuitively, the philosophical and ideological foundation for the M&A project that can be proposed to be influenced by property rights (PR) thinking comes first. In the M&A process, this corresponds to setting a firm's strategic objectives. Despite the fact that there is no explicit linkage in the literature between property rights theory and shareholder value studies, the property rights ideology can intuitively be thought to advocate shareholder value maximization, rather than any other key M&A motivation. Thus the governance perspective to M&A starts with shareholder value maximizing ideology in the setting of strategic

objectives for a company. The key decision-making issue deals with whether M&A serves this purpose.

Subsequently, the conventional M&A process sets to the tasks of searching and screening for potential M&A candidates, as well as evaluating the strategic fit between the merging companies. This exercise is essentially about determining the conditions and limits for the potential for M&A activity. In terms of the governance process, the conditions and limits for M&A activity are set firstly by the contracting realities, i.e. what can be done in the first place. The incomplete contracting (IC) thinking, with its aforementioned lessons to M&A decision-making, is useful here. Secondly, two further governance exercises need to be performed in order to understand the conditions and limits for M&A activity. The socioeconomic environment needs to be mapped and the economic aspects of different boundary alternatives need to be considered. Agency theory is useful for patterning e.g. the incentives and influence of different stakeholder groups, which is a central, though not exhaustive, element of the prior. Transaction cost evaluation of different boundary alternatives, then again, point out the efficiency aspects and highlight the potential gains from shifting the boundaries of the firm.

Having done this, i.e. defined the conditions and limits for the proposed M&A operations by understanding the contracting realities, analyzing the socioeconomic / stakeholder group environment and comparing gains from relevant boundary alternatives, the next step is to engage in calculative exercises that set the targets (e.g. price) for M&A negotiations. This phase corresponds to the financial evaluation and the negotiation phase of the conventional M&A process. By pegging them 'calculative exercises' does not imply that activities in this phase would be only numerical. Once the target has been set on the basis of a certain set of realities, calculativeness and maximizing behavior can be exercised in any form. Thus, the neoclassical economics (NEO) tradition of calculativeness and maximizing behavior is used in this phase of the M&A process. Obviously, its presence is more explicit in the numerical exercises and more implicit in negotiations and other interaction that, ultimately, still aim at closing the best possible deal.

The maximizing and calculative exercises do not directly lead to the desired outcome, but the actual decisions are made in the negotiation phase of the M&A process. M&A negotiations typically involve multiple risk, information and incentive asymmetries even amongst the parties involved in the negotiations (Parvinen and Tikkanen 2002). Furthermore, even though this is often not explicitly considered and has generally been left for little attention in the M&A process literature, the M&A negotiations are often hurried. Given the heterogeneity and complexity of the repercussions of different M&A negotiation outcomes, the urgency of the negotiations often accentuates the cognitive limitations of the individuals involved in the negotiations. This can be argued to lead to increasing existing information overload. Agency theory and the incomplete contracting tradition, with their treatment of

incentives, risk preferences, information, bounded rationality and opportunism provide valuable insights for understanding the half-psychological dynamics and tensions between the individuals and groups involved in the negotiation process. As discussed above, the outcome is that inter-stakeholder group tensions and contracting limitations effectively remove a number of issues from the negotiations and the legal documents because some things cannot or are not desired to be contracted *ex ante*.

The final step in the proposed processual view of the governance perspective to M&A is the contracting phase, which corresponds directly to the contracting phase of the conventional view of the M&A process. The complete contracting perspective is useful here, given that it views firms as a nexus of contracts (NoC). Legal contracting literature offers numerous insights to the formation of M&A contracts. However, it is felt that their details fall beyond the scope of this study. Simply put, the governance view emphasizes that there is also a time and place for pure legal dialogue during the M&A process but only after the aforementioned considerations have been undergone.

Literature as well as many practical experiences from real-life M&A have manifested the necessity of beginning to consider essential post-merger integration issues already during the pre-merger processes (Shrivastava 1986): Planning and preparing for potential post-merger problems seems to be one of the only ways to prevent and foresee them. This is precisely what the processual view of the governance perspective to M&A helps managers do. The strength of this approach lies in that is starts from an ideologically sound basis, considers the governance realities of M&A (e.g. stakeholder groups, contracting realities and relevant boundary alternatives) and advocates maximizing behavior only *within these limits*.

In sum, the processual model of the governance perspective to M&A is built to acknowledge the importance of time and dynamic decision-making. The model presents a somewhat simplified pattern of sequentiality between establishing the philosophical foundation for the M&A project, understanding the conditions and limits for M&A activity, engaging in calculative maximizing behavior regarding the deal and establishing the new corporate entity through legal means. Relating the governance process model of M&A to the conventional pre-merger model of the M&A process is hoped to make the application of the model to decision-making situations somewhat easier.

Governance thinking in strategy and functional decision-making areas in M&A

Beyond defining the roles of different governance theories and building processual models, familiarity with the key messages of the governance perspective can be argued to be useful in understanding corporate strategy-making as well as some practical M&A repercussions to various functional decision-making areas. It would be impossible to list all

of the potential ways to utilize governance thinking in strategy-making and functional M&A management, but this section aims at providing some examples to support the prescriptive element of the governance perspective to M&A.

Among the many M&A related areas of corporate strategy (see Appendix 1), the governance perspective to M&A is particularly useful in analyzing three, namely a) efficiency gains, b) risk and diversification and c) redistributive realignment. Firstly, efficiency, a central concept in economics literature, is well considered by the governance theories of the firm. The governance perspective can help to analyze M&A efficiency gains in terms of e.g. the allocation of factors of production into the hands of owners who can put it to the best use, the elimination of agency problems arising from information or incentive asymmetries or simply the reduction of transaction costs. Secondly, risk is incorporated into both agency theoretic and transaction cost thinking as a central element. Agency theory distinguishes between the influence of risk on the incentives and actions of different stakeholder groups. Transaction cost reasoning, then again, has valuable insights into comparing structural alternatives related to M&A and diversification decisions, e.g. divestment as well in- and outsourcing decisions. Finally, particularly neoclassical economics but also other governance approaches are good at analyzing gains from increasing market power, with practical repercussions to e.g. value chain integrating M&A decisions.

Besides some areas of corporate-level strategic decision-making, the lessons of the governance perspective can be useful in decision-making situations involving functional issues in the context of M&A. Firstly, the governance approach is particularly useful for corporate governance decision-making. Agency theoretic analyses of stakeholder group information and incentives, transaction cost economics flavored analysis of discrete structural alternatives and property rights thinking defending the rights of shareholders on the one hand and of employees on the other[85] are all useful conceptual tools for the activities of e.g. Boards of Governors, shareholder-manager negotiations or other corporate governance forums.

Secondly, the governance approach is useful for the management of professional services provider relationships during the M&A process (see e.g. Sharma 1997, Kesner, Shapiro and Sharma 1994). For example investment banker, consultant and lawyer relationships during the various phases of the M&A process can be characterized by incentive and information asymmetries that require either rectification or monitoring (Parvinen and Tikkanen 2002).

Thirdly, the governance theories of the firm have direct application areas in various marketing related M&A decision-making situations. The most apparent deals with post-

[85] Indeed, one fundamental element of property rights literature, starting with John Locke in 1772, is that each person has the right to the fruits of his or her labor. Naturally, employment contracts are designed to shift the appropriation right to the employer, but the right to reallocate one's labor through the renegotiation of employment contracts (e.g. shifting jobs, promotions etc.) is a still considered the fundamental right of a worker.

merger decision-making relating to existing brands of an acquired company. Here, a transaction cost flavored analysis of whether to exercise 'brand divestment', 'brand destruction' or 'brand preservation' is in order. Other relevant application areas for the governance perspective that capitalize strongly on key concepts developed in transaction cost economics, agency theory and property rights theory include market-oriented organizational routines (e.g. marketing communication), conflict resolution, and the development of reward systems (Tikkanen and Parvinen 2002a). Transaction cost and agency theoretical analyses have also been popular in examining marketing channel relationships (e.g. Brown, Dev and Lee 2000). The governance perspective has also been found in justifying continual relationship investments (Axelsson and Easton 1992)

Fourthly, the governance perspective can also be useful in the design of post-merger human integration practices from both a 'hard' and a 'soft' HRM perspective (see e.g. Legge 1995). 'Hard' HRM application areas involve the development of incentive, reward, monitoring and retribution mechanisms, the in- and outsourcing of human assets, the HRM aspects of divestment decisions and so on. On the 'soft' HRM side, then again, application areas relate to the incompleteness of employment contracts, tacit information and information asymmetries as well as establishing employee (property) rights.

Finally, and some might argue most importantly, the governance perspective has numerous applications to the realm of corporate finance that relate close to the notion of contracting. Examples of applications include e.g. anti-takeover provisions, financial synergy-seeking, firm-internal capital markets, the market for corporate control, reward systems and financial restructuring (e.g. debt leveraging) in the context of M&A. While these insights can be perceived to emerge from the governance theoretical research in general, the principal-agent setting is the most common single theoretical stepping-stone, as it has been used to conceptualize the market for corporate control (e.g. Manne 1965, Jensen and Ruback 1983), free cash flow allocation (Jensen 1987) and numerous anti-takeover battles.

In sum, the governance perspective offers valuable insight to M&A related decision-making situations that deal with issues beneath the high-level corporate strategy dialogue. Typically, these include a wide range of functional activities. Beyond the aforementioned exemplary application areas of corporate governance, professional service provider relationship management, marketing, human resource management and corporate finance, the governance perspective can thought to act as a cognitive framework for managers in any decision-making situations. It must be mentioned, though, that the relevance of governance insights is bound to vary substantially (given e.g. the weak contribution vis-à-vis the internal processes of both the firm and M&A) and that M&A related decisions, given that they often deal with substantial changes in the organization of economic activity, can be proposed to offer a key phenomenon-oriented application area.

4 CONCLUSIONS

This study has attempted to conceptualize the relationship between the governance theories of the firm and the M&A discourse. In doing so, it belongs to the institutional and organizational economic research tradition. Lately, the firm theoretical research traditions have increasingly been perceived to deal with the common conceptual question, namely the organization of economic activity (Madhok 2002, Tikkanen and Parvinen 2002b, cf. also Castells 1996). The dichotomizing of strategic management into 'governance and competence' perspectives, with this study belonging to the prior, has preceded this development (Williamson 1999, Foss 1997).

4.1 Research problem

The aim of this study has been to participate in this conceptual discussion by attempting to put the governance perspective into better use in the analysis of M&A. This is not, however, neither a concept historical nor a discourse analytical study, but rather an inquiry aiming at:

a) Establishing an understanding of the *current state of affairs* in a research field by performing a detailed analysis of what has been written about it
b) Establishing an understanding of *why this is the case*, which
c) Facilitates proposing *how the field should be looked at* in order to make better decisions about *what should be done* in the future

This study has also been interested in finding out what the relationship between these three things is, and daringly pushing the limits of what can be done with this type of an approach. In other words, this study aims at opening up an integrative, holistic research perspective that is based on the significant positions and different roles of the governance theories of the firm in the M&A discourse. If successful, there are two major benefits to this aim. On the one hand, it participates in fixing the fragmented and segregated nature of the current M&A discourse, which is largely due to its interdisciplinary nature. On the other hand, it reinforces the governance perspective to management (and other social scientific research) and identifies both its shortcomings and strengths, which is vital for sustained development.

To fulfill these aims, two primary research questions were posed. Firstly, this study has been interested in identifying the *de facto structuring of the M&A discourse*. More specifically, the structuring has been analyzed vis-à-vis the disciplinary orientations in M&A research, theories used in M&A articles and antecedents of writing M&A articles. Secondly, this study has been interested in the *contribution of the governance theories of the firm to M&A*? The contribution has been analyzed in terms of how their intellectual roots and

traditions are interlinked, how they cross-fertilize academically and what the potential for a governance-based framework for M&A decision-making is.

4.2 Research strategy and methodology

The research questions engulf a wealth of literature and cross disciplinary boundaries. The basic dilemma is the one of gathering the wealth of information in these domains, harnessing it in a plausible way, investigating what is relevant in it and processing it into a communicable format. A bipartite methodology consisting of the conceptual analyses of the M&A and governance theory of the firm discourses as well as a set of precise bibliometric analyses of the M&A literature has been used to tackle this dilemma. The conceptual analysis of the M&A literature, consisting of an elaboration of the motivations for performing M&A, an analysis of the various M&A research streams as well as an overview of the internal organization processes of M&A gave a preliminary understanding of the structuring of the M&A discourse and served the purpose of preparing for the bibliometric analysis in many ways.

The conceptual analysis of the governance theories of the firm consisting of an elaboration and categorization of various seminal governance theoretical contributions and highlighting the key messages each theory and its contribution to M&A thinking served the purpose of establishing a solid understanding concerning the qualities, strengths and shortcomings of each specific theory in an attempt to engage in endeavor to construct intertextual coherence between the two discourses (see e.g. Locke and Golden-Biddle 1997). It also gave an indication of some of the possible avenues through which M&A and the governance theories of the firm could be linked. As a result, the conceptualization of a holistic governance perspective, consisting of complementary strengths of the insights from the governance theories of the firm, began to emerge.

The bibliometric study, consisting of citation analyses[86] and network analyses[87], identified the theoretical and thematic cornerstones of the M&A discourse, highlighted the significance and different roles of the governance theories of the firm in the discourse, helped introduce and explain the content of a new categorization of the research streams within the M&A discourse and generally confirmed many of the suggestions made in the conceptual analyses. By establishing the *de facto* structuring of the M&A discourse, the bibliometric study also laid the foundation for building a novel conceptualization of the governance perspective to

[86] Namely analyses of the most-published first author, most-cited first author, most-cited book/article, temporal pattern of articles published, temporal pattern of articles cited, outlet pattern of articles published and outlet pattern of articles cited.

[87] Using the frequencies of theories employed, frequencies of antecedents present, Bonacich eigenvector centrality and Betweenness centrality as well as facet co-occurrence frequencies as measures

M&A in Chapter 3. As encouraged by Eden (2002), this study thus engages in meta-analytical exploration in the realm of management research, with the general benefits of indicating future research avenues, pointing out the direction for new theory development and shedding light on how and why certain relationships between issues (embodied in this study by the facets of the network analysis) exist.

It is no coincidence that the methodologies used here were presented in this order. The analyses were chronologically performed in the same order, which, as in any research process involving conceptual work, has an impact on the incremental development of the precise selected discussants, presented propositions and advocated research avenues. It seems justified to say that this has seemed the right order to undertake a serious conceptual framework-building exercise. The conceptual analyses involved familiarizing with a wealth of seminal literature, which increased awareness concerning the potential cross-fertilization between the two discourses. Here, the idea of strong yet largely implicit linkages on multiple levels emerged. The bibliometric study, then again, confirmed the existence of such linkages and especially the most-cited article and network analyses gave the objective information about the structure of a potential holistic perspective. The resulting assertions made in the form of a) a number of propositions vis-à-vis the nature of the M&A discourse, b) the new categorization of M&A research streams, c) the identified linkages between the M&A and governance theory discourses and d) a holistic governance perspective to M&A research, consisting of both exploratory and prescriptive elements, were the result of an incremental process involving two specific phases of conceptualizing and theory building.

By engaging in such broad 'discourse diagnostic' methodology, the aim was also to adopt an interpretative and conceptual approach to M&A research. Framework-building, not to mention theory-building, is not acceptable only through the use of extensive quantitative methodology as profound phenomenon-centered dilemmas cannot be satisfactorily answered by providing narrow parcels of research. The perspective assumed here is that a very confined research topic, operating on a confined research setting, often employing sophisticated quantitative analyses, has little if any ontological value and needs to be supported by strong conceptual understanding in order to be able to create new reference frames in management research.

Chapter 3 interpreted and translated the results of the conceptual and bibliometric analyses firstly by identifying the dominant perspectives, theories and linking theories as well as antecedents and research streams, of the M&A discourse. Secondly, it discussed paradigmatic linkages between the governance theoretical and M&A discourses at three levels of analysis; shared traditions, academic cross-fertilization and factual M&A affairs, complementing the discussion with an analysis of the shortcomings of the governance theories of the firm in and their compatibility to M&A analysis. Finally, Chapter 3 presented a novel, governance-based perspective, with explanatory (academic) and prescriptive (managerial) avenues to thinking

about M&A. Here, major emphasis was placed on taking the institutional differences or M&A settings into account and acknowledging the functioning of the governance perspective primarily as a cognitive mechanism.

This section aims at finalizing the discussion of a governance perspective to M&A and preliminarily evaluating the contribution of this study to the existing body of knowledge. The discussion is structured as follows. Firstly, the contributions of the study are extracted by reviewing the 34 propositions made along the way and comparing them to the research questions laid out for this study. Secondly, the shortcomings of a governance perspective to M&A, under which heading this whole research effort belongs, are evaluated. Thirdly, the potentially fruitful research avenues emerging from this study are discussed. They advocate research dealing with both the M&A discourse as well as governance perspective in general.

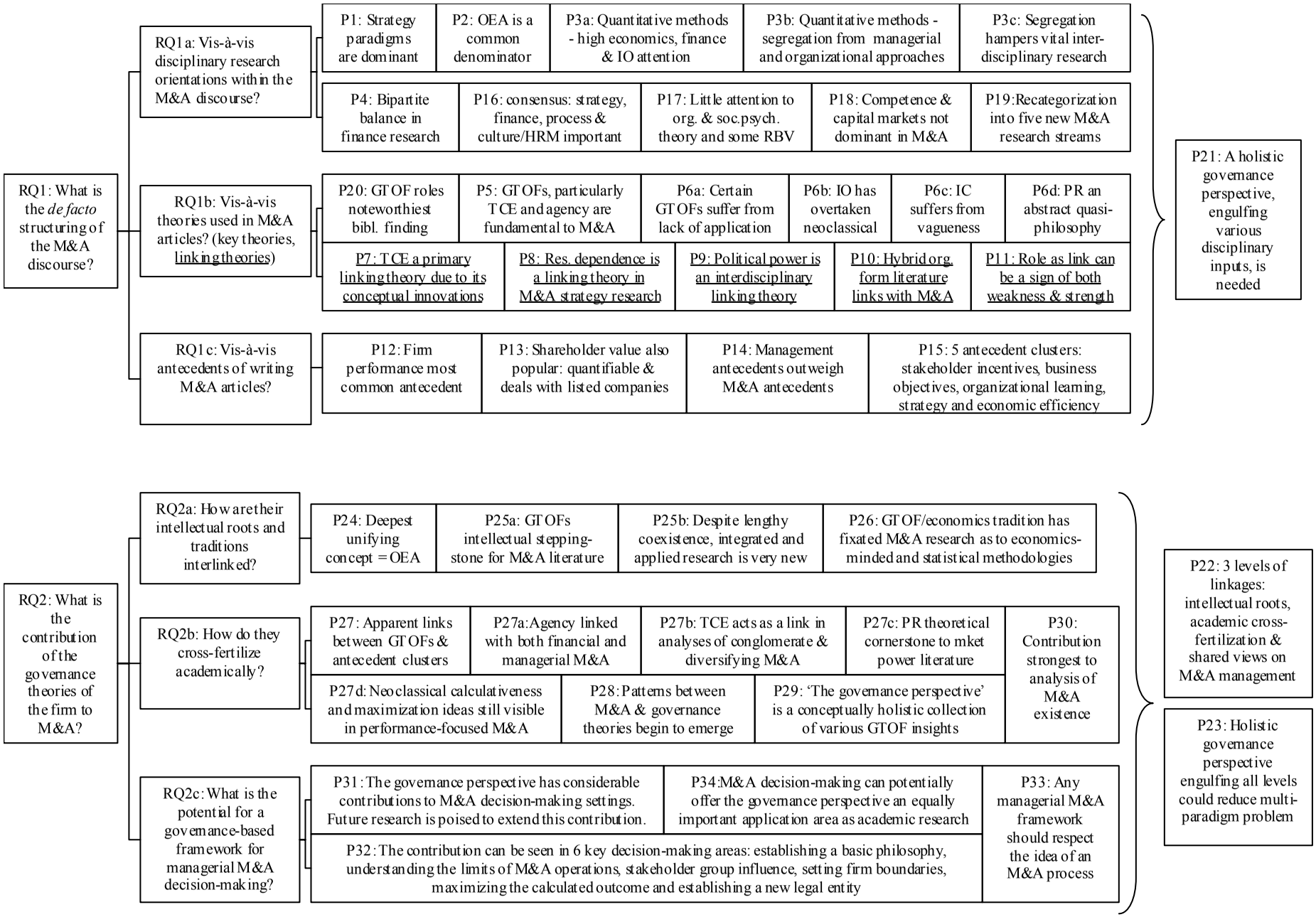
4.3 Contributions of the study

4.3.1 Propositions

One of the key ideas of this study has been to make direct propositions in a rather provoking manner. The propositions are perceived as too daring, generic and taken too far to be called 'the results' of this study. They are, however, based on the results of the conceptual and bibliometric studies.

The initial aim of making a wide array of propositions was primarily to demonstrate the potential power of the governance approach and stimulate future research. The propositions have been attempted to be formulated in a way that allows for them to be converted into research hypotheses in related future studies. Simultaneously, however, the propositions can also be seen to provide answers to the research questions of this study. Figure 9 depicts the relationship between the two primary research questions, their subquestions and the total of 34 propositions made during the course of this study.

Figure 9: The relationship between the research questions and propositions of the study



The main conclusion of Figure 9 is that the study has managed to discover insights in all of the areas defined by the sub-research questions. A minimum of four propositions has been made about each part of each research problem. While the propositions cannot be argued to be able to answer every research question exhaustively, it seems that they do form a logical pattern. The propositions cannot be perceived to be in serious conflict with each other, nor do they merely state the obvious, albeit the depth which each analysis reaches varies significantly.

4.3.2 Theoretical implications

The propositions tackling the de facto structuring of the M&A discourse generally advocate the need for a holistic governance perspective, engulfing elements of the various carefully analyzed disciplinary inputs as is crystallized in Proposition 21.

The analysis of disciplinary research orientations (Research question 1a) in the M&A discourse revealed a wide array of findings. Firstly, resource based and competitive strategy literature was identified as a dominant stream in M&A research, which indicates that M&A research does belong to a group of more or less generic strategic management topics. This is despite the fact that M&A is often seen as somewhat separate from more routine strategic management issues due to its 'grand' nature, i.e. that it involves enormous transactions that make it interesting from a market power, financial, legal etc. perspectives as well. Secondly, the organization of economic activity was identified as a common denominator in much of the M&A articles in general. Despite the plethora of disciplines analyzing M&A, M&A is first and foremost seen as a driver of the reorganization of economic activity, e.g. a shaper of industries and economies, a change catalyst, an opportunity for change and a redefiner of organizational boundaries, inter-organizational relationships, intra-organizational structures, job specifications, everyday working environments and so on. Thirdly, economics, finance and industrial organization research traditions, all of which have a significant role in the M&A discourse, were perceived to be both symptoms and origins of a strong quantitative methodological tradition. This tradition can be perceived to have segregated these research streams from managerially and organizationally oriented approaches. Another upshot of methodological fixations and differences of opinion is that interdisciplinary research, which history has proven valuable (cf. e.g. Jensen and Meckling 1976), is unfortunately rare. Fourthly, finance-oriented research, contrary to earlier analyses (e.g. Haspeslagh and Jemison 1991) has a conspicuously bipartite balance between corporate finance and capital markets literature. The situation is similar in strategy research, where the competence-based views (including resource-, knowledge- and capability-based approaches) do not appear as dominant over other types of strategy literature, e.g. the competitive literature of Michael E. Porter. Thus, the competence and capital markets orientations, both of which have an intimate linkage to shareholder value as a research antecedent, do not dominate the M&A discourse as

could be intuitively anticipated and as has been suggested by earlier studies of the M&A discourse (e.g. Haspeslagh and Jemison 1991, Larsson and Finkelstein 1999). With the results of the bibliometric study, there is, however, a growing consensus about the key positions of strategic, financial, process and culture/HRM oriented M&A literature, while the role of organization theory and social psychology as well as some elements of the resource-based view (particularly the capabilities perspective) seem less significant. In any case, yet another categorization of the disciplinary traditions in M&A research has been identified, the five major research streams being strategy, process, economic and law, finance as well as humans and organizations.

The various analyses of the theories used in the 1990s M&A articles (research question 1b) yielded by and large unsurprising results that converge with the analysis of the disciplinary traditions above. The most surprising and noteworthy finding was that the governance theories of the firm a) are fundamental theoretical stepping-stones of the M&A and b) assume active roles in the M&A that differ vis-à-vis their content as well as depth of impact. All of the governance theories of the firm were present in both the bibliometric analysis and were perceived to have valuable insights to M&A in the conceptual analysis. However, while certain governance theories of the firm have been argued to be difficult to operationalize and subsequently suffer from a shortness of e.g. empirical application into M&A contexts, others assume evident key positions within the M&A discourse. Among the ones enjoying less direct attention are neoclassical economics, whose formerly dominant position in once-primarily-monopoly-oriented M&A literature has been diluted not least because of the emergence of applied industrial organization literature, the incomplete contracting tradition, whose application has been hampered by the lack of precise definitions for key concepts such as bounded rationality, and partly also property rights theory, which has remained an abstract quasi-philosophical ideology without serious operationalization attempts. The more central and acknowledged governance conceptions have been agency theory, which seems to be not only important, but the most important theoretical framework for M&A analysis, and transaction cost economics, which, like some other theories to a lesser extent, has assumed the role as the primary linking theory in the M&A discourse due to its central conceptual innovations such as the transaction cost, the markets-hybrids-hierarchies dichotomy, ex ante and ex post governance, the formal make-or-buy setting and the governance vs. competence debate.

A respective analysis of the antecedents for performing M&A research in the 1990s (research question 1c) yielded equally significant findings. Firm performance effects of M&A (e.g. productivity and profitability) were identified as the most common antecedent for performing M&A research. Shareholder value is also a popular M&A research antecedent, due to its compliance with quantitative research methodologies, accessibility to various disciplinary perspectives and the tendency of M&A research to concentrate on publicly listed companies. On the whole, M&A research seems to be motivated more by general

management antecedents than typical M&A-specific research antecedents (e.g. antitakeover provisions, antitrust issues, diversification through acquisition and conglomerate-building), which per se reinforces the aforementioned impression of M&A as yet another topic belonging to the common genre of strategic management research. What was more interesting in the antecedent analysis, however, was that the antecedents could be identified to operate in distinctive, well-defined groups or clusters. Five antecedent clusters emerge. The first three being more clearly defined and two latter less so, namely the 'stakeholder incentives cluster', the 'business objectives cluster', the 'organizational learning' cluster, the 'strategy cluster' and the 'economic efficiency' cluster. While the last two are quite generic and unsurprising, the first three can be argued to present the current focal points of M&A research. On one hand, there is organizationally aware and decision-making oriented literature, with an agency theoretical backbone, dealing with such issues as top management commitment, compliance and hubris, corporate governance, risk asymmetries and so on. From a managerial point of view, this line of research is interested in explaining inter-stakeholder group dynamics of M&A situations, which managers can relate to. There is also a numerically oriented literature, which is highly empirical (to the extent that very little grounded theory is sometimes incorporated in the articles) and still attempts to see which (financial) business objectives M&A serves a purpose in realizing. The managerial lessons, which are supposedly always there, are reduced to tested associations between variables and simplistic logical prescriptive conclusions drawn from these results. Finally, there is modern and contemporary M&A research that derives from the knowledge based view of the firm and argues for various types of organizational learning and knowledge creation benefits from M&A by focusing on e.g. technology transfer, innovation, R&D, immaterial resources and tacit knowledge. Despite this line of research also being highly empirical, there is as yet no sign of a fixation to over-emphasis of quantitative methodologies given that case study methodology and conceptual models are not rare.

The propositions tackling the contribution of the governance theories of the firm to M&A (research question 2), reveal three levels of paradigmatic linkages between the two discourses, as is crystallized in Proposition 22. The two discourses are found to interlink in their intellectual roots and traditions, engage in academic cross-fertilization and share many views on factual affairs dealing with M&A decision-making, suggesting the possibility for a governance based holistic framework engulfing both academic and managerial insights. A holistic research perspective can be seen to be able to reduce multi-paradigm problem that the dispersed, segregated and multidisciplinary M&A discourse can be argued to suffer from (Proposition 23).

The analysis of the intellectual roots and traditions of the M&A discourse (Research question 2a) identified that the organization of economic activity is a unifying concept that underlies both M&A research and the theories of the firm fundamentally. As is quite characteristic of the interplay between governance and M&A literature, the organization of

economic activity, a concept that originates from the governance tradition, has diffused into the analysis of M&A in the course of time. It is equally typical that the concept of economic organization, like many of the other key concepts, has emerged from the governance theories of the firm to wider use in management research (See Appendix 3). It is more characteristic of M&A research to use the same concepts implicitly and the conceptual dependence on governance literature is seldom acknowledged. Despite the fact that governance theory has seemingly acted as an intellectual underpinning to many strands of M&A literature for a number of decades, integrated and applied research is still very rare. During the past few years, however, there have been numerous studies that indicate a surge in cross-fertilizing research attention. On the other hand, the linkages in deep-rooted intellectual issues have also had an effect, which could be perceived to be adverse rather than beneficial. Namely, the economics-oriented tradition of institutional and organizational analyses has fixated M&A research to certain methodological tracts, the most dominant of which seems to be the quantitative analysis of discrete structural alternatives via database-inspired hypothesis testing, regression analysis and structural equation modeling.

The second area of investigation deals with the types of academic cross-fertilization between the governance theories of the firm and M&A (research question 2b). It firstly seems that there are apparent linkages between the governance theories of the firm and the M&A research antecedent clusters identified above. Agency theory has been a central developer of both managerial and financial analyses of M&A situations as was described in the context of the 'stakeholder group incentives cluster' above. Transaction cost economics, then again, has also played an active role in linking conglomerate and diversifying M&A to other theories and phenomena in the 1990s M&A articles. Property rights theory is an ideological cornerstone of market power literature engulfing primarily economics-minded (industry concentration, monopoly/oligopoly, wealth effects etc.), but also more strategically oriented (price maintenance, cartel building, market dominance) literature. Furthermore, neoclassical calculativeness and maximization ideology is still evident in performance-focused M&A analysis, represented e.g. by the 'business objectives' style research. On the whole, it thus seems fair to suggest that especially with increasing cross-fertilizing research attention during the past few years, meaningful patterns between certain areas of M&A analysis and the governance theories of the firm are beginning to emerge. A feature of this pattern is that the governance perspective, which can be said to be a conceptually holistic collection of various mutually complementing insights from different governance theories of the firm, is able to strongly contribute to the analysis of the existence of M&A, i.e. the evaluation of justifications and motivations put forth for performing M&A in both theory and practice. On the other hand, the shortcomings of the governance-centered approach are admitted and further analyzed in below.

4.3.3 Decision-making implications

The potential for a governance-based framework for managerial M&A decision-making was also analyzed (research question 2c). Here, the propositions were based on an analysis of a number of M&A decision-making settings, in which governance perspective flavored insights were perceived to have a potentially fruitful role. A real-life fact is that governance insights are in their current form difficult, albeit not impossible, to apply to managerial settings. Pondering e.g. the effect of property rights on an M&A related investment decision or measuring the real-life transaction costs between a parent company and a subsidiary in different ownership alternatives requires careful thinking and deep theoretical understanding. The truth is that the application of governance to managerial decision-settings is extremely rare. The analysis in Section 3.2.4 is nevertheless successful at indicating why the governance perspective could have considerable contributions to M&A decision-making settings and goes as far as proposing that M&A decision-making can potentially offer an equally fertile area of application for the governance perspective like academic research already does to an increasing extent.

Six key M&A decision-making areas, which the governance perspective is poised to serve, were identified. The governance perspective could offer insights to establishing a basic philosophy for M&A, understanding the limits of M&A operations, appreciating the influence and incentives of different stakeholder groups, making decisions regarding firm boundaries (e.g. divestment. in- and outsourcing), maximizing the calculated outcome and establishing a new legal entity. Each governance theory has a distinct realm within M&A decision-making.

Furthermore, the analysis of governance insights to the factual M&A decision-making environments concluded that any managerial M&A framework should respect the idea of M&A as a process, given that this approach has proven enormously appealing to managers. A processual model of the M&A should organize the governance insights to M&A management in a way which respects current conceptualizations of the M&A process. The processual view of M&A is perceived to be a vehicle, which could potentially be used operationalize academic research findings to decision-making situations through an influence on managerial cognition. The M&A decision-making arenas that governance insights could serve were identified to be numerous. They include not only corporate strategy, but also functional areas such as marketing, HRM, finance and the management of professional services providers.

As a whole, the scrutiny of potential application areas of the governance perspective in M&A decision-making revealed that the managerial relevance of the perspective could in the future be extended remarkably. This could potentially be done to extent that deriving decision-making implications would grow into an equally important application area as the advancement of academic M&A research. This would, however, necessitate a profound

understanding of the cognitive mechanisms through which the governance insights could actually influence managers' and other actor groups' decisions. Undoubtedly, developing the decision-making implications of the governance perspective further would thus require integrative research with managerial psychology and ultimately viability testing in managerial education.

4.3.4 Elaboration of contributions

The insights presented in the form of propositions to the two primary research questions evoked two concerns. Firstly, given that this study has identified the central position of the governance theories of the firm in the M&A discourse, the need to formulate frameworks, which expose these theories to wider academic and professional use in the context of M&A, emerges. Secondly, the propositions have identified remarkable potential for performing M&A research based on the governance perspective and even suggested some academic and managerial contours along which such research could take place.

Thus whereas the main purpose of Sections 3.1 and 3.2 was to make propositions that concentrate on directly tackling the research questions, the key aim of the entire Chapter 3 was to take these propositions further and present two conceptual frameworks in which governance theoretical insights play a key role. The first is the *explanatory governance approach to M&A* presented in Section 3.3, which deals with the current and potential future interplay of M&A research questions, answers, shortcomings and avenues with the governance perspective. In essence, this framework maps the most promising integrative research avenues (e.g. governance theoretical analysis of the M&A process, integration of tacit and codified knowledge as well as learning into the governance perspective), identifies knowledge gaps that need acute filling (e.g. the need to distinguish between governance insights to 'hybrid' organization modes and M&A), argues for the need to acknowledge differences in the institutional environments in which M&A is being performed and generally advocates interdisciplinary research between academics who represent different views of the world and whose different skills should be viewed as complementary, not incompatible.

The second is the *prescriptive governance approach to M&A*, also presented in Section 3.3, which aims at shedding light on the different roles that the governance theories of the firm can assume. Combining ideas from different governance theories into one 'governance perspective' can give business professionals a new cognitive mechanism and a conceptual tool. The prescriptive approach also includes a processual model for the use of governance theoretical insights in M&A. Whether it is seen as an alternative or as complementary to the conventional process models of M&A is up to the managers, the primary aim of the framework is only to somewhat enrich the current idea of the M&A process with governance insights. Finally, the prescriptive approach attempts to touch upon managerial reality by

showing the practical repercussions of governance thinking to corporate strategy-making on the one hand and various functional areas (corporate governance, professional services procurement, marketing, HRM and finance) in the context of M&A.

The propositions relate to these explanatory and prescriptive frameworks directly; they are crystallizations of the content of these frameworks. The propositions tackling the first research question, which deals with the *de facto* structuring of the M&A discourse, motivate the building of the frameworks in the first place and yield valuable content regarding e.g. the strengths of each theory. The propositions tackling the second research question, which deals with the contribution of the governance theories to the M&A discourse, then again, have given the governance perspective its form, i.e. motivated the division in to an *explanatory* and a *prescriptive* avenue, in addition to being primarily responsible for the content of both insights. Naturally, the propositions relating to the interlinkages in intellectual roots and traditions as well as academic cross-fertilization fall more into the sphere of the explanatory approach, whereas propositions 31-34 lay ground for the prescriptive approach. What is more, propositions 21-23 deal with the general need for a holistic governance perspective.

Altogether, answering the research questions (propositions) and taking their conceptualization one step further (building the explanatory and prescriptive governance perspectives) can be suggested to constitute the results of this study. In order to be a meaningful academic exercise, the results should contribute to the body of knowledge. Even though the contributions of any research effort are only realized in time, it seems necessary to subjectively suggest what the contributions of this study could be. Table 22 summarizes the key contributions of this study, as outlined above, together with the primary reasons why they could be contributions to the existing body of knowledge in the first place.

Table 22: The perceived contributions of the study together with their justifications

CONTRIBUTION	WHY IS IT A CONTRIBUTION?
1. The mapping of the *de facto* structuring of the 1991-2001 M&A discourse bibliometrically	Despite relatively many literature overviews (e.g. Haspeslagh and Jemison 1991, Larsson and Finkelstein 1999, Cording et al. 2001, Weston et al. 2001, Gammelgaard 1999, Kim 1999), there has not been a rigorous effort to map the structuring of the discourse systematically. This has now been performed.
2. Restructuring the M&A research streams on the basis of the bibliometric and conceptual results	The proposed new categorization of M&A research streams is more comprehensive than previous ones and does arguably more justice to the different disciplinary orientations present in the literature.
3. Identifying the significance and different roles of governance theories in the M&A discourse	The governance perspective as a whole has not been explicitly related to the M&A discourse before and explicit integrations of even individual governance theories are rare. Their dominance as theoretical cornerstones of the M&A discourse, as well as their different roles, have simply not been known or at least acknowledged.
4. Linking M&A with the governance perspective through history/tradition, language, joint academic research foci and convergence in business settings	The various levels of analysis on which the interplay between the governance theories of the firm and the M&A discourse occurs have not been analyzed or even mentioned in the same text.

5. Identifying theory-antecedent clusters in M&A research using the facet co-occurrence analysis	The 'stakeholder group incentives', 'business objectives' and 'organizational learning' clusters shed light on the types of M&A research that are popular and thus symptomatic of the structuring of the current M&A discourse
6. Proposing a holistic governance perspective to M&A research and decision-making	The governance perspective, as set of meaningful holistic cognitive frameworks incorporating both academic and decision-making oriented insights, has not been applied to M&A as a whole before
7. Advocating research avenues relating to the use of the governance perspective in both M&A and other research streams	One of the biggest contribution of this study is that it hopefully stimulates a new way of thinking about both the governance theories of the firm *and* M&A, thus opening up new discussions and research streams
8. Facilitating the development of governance-based decision-making frameworks	By identifying the relevance of the governance perspective to M&A decision-making,

4.4 Shortcomings of the study

Given that this research effort represents a) a new attempt engage in significant theory-centered work that is motivated by b) the refinement of two academic discourses and that is simultaneously c) an attempt to initiate a new type of integrative research, it is apparent that the arguable strengths and merits of this study are matched by weaknesses. While the identification of the contributions of this study above outlined the major strengths, this Section sets to the task of identifying the key shortcomings of the governance perspective to M&A. This has two aims. Firstly, the aim is to evaluate this research effort and its primary product, the idea of a governance perspective to M&A. Secondly, both the strengths and the shortcomings can be perceived as potential targets for future research as they often assume the form of strong theoretical insights or knowledge gaps. In the following, the shortcomings of the governance perspective are analyzed, with direct attention being paid to the research avenues in Section 4.5.

The shortcomings of applying the governance perspective to M&A emerge from a number of sources. Firstly, there are shortcomings that relate to the way this study has been conducted. Given that the governance perspective built in Chapter 3 relies on the conceptual and bibliometric research findings, their reliability and validity have a direct effect on the credibility of the entire framework. Secondly, there are a number of criticisms towards the governance theories of the firm and subsequently arguable shortcomings in the way the they can be related to M&A as was identified in Section 3.2.5. Here, these shortcomings are summarized. Finally, the governance perspective also suffers from the nature of M&A as a discourse and a practical exercise. Although the governance perspective attempts to act largely as cognitive framework, the realities of M&A present some limitations to how much can be generalized on its basis.

Shortcomings related to the materials and methods of the study

There are clear and admitted methodological shortcomings in this study, as is discussed in Section 1.3. Many of the shortcomings have, however, been tackled with successfully. For example, the most of the concerns about error in the author citation analyses emerging from the fact that only the first authors are considered are removed by the fact that the results are converging with those of e.g. the most-cited text analysis, the most-cited text analysis with temporal profile adjustment and the theory and antecedent frequency analyses in the network analysis. A similar concern deals with the subjective nature of the identification of the presence of facets in the network analysis. The robustness test yielding an average reliability of 93% indicates that the test is reliably repeatable. Likewise, the weakness emerging from the fact that the location of the citation is not considered in the citation analysis is tackled by the complementation of the citation analysis with the network analysis, which ensures that e.g. theories are not selected only based on a random reference to an author but they are *de facto* present and central to the article.

The concerns that do prevail deal firstly with the selection of journals. It is never possible to make a selection of journals to cover in a bibliometric analysis that would satisfy all advocates of all disciplinary orientations. As can be seen in the analysis of the publication outlet pattern in the Introduction, finance, management and economics journals have the most articles. Naturally, the selection of journals leads to the selection of articles from those journals and consequently the results are weighed in their thematic direction. One could, for example, argue that there are not enough organizational and human behavior related journals in the journal list. The counterarguments to this are that a) all disciplinary traditions were *attempted* to be included, b) organizational behavior and theory journals *did* yield a total of 37 articles and that c) the inclusion of more and more of these journals would not have had a huge impact on the results given that no M&A related articles were found even in core journals such as Organization and Organizational Behavior and Human Decision Processes. Organization theory and behavior journals were thus included, but they simply do not discuss M&A very often, at least not in the semantic tradition employed in this study.

Another shortcoming is that there is not, as yet, a comparable study that would indicate which ones of the authors, texts, theories and antecedents are actually the kind that is generally widely used in all scientific research involving same disciplinary areas as M&A. For example, which authors and articles do appear at the top in pretty much any citation analysis, and does this dilute the arguments presented about the important and exceptional position in the M&A discourse? Would the fact that e.g. some governance theoretical articles appear frequently in a number of forums mean that their relative impact is not very significant? Should they actually be *more* significantly well represented in the M&A discourse than the other forums to justify the conclusions made in this study about their centrality in the M&A discourse? This is a serious issue given that the motivation for the

entire governance perspective building exercise is that the governance theories are perceived to 'uniquely' underlie the M&A discourse.

Shortcomings emerging from the nature of the governance theories of the firm

A second set of shortcomings emerges from the shortcomings in the nature of the theories of the firm and the repercussions these shortcomings have on their applicability to M&A analysis. There are some five general shortcomings in the nature of the governance theories of the firm. Firstly, the governance theories of the firm are weak at decomposing and systematically analyzing specifics of the internal workings of the firm, particularly through empirical research. Transaction cost economics, which is supposedly the governance theory most able to compare internal arrangements and thus point out synergistic gain instances, only covers certain issues like team formation, head office size, number of management layers and even these analyses are heavily criticized (Ghoshal and Moran 1996). There are significant gains from internal organization related issues in M&A e.g. activity sharing, functional integration, knowledge management, resource pooling and so on, which the competence perspective to strategy research is somewhat specialized at investigating. The governance perspective to M&A also inherits this weakness; the proposed avenues deal little with internal organization related gains from M&A.

Secondly, a governance perspective based on the governance theories of the *firm* is bound to have a limited scope in inter-organizational, industry level and, to some extent, macro-level analysis. M&A is very much an issue, which needs to be tackled not only from the perspective of a single firm, but also from the perspective of all the other levels of analysis it has a major impact on. The current governance perspective operates at the level of the firm, even though M&A has significant impacts on e.g. inter-organizational networks and relationships, industry structure, market power and even nation-level wealth issues (e.g. through employment). However, institutional and organizational economics can be perceived to also have merits in analyzing the organization of economic activity at higher levels of analysis. Thus, this shortcoming should be able to be rectified with future governance theoretic research.

Thirdly, the governance theories of the firm, and subsequently the findings that underlie the proposed governance perspective, are generally grounded in economics and its mindsets and methodologies. A typical problem here is that the governance theories contain varying economics-flavored assumptions (e.g. complete contracting, perfect information, economic efficiency or utility as the primary incentive determinant, opportunistically behaving humans) that cannot always be accepted from the perspective of other disciplinary traditions as well as real-life M&A situations. It is difficult to accept the proposed governance perspective if one does not recognize the usefulness of governance theories of the firm despite their apparent

shortcomings. This standpoint has, however, been addressed particularly in the prescriptive, more managerially oriented stream of the governance perspective. On one hand, the prescriptive avenue is built as a cognitive mechanism that, as such, is not trapped in the narrow economics mindset. On the other hand, the different governance theories are allocated specific roles within narrower areas of application than the whole M&A process, which can be argued to improve the acceptability of their application despite some apparent unrealistic features. For example, even though all the sides of M&A are certainly not appreciated from the perspective of neoclassical economics, the maximization and calculativeness exercises can be argued to be extremely useful at a certain point of the M&A process.

Fourthly, a related argument deals with the habit of the governance perspective to omit social and human aspects of M&A, which is what Ghoshal and Moran (1996, p. 1) argue make particularly transaction cost economics but also the governance perspective as a whole "bad for practice". While some of this omission is surely also incorporated in the proposed governance perspective, the incomplete contracting tradition and agency theory are able to engage in some kind of analysis of human and organizational issues. The incomplete contracting tradition is able to introduce the limits of attempting to manage M&A in a organizational reality characterized by humane actions, while agency theory sheds light to how individuals and groups perceive an M&A situation in the light of e.g. their incentives, information and risk preferences.

Finally, some of the shortcomings of the specific governance theories of the firm as well as their underlying assumptions carry on to burden the governance perspective in general. All of the criticisms about the specific theories outlined in Table 19 can be seen to gnaw into the credibility of the governance perspective. However, it is important to notice that the perceived implications about the compatibility of the governance theories of the firm to M&A, emerging from the argued shortcomings, most often say that the applicability to the M&A discussion is limited or that the theories are valid but not sufficient to deal with M&A in general. The different roles assigned to the theories in the holistic governance perspective thus tackle this problem directly.

The extent to which the aforementioned shortcomings related to the nature of the governance theories of the firm can be helped by future research varies significantly. Some of the issues are such that cannot be rectified. For example, new versions of the governance theories that would not be bound by *any* of the underlying and limiting assumptions, would be extremely difficult to introduce and would perhaps not receive the amount of attention they would need to gain a significant theoretical foothold. On the other hand, there is clear evidence of shortcomings that can be rectified. The criticism relating to the static nature of transaction cost economic thinking has already been ousted out by dynamic transaction costs economics literature that integrates dynamic elements of competence-thinking in Williamson's basic ideas (Langlois 1992, Langlois and Foss 1999, Langlois and Robertson

1995). A fixation to an economics mindset and methodology can be helped simply by beginning to research governance theoretic issues with qualitative methodologies (e.g. case study methodology), incorporate missing conceptual tools from the world of organization theory and behavior (the introduction of dynamics into the analysis of transaction costs is a good example) and start publishing them in non-economics, -law or –finance journals. Arguably, an evolutionary economics mindset (Nelson and Winter 1982) might be a useful starting point in broadening the disciplinary tradition of the governance perspective, given that it carries considerable respect in e.g. contemporary strategic management research.

Nevertheless, from the perspective of this study, there is no clear bipartite division into those issues which cannot be helped by future research and those that can even though the degree of ease and the acceptance that somehow divergent articles receive can surely vary substantially. The potential research avenues are investigated in more detail in the next section.

Shortcomings emerging from the nature of M&A

The proposed governance perspective to M&A suffers from not only the weaknesses of the governance theories of the firm but also from the nature of M&A as a business phenomenon and as an academic discourse. Firstly, M&A, particularly post-merger process management, can be perceived to be a case-by-case exercise with little room for all-engulfing, in-flexible prescriptions. Both academic and consulting oriented post-merger management frameworks have been criticized for being either too generic or unreliable (cf. Shrivastava 1986). This whole issue is why even the prescriptive half of the governance perspective in this study has been formulated as a cognitive framework that is meant to stimulate managerial mindsets, and not as a checklist or a normative protocol.

Secondly, academic M&A discourse is, as argued above, segregated by disciplinary orientations and interdisciplinary research is rare due to a lack of commonly acceptable theoretical cornerstones, research problems and foci within M&A. One shortcoming of the proposed perspective can be that M&A researchers will not necessarily accept an approach that does not clearly belong to any disciplinary orientation and will peg this study as vague, loosely integrative theorizing. In a way this is understandable, since the research streams have drifted apart in the course decades and thus correcting the turf wars would be too much to ask from this study. Nevertheless, this study does attempt to act as an opener to a new type of M&A research that is not bound by discipline or fixated to worshipping a narrow segment of the M&A discourse. Without doubt, this might prove out to be extremely difficult. M&A is not an interdisciplinary discourse by chance; it is a hugely versatile research area.

Finally, a more general point about the nature of M&A deals with the dangers of building M&A frameworks that might be misinterpreted, particularly based on governance theories that have been argued to be "not only wrong, but also dangerous" (Ghoshal and Moran 1996: 1). M&A transactions often involve the lives of thousands, can influence at least regional but also national wealth and can shape entire industries, which again has massive repercussions. At the level of the firm, a failed M&A project can destroy years and years of hard work and success.

Ramifications to the relevance of the governance perspective

On the whole, the perceived shortcomings of the governance perspective emerging from the methodological weaknesses of this study, the nature of the governance theories of the firm and the nature of M&A in general can be argued to be more inclined to encouraging future research (see next section) than invalidate the entire governance proposition made in this study.

The methodological weaknesses are not severe. On the contrary, the bibliometric methodology can be seen to be work particularly well in this type of exercise, as it combines methods based on objective (citation analysis) and subjective (network analysis) selection. The results are convergent and reliable, and the conceptual analysis both laid a good stepping-stone for the bibliometric analysis and generally supports and enriches its results. There is nothing in the methodology that could either render it a futile exercise or indicate that the results are erroneous. It seems somewhat indisputable that the way the structuring of the M&A discourse is identified merits at least some theorizing and framework building.

It is a whole different discussion whether the 'theory building exercise' has been executed satisfactorily. The intention has been to avoid profound theory building, as the used methodologies are not based on first hand empirical research and the whole idea of a governance perspective in M&A is very new. Nevertheless, the idea has been to provoke thinking about governance as one holistic paradigm and start theorizing about the ways in which it could be useful in the analysis of M&A. Two issues emerge: the propositions are admittedly daring (to the extent that someone could argue that they are not well founded) and the theorizing that takes the form of the governance perspective is limited by what has already been said about the weaknesses of the theories of the firm and M&A.

What are then the ramifications of these shortcomings to the specific parts of the governance perspective? The first issue deals with the suggested conceptual structuring of the governance perspective and its applications. One can obviously question the relevance of a holistic governance perspective in general by arguing that the governance theories of the firm do not constitute a meaningful whole and disagree vis-à-vis e.g. basic contracting

assumptions. In essence, the governance perspective is however needed as a conceptual tool. So far, the notion of a 'governance perspective to strategy research', as analyzed by Williamson (1999), has not represented the entire arsenal of the governance theories of the firm. Furthermore, what has been introduced here as the explanatory and prescriptive avenues of the governance perspective would lack a conceptual foundation if the idea of a holistic governance perspective had not been introduced. The whole conceptualization is more robust given that the explanatory and prescriptive governance approaches rely on a general idea of governance and not just insights from individual theories of the firm. This is also a defensive tactic; anyone set to unravel the entire construction must attack the entire concept of a governance perspective and will not get away with arguing e.g. that the shortcomings of a specific particular governance theory of firm are well known and thus the whole conceptual construction is implausible.

The explanatory governance approach is prone to the criticisms concerning the theoretical structuring of the governance theories. One might be tempted to ask whether it is a meaningful exercise to advocate research that requires altering the fundamental characteristics of basic theories of the firm or whether it is worth building on theories that are already under severe criticism. The answer is yes. The governance theories of the firm have already manifested an ability to develop through time, as is evident in the case of dynamic transaction costs (Langlois 1992, Langlois and Foss 1999, Langlois and Robertson 1995), multiple principal-agent problems (e.g. Gupta and Romano 1998, Al-Najjar 1997, Tsoulouhas 1999) and new property rights theory (Barzel 1997, Hart 1995, North 1990, Eggertson 1990, Hart and Moore 1990, Grossman and Hart 1986). What is more, research applying governance theoretical insights in to various social phenomena have begun to emerge, which makes the striving for better theoretical insights and M&A-applied research a very meaningful exercise.

The prescriptive governance approach to M&A is admittedly very limited in its focus. The different roles of the governance theories in M&A decision-making, the processual model of the use of governance perspectives in M&A and the practical repercussions of governance thinking in strategic and functional decision-making areas all operate at the level of the firm, not paying enough attention to the firm-internal and firm-external aspects of M&A. This is something that surely needs rectification through future research.

Finally, the suggestions made in the form of the two governance avenues are preliminary and need support. Yes, they suffer from a lack of iteration concerning the internal organization of firms and, yes, they are rather mechanistic in their treatment of softer human and organizational issues. This is typical for a new conceptual construction. As will be seen in the following Section, complementary research from e.g. the competence theories of the firm and further development of key incomplete contracting concepts are, however, already poised to help the governance perspective with these pediatric diseases.

4.5 Emerging research avenues

The final task of this study is to identify research avenues that arise as a result of the executed research. Research avenues emerge about governance based M&A research as well as the use of the governance perspective as a social scientific research 'tool' in general. The suggested potential future research avenues are based on not only the shortcomings but also the results and strengths of the current study and its conceptual innovations. In essence, all of the advocated research avenues represent varying mixtures of the governance perspective and M&A. While the governance perspective is present in all of the proposed avenues, the extent to which the proposed research deals with M&A varies significantly, as does the extent to which they use particular governance theories or the governance perspective in general. As a result, the proposed future research avenues can be summarized in a four-field, categorized according to the general/specific use of governance theories and whether the research deals with M&A or not (see Figure 10).

Figure 10: Summary of the governance based research avenues proposed in this study

	Specific GTOFs	**Governance in general**
M&A related	• Research in the tradition of incomplete contracting to strengthen the governance perspective vis-à-vis human and organizational issues in M&A • Relating transaction cost economics to the analysis of horizontal integration • More careful analysis of agency problems and incentive-fomation along the M&A process • More careful iteration of the mergers of production functions	• Integrative research on the governance and competence perspectives to better tackle internal organization insights to M&A. • Extending the governance perspective to M&A to involve inter-organizational and possible industry level considerations • Deepening the understanding of cognitive frameworks in M&A decision-making
Non-M&A related	• Further conceptual development and updating the individual governance theories of the firm, e.g. ▪ Opportunistic behavior by principals and soft incentive determinants ▪ Development of the property rights – shareholder value linkage ▪ Further development of dynamic transaction cost economics	• Combining the strengths of the governance and competence perspectives through integrative research • A more accurate conceptualization of the organization of economic activity at various levels of analysis • Using the methodological and governance theoretical stances of this study to research other phenomena similar to M&A • Empirical testing of the governance perspective

This study has touched upon a plethora of research avenues dealing with the specific governance theories of the firm in M&A. The four most acute issues are illustrated in Figure 10. Firstly, there is a need to strengthen the human and organizational sides of M&A. This is possible through a more careful analysis and operationalization of the central concepts of the incomplete contracting tradition, e.g. bounded rationality (cf. Foss 2000), and the

introduction such soft aspects as chance, authority, information, social capital, communication and commitment into the governance based analysis of M&A. Secondly, a welcome contribution would also be the application of transaction cost economics to horizontal integration conceptually and/or empirically. As Rindfleisch and Heide (1997) point out, transaction cost economics has already been applied (arguably successfully) to vertical integration, vertical interorganizational relationships and horizontal interorganizational relationships. At least attempting to tackle horizontal integration, whether that is diversifying or focused in nature, with transaction cost economics logic could potentially shed some of the inapplicability criticisms and build the governance theory of M&A on one of its weaker sides. Thirdly, the agency problems between stakeholder groups along the M&A process should be researched. With a growing understanding of the necessary tasks in both post- and pre-merger process management, attention should also be paid to e.g. the incentives, information and risk preferences of actor groups whose involvement create much of the dynamics, unpredictability and subsequent non-prescribeability of the M&A processes. Especially the incentives of finance professionals provide an extremely interesting and compelling avenue as has already been indicated by some ground-breaking studies (Sharma 1997, Kesner, Shapiro and Sharma 1994). Finally, it seems viable to suggest that there is also room for more mechanistic analysis of M&A. Advances in the ability to map production functions more realistically can be suggested to open avenues for analyzing the combining of production functions, too. This could shed light on some of the de facto mechanisms through which internal organization related gains are actually created in M&A.

Besides encouraging for example the above avenues for applying specific governance theories of the firm to M&A, the further development of the theories *per se* is encouraged in this study. This study has manifested the fundamental value of governance theoretical insights, but also identified some serious limitations. Many of these limitations have developed as new research has discovered issues that the traditional conceptualizations of the governance theories do not take into consideration. Consequently, research refreshing and updating the governance theories is needed. There are a number of successful examples of this kind of research, for example the aforementioned examples of dynamic transaction cost economics dynamic transaction costs (Langlois 1992, Langlois and Foss 1999, Langlois and Robertson 1995), multiple principal-agent problems (e.g. Gupta and Romano 1998, Al-Najjar 1997, Tsoulouhas 1999) and new property rights theory (Barzel 1997, Hart 1995, North 1990, Eggertson 1990, Hart and Moore 1990, Grossman and Hart 1986). Arguably, the conceptual extensions in most acute need of verification deal with relaxing some of the oversimplifications of agency settings (e.g. allowing for opportunistic behavior by principals and understanding softer incentive determinants of agents, e.g. commitment, trust and authority) and establishing conceptually the intuitively compelling linkage between property rights theory and shareholder value ideology.

Numerous research avenues dealing with the use of the governance perspective, in general, for further analysis of M&A have emerged. The most significant shortcoming of the current governance perspective is that it is if not unable then at least weak at analyzing the internal organization of firms. Since extending the governance theories of the firm to discuss internal organization related issues to a much greater extent seems a somewhat hopeless exercise, integrative research with competence (resource-, knowledge- and capability-based) perspectives, which are somewhat specialized in the analysis of the internal workings of the firm, is needed to build a better framework of M&A. Madhok (2002) raises interesting points about the convergence of Coasian and resource-based thoughts, which could act as one starting point for this type of research. Secondly, as was discussed in the shortcomings, extending the governance perspective to M&A to involve at least inter-organizational, but possibly also industry-, and economy-level considerations, is needed. Confinement to the level of the firm can be rectified with future research given that organizational economic is able to tackle issues at higher levels of analysis too. Additionally, a deeper understanding of the operation and nature of cognitive frameworks, including the study of semantics (cf. Vaara 2000), in M&A would improve the proposed governance perspective and motivation its further development. Finally, governance-based M&A research should rid itself of its disciplinary fixation to economics, law and finance methodologies, research problems and settings and publication outlets. Qualitative and conceptual research publishable also (albeit certainly not *only*) in organizationally, sociologically and managerially oriented journals is needed. This study has played a part in demonstrating the usefulness of a wide disciplinary basis in the analysis of M&A, and this should be reflected in the how research is performed and where it is published, too.

Finally, there are some issues dealing with the development of general governance thinking that have little to do with M&A. This study has identified a clear need for performing governance-based research in other research areas or real-life phenomena than M&A. There are two reasons for this. Firstly, the contribution of this study is only revealed after a similar bibliometric analysis and a governance-based interpretation of its results is performed on a discourse reminiscent of M&A. Repeating the study would show how important the governance theories are to other discourses and validate or question the rather daring interpretation of their exceptionally dominant position in M&A research suggested in this study. The second reason is that using the governance perspective to analyze different areas of interest would take us towards an understanding about the true picture of the role of governance theories in e.g. management or corporate strategy research. Lately, the theories of the firm have again enjoyed resurging research attention (cf. Madhok 2002, Sanchez 2003 forthcoming, Williamson 1999 and Coase's Nobel Prize). Could governance be the next significant strategic management paradigm?

If the governance perspective 'won't make it alone', or even if it does, the combining of the strengths of the governance and competence perspectives is another important research

avenue. This study has demonstrated the need for integrative research not only across governance theories in M&A but across all theories of the firm in all management areas. As suggested by Eden (2002), this piece meta-analytical research has thus somewhat succeeded at pointing out a new direction for theory development and pointing out future research avenues. Turf wars could be a thing of the past. Conceptually integrative notions, most importantly the 'organization of economic activity', that are acceptable to an overwhelming majority of research traditions are emerging. It is these concepts and their more accurate conceptualization, as well as the continuous empirical testing of propositions emerging in the course of such work, that research needs to focus on.

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6 APPENDIX 1: A CONCEPTUAL ANALYSIS OF THE M&A LITERATURE

Research on M&A has received increased attention and grown in popularity during the last two decades of the 20th century. There seem to be two sets of reasons for this, one relating to the state and changes of the global economy and the other relating to the development of a number of interesting academic and theoretical research avenues which have prompted interesting contributions relating in the field of M&A. This appendix aims at providing a conceptual overview of the body of research performed on M&A topics since the 1980s.

There are several questions that need to be tackled in order to be able to provide a conceptual overview of such a diverse and interdisciplinary discourse as M&A. The foci of attention are the theoretical foundations of the M&A discourse, with particular emphasis placed on how M&A topics, issues and findings approach the world of the governance theories of the firm (Williamson 1999). M&A has been identified as a tool and driver of the organization of economic activity (Williamson 1996), which mirror the rationales of multiple groups of corporate stakeholders, most importantly management, shareholders, institutions providing M&A related financial and other professional services as well as lawyers and courts of justice. This Appendix is thus tied to the more general aim of this research effort of discovering what the governance theories of the firm have to offer to the discussion of M&A and the organization of economic activity.

The various governance theories of the firm discuss the existence, boundaries and internal organization of a firm (Foss 2000) and can thus essentially be considered to discuss how the organization of economic activity is *governed*. As Kenneth Arrow has described the economist, he is "the guardian of rationality, the ascriber of rationality to others, and the prescriber of rationality to the social world" (Arrow 1974, p.17). Thus the economics-minded insights of the governance theories of the firm, together with the plentitude of noneconomist engagement in the theory of the firm and rationality dialogue (Simon 1978), can be argued to bestow an undeniable influence on the kinds of *rationales* formed by stakeholders when making decisions about M&A, and a new organization of economic activity.

Given the second general aim of constructing an integrated governance approach to M&A, this Appendix is organized to respect the basic governance questions of the boundaries, existence and internal organization of a firm. Firstly, an investigation of the *motivations* behind the increasing popularity of M&A research is provided. Here, the analysis is two-fold, with academic issues and real-life events being presented side-by-side. Secondly, the *boundaries* of M&A, i.e. the various definitions provided for M&A are outlined. Special emphasis is paid to why M&A can be considered as a one distinct research area and not, for example, as three separate research areas (mergers, acquisitions and takeovers). Thirdly, the

justifications for the *existence* of M&A, as presented by a number of research streams, representing a plurality of disciplinary research orientations, are outlined. In doing this, the categorizations presented in earlier influential M&A literature[88] are used to a great extent. Table 23 presents some of these M&A school categorizations:

Table 23: M&A research streams as identified in recent overviews of the field.

Cording et al. 2002	Larsson and Finkelstein 1999	Weston et al. 2001	Haspeslagh and Jemison 1991
Overpayment	Strategic management	Process	Capital markets
Agency problems	Economics	Strategy	Strategy
CEO hubris	Finance	Finance	Organizational behavior
Top management complementarity	Organizational research	Agency problems	Process
Experience	Human resource management	Hubris	
Employee distress		Redistribution	
Conflicting cultures			
Process			

Finally, perspectives on the *internal organization* of M&A, i.e. views on pre- and post-merger processes, are outlined. This section is, however, left intentionally somewhat shorter given that the processual approach to M&A is already discussed in the context of the previous section focusing on the *existence* of M&A.

6.1 Contemporary Motivations for M&A Research

The purpose of this section is to outline why studying and researching M&A is interesting in the first place, with specific attention paid to the increasing research attention on M&A since the 1980s. As mentioned in the introduction, there are generally two sets of reasons for increasing academic attention on M&A.

[88] For example and most importantly Appendix B of Haspeslagh and Jemison 1991, Part II of Weston, Siu and Johnston 2001, Larsson and Finkelstein 1999 and Cording, Christmann and Bourgeois 2002.

Firstly, a number of interesting M&A 'sub-phenomena' have taken place in the business world during the last few decades. These sub-phenomena include a) merger waves, b) the increasing role of corporate governance struggles in M&A, c) sustained demerger activity, d) the prevalence of difficulty and disagreement in measuring the success of M&A, e) the counterintuitive unsuccessfulness of M&A, f) attitudes and behavior of M&A professional service providers and h) the non-prescribeability of post-merger processes. Particularly empirical management research has taken an interest in studying these M&A sub-phenomena, some to a greater extent than others. Many if not all of these sub-phenomena are relevant, interesting topics of both academic and managerial discussion.

Secondly, social scientific research streams that are interlinked, overlapping and parallel to M&A research have developed remarkably during the past few decades. These relate and are strongly reflected to the various disciplinary orientations from which M&A has been researched during the last few decades. Some particularly advanced management research areas, e.g. corporate finance, capital markets, strategy, organization theory, corporate culture and human resource management can be said to have spurred research in M&A.

Some of the advances in these fields are naturally related to the M&A sub-phenomena and they are subsequently analyzed in their context below. More importantly, however, some of the advances in these orientations are particularly reflected in the types of motivations and justification presented for the existence of M&A. M&A is typically a phenomenon-oriented research topic, which can be approached from basically any research angle. Naturally, the prominent and advancing theoretical approaches are thus most likely to present new viewpoints to M&A and reveal the most interesting research findings.

On the same note, it can be suggested that M&A is *per se* a fruitful topic for conceptual analysis from both an academic/theoretical and a pragmatic/managerial point of view. Whereas literature on the *existence* and *boundaries* of M&A, especially when considered as a tool and driver of the organization of economic activity, provides theoretical linkages to other academic discourses and disciplines[89], the *internal organization* of M&A, referring to the multitudinous managerial, financial, psychological and organizational processes involved in M&A decision-making, offers insights to a more pragmatic scrutiny of M&A as one, distinct, phenomenon. But first, some of the factual changes in the global M&A landscape that have contributed to the increase in research attention need to be outlined.

[89] Perhaps most importantly to various theories of the firm

6.1.1 M&A Sub-phenomena as Motivations for Increased Research Attention

Arguably, M&A has proven to be a fascinating research subject due to its versatileness and turbulence. A number of interesting sub-phenomena, resurging research attention on M&A time and again, have emerged. In the following, some of these sub-phenomena are revealed in order to establish an understanding about the types of real-life events and other dynamics that M&A research has derived inspiration from. Table 24 introduces these exemplary M&A sub-phenomena together with their key messages and the key reason(s) why they currently attract attention.

Table 24: Contemporary and interesting M&A sub-phenomena

M&A SUB-PHENOMENON	KEY MESSAGE	WHY INTERESTING AND CONTEMPORARY?
M&A waves	Cyclical nature of M&A activity. Five waves in the 20th century (Stallworthy and Kharbanda 1985, p.71-72, Weston et al. 2001) Horizontal mergers 1895-1904 Vertical mergers 1922-1929 Conglomerate mergers of the 1960s The deal decade of the 1980s Strategic mergers 1992-1999	Currently little activity. How long will the slump in M&A last or is it a slump in the first place?
Corporate governance in M&A	Ever since the managerial revolution, the interests of managers and owners have not been aligned. The active involvement of stakeholders in the management of the company is increasingly encouraged.	The 1990s demonstrated the relative inconsistency of many corporate governance tools such as golden handcuffs, handshakes and parachutes.
Demergers	Shareholder value considerations have introduced a reverse pattern in the changes to the boundaries of firms in the form of divestitures, demergers and contracting-out (Jensen 1985, Porter 1987).	Is there another demerger wave on the way after the 1990s 'strategic' merger wave?
The lack of M&A success and the acute difficulty in measuring it.	"Despite the merger mania and megamergers, the record indicated that some half to two thirds don't work" (Stallworthy and Kharbanda 1985, p.180). It is also extremely difficult to iterate the outcomes of M&A decisions from other, simultaneous change processes.	Continuously interesting in the search for better M&A outcomes
The overpowering influence of 'shareholder value propositions' on M&A	Shareholder value / property rights considerations have been the dominant justification for M&A activity in corporations, investment banks and consultancies alike.	Increasing application of our knowledge concerning other theories of the firm is enriching the 'boundaries of the firm' discussion.
Non-prescribeability of post-merger processes	Unlike the pre-merger, step-by-step textbook processes, post-merger processes are often unique and their management, one of the keys to M&A success, requires a different mindset (Habeck et al. 2000, Haspeslagh and Jemison 1991).	Will increasing awareness of the need for post-merger management increase M&A success? Who succeeds in this market?

Sub-phenomenon 1: M&A Waves

Considering the fundamental assumption of this study, i.e. that the fundamental rationales of M&A activity lie deep in the strategic and organizational processes of firms, it is perhaps surprising that M&A activity in this century has occurred in distinct, nearly fad-like waves. Numerous authors (e.g. Stallworthy and Kharbanda 1985, Kim 1998, Gaughan 1996, Goold and Luchs 1993) have studied M&A waves, and consequently identified roughly four broad merger waves[90]:

1882-1902	The creation of monopolies in the US
1925-1929	Acquisition of related firms often leading to vertical integration
1966-1968	Large conglomerates built up of unrelated businesses
1974- onwards	Dramatic increase in the number of megamergers, driven on to some extent by the activities of raiders

What is also worth noticing is that the waves have taken place in times of economic and enterprise growth and prosperity, thus implying that M&A activity is by no means confined to the traditional conception of 'a firm in decline meeting the crisis' (Stallworthy and Kharbanda 1988, 4) in absolute terms. It is also strongly associated with phenomena related to a booming enterprise horizon. Oftentimes, it is not the bad performance of a company as such that makes is susceptible to M&A rumors[91], but its performance relative to other companies. Likewise, it seems that top management tendency towards "empire building" and "the making of a billion-dollar company" (Stallworthy and Kharbanda 1988, 105-106) escalates in good times.

In any case, cyclical and conjuncture-dependent M&A activity seems to prevail. After the 1980s merger wave that has been argued to be motivated by e.g. the opportunistic behavior by various finance professionals (Sikora 2000), excess capacity (Jensen 1993), agency problems (Jensen 1988, Lichtenberg 1992), market failure (Shleifer and Vishny 1991) and tax and antitrust changes (Bhagat, Shleifer and Vishny 1990), the 1990s have been marked by M&A motivated by refocusing and strategic fit, industry consolidation, efficiency claims and the information and communication technology hype of 1996-2000. New reasons for M&A waves thus seem to emerge, and there is no reason to believe that the turbulent nature of the M&A market wouldn't continue to attract considerable research attention from various disciplinary perspectives.

[90] Town (1992) succeeds at mathematically verifying the existence of three 'actual' merger waves: 1898-1902, 1925-1932 and 1967-1969. After that M&A activity has increased substantially but has come in less distinct waves.

[91] The rumours themselves being one of the phenomena whose occurrence increases dramatically in boom times.

Sub-phenomenon 2: Corporate Governance in M&A

Ever since the 'managerial revolution', i.e. the separation of the ownership and the management of companies, right after the turn of the 20th and 21st centuries, the interests of managers and owners have not been aligned (Berle and Means 1932). With the growing plurality of different types of stakeholders (e.g. increasing power of institutional investors and venture capitalists), corporate governance has become an important part of firm activity.

Given that M&A is frequently characterized by changes not only in ownership but also top management, boards of governors and directors as well as share prices, M&A activity is one of the most attention-grabbing issues in corporate governance. Growing evidence of value destroying M&A resulting from incentive and risk asymmetries between top management, owners and professional service providers has forced shareholders and their representatives to become actively involved in the management of companies. There has also been considerable development in the use of different corporate governance tools and practices (e.g. golden handcuffs, handshakes and parachutes, poison pills, white knights, scorched earth, greenmail) to prevent and bring about different hostile and friendly varieties of merger, acquisition and takeover activity. On the whole, corporate governance issues in M&A have contributed to the increased research attention.

Sub-phenomenon 3: Demergers

In the 1980s, many authors followed Jensen's arguments (Jensen and Ruback 1983, Jensen 1986) about a new shareholder value based rationale behind corporate restructuring. The core of the rationale was that the right to appropriate the free cash flow of the company should be returned from professional managers to the shareholders of the company. Shareholder value considerations have introduced a reverse pattern in the changes to the boundaries of firms in the form of divestitures, demergers and contracting-out. Porter (1987), while theoretically incorporating the general notion of portfolio investment in his realm of competitive corporate strategy, researched just short of 2000 acquisitions by 33 prestigious US companies in the 1980s. By and large, he found that half of these acquisitions were later divested because of problems emerging from diversification. Similarly, Bowman and Singh (1990: 12-15) find that, for the 1979-1988 period in the US, divestitures by large companies outnumbered their acquisitions. Looking at European evidence, Richter (1999) supports this claim, yet arguing that demerger and divestiture activity has been more suppressed in Germany and in the UK largely because of a slower and less indecisive development of corporate governance mechanisms such as non-executive director-driven divestment and refocusing. Kirchmaier (2000) reports that in 1996, 80% of British firms indicated that they reduced the degree of diversification. Gadad and Thomas (1999) find evidence that divestitures, on average,

improve the operating performance and, at least short-term, share price performance of divesting firms.

This is not to say that divestitures, demergers and contracting-out have emerged only due to the strengthening of shareholder value considerations. Increased awareness of core competence thinking and the disassembly of mergers performed during the 1960s-70s conglomerate merger wave have, among other issues, simultaneously acted in the same direction. In any case, it seems that the abundant demerger activity has contributed to the increased amount and versatileness of M&A research.

Sub-phenomenon 4: Difficulty and Disagreement in Measuring M&A Success

Subphenomena 4, 5 and 6 are highly interconnected issues, but they are nevertheless investigated here as separate reasons for the increase in M&A research. Firstly, there is considerable difficulty, leading to continuous disagreement, in measuring the success of different types of M&A as well as M&A in general. Numerous different post-M&A evaluation criteria have been proposed, including various types of accounting profit, stock returns, operations cash flow, operating efficiency, growth and market share, with no clear agreement over how to even measure the success of M&A (Kim 1998). Kim (1998, p. 107-113) has researched the evaluation methods and concludes that there is no real consensus on the identity of the proper measures of performance. The well-known 'cloud of dust' metaphor, then again, argues that M&A creates period of turbulence during which so many different variables change that the impact of a merger or acquisition on a company's performance can not be iterated or identified, at least not in the short run. Regardless, the different results of studies using different measures of M&A success have also contributed to the increased discussion and research attention.

Sub-phenomenon 5: Counterintuitive unsuccessfulness of M&A

Many of the measures that actually *are* employed to the analysis of M&A success indicate, however, that M&A activity is unsuccessful. There is much disagreement whether this applies to most M&A, M&A on average or just a significant share of M&A, but failure is indisputably common. Evidence of improvement in the M&A success rate is, likewise, hard to find. Explanations provided for unsuccessfulness are plenty, including e.g. the use of wrong evaluation criteria, managerial hubris, flimsy rationales, inadequate and/or hurried execution, poor post-merger process management, conflicting cultures, bad timing and so on.

The high rate of failure opens an arena for various types of M&A-supporting activity, research investigating whether failure is actually common, research investigating reasons for

failure, research implying ways to avoid failure as well as numerous types of advisory and consulting activities including e.g. financial, strategic, process, functional, culture and change management services. Altogether, the risk of M&A failure creates many opportunities and attracts considerable academic and professional attention.

Sub-phenomenon 6: Overpowering Influence of Shareholder Value Considerations on M&A

In the jungle of measuring M&A success, shareholder value considerations have lately arisen as the major validation for M&A activity. Alternating waves of mergers and demergers as well as takeovers and divestitures, however, indicate that something is fundamentally wrong in the way executives infer the benefits and perils in M&A decision-making situations. Numerous authors have argued for the necessity of a 'strategic fit' and inter-firm synergies in M&A processes (e.g. Porter 1987, Clarke 1987), but these strategy concepts are not enough to conceptualize the (economic) rationales for altering the boundaries of the firm.

Shareholder value considerations in M&A are 'handy' in the sense that while they can, often fallaciously, be argued to be the best indicators in safeguarding shareholders' interests, they are also a medium for exercising capital market governance. Capital market pressure is growing faster than e.g. product market competition or strategic fit as a reason for performing structural and M&A changes (Kirchmaier 2000). Arguably, shareholder value is also a measure more easily manipulable than e.g. sustained profit, which can be perceived to be a benefit in the eyes of parties whose financial well-being is dependent on share price performance, including e.g. top managers, investment bankers, management consultant or generally anyone under share option or share related bonus schemes. The 'value' or 'shareholder value' considerations became almost fad-like in the 1990s, naturally attracting the attention of researchers and practitioners alike.

Sub-phenomenon 7: Attitude and Behavior of M&A professionals

An emerging M&A related discussion involves the attitudes, behavior and incentives of various stakeholder groups in the context of M&A. Perhaps most interestingly, investment bankers and similar groups of 'M&A professionals', whose potential financial upside is enormous enough to render moral dilemmas, are beginning to drift in the spotlight. Stallworthy and Kharbanda (see e.g. 1988, 30) have devoted a series of publications on the mixed outcome scenario of takeovers, acquisitions and mergers. They advocate a somewhat anti-Wall Street view by claiming that "only the go-betweens benefit". Kesner, Shapiro and Sharma (1994) argue that there is a definite incentive asymmetry between investment bankers and shareholders of acquiring companies. Furthermore, Fuller and Jensen (2002) have

recently argued that CEOs should start to "say no to Wall Street" and reverse the recent practices in which financial analysts and intermediaries drive firm valuations and expectations. Such research results, the media coverage Wall Street enjoys and the fact that many of the best earning individuals work for financial intermediary organizations are partly responsible for the current and increasing attention on M&A.

Sub-phenomenon 8: Non-Prescribeability of Post-Merger Processes

Finally, despite numerous academic and professional efforts, M&A and particularly post-M&A process management, remains by and large a non-prescribeable issue that needs to be considered case-by-case. Subsequently, the number of people employed by M&A projects both inside and outside the merging firms is high and has increased further with the increasing amount of M&A activity in the economy. Thus, both the continuous search for post-merger management methods and the sizeable impact of M&A integration planning and execution activity on people, firms and society play a part in the increasing M&A attention.

The above listing demonstrates clear motivations for continuing to tackle M&A as a research subject. The following sections attempt to lay the foundation for establishing a closer understanding for M&A by performing a brief conceptual analysis of the literature. This is done by incorporating three foci. Firstly, the definitions of M&A, which establish the conceptual boundaries of the discourse, are overviewed. Secondly, the various justifications for the existence of M&A, as put forward by established M&A schools of thought, are analyzed. Thirdly, perspectives on the internal organization of M&A are presented through an analysis of M&A processes. All through the analysis, the aim is to extract questions regarding the organization of economic activity in order to be able to analyze the findings from the perspective of the governance theories of the firm.

6.2 The Boundaries of M&A

The first task in investigating M&A from the viewpoint of the organization of economic activity is to look at what the *boundaries* of M&A are. Whether it is the literature, the business terminology or the actual phenomenon itself, the boundaries of M&A can be understood through its definitions.

Thus the various definitions of a M&A can be suggested to map what is inside and what outside M&A, i.e. setting the boundaries of the concept. Some definitions emphasize the organizational context of M&A:

> "The term 'merger' has two meanings in the context of combining organisations. Merger can refer to any form of combination of organizations, initiated by different kinds of contracts. The more specific meaning that separates mergers from acquisitions is that a merger is a combination of organizations which are similar in size and which create an organization where neither party can be seen as the acquirerer." (Vaara 2000, p. 82)

Other definitions highlight the importance of corporate identity:

> "Consolidation implies the combining of two or more firms submerging .. into a new corporate identity, while acquisition involves .. a company which retains its corporate identity" (Marchildon 1991, p. xi)

> "Merger – the absorption of one firm by another. A combination of two or more companies in which the resulting firm maintains the identity of the acquiring company" (Scott 1997)

Dictionary definitions work on a very general level and highlight the difficulty of drawing boundaries between mergers, acquisitions and takeovers:

> "[A merger is a] fusion of two companies or, sometimes, an acquisition or a takeover of one company by the other" (Reuters 1982: *Glossary of International Economic and Financial Terms*.)

Some definitions stress the disappearing of the former corporate entities more than the birth of a new one:

> A merger occurs when "two or more enterprises cease to be distinct or there are arrangements in progress or being contemplated that will lead to enterprises ceasing to be distinct" (Competition Bureau, Government of Canada, 2001)

In recent management literature, the negotiation aspect is emphasized:

> "The word merger refers to negotiations between friendly parties who arrive at a mutually agreeable decision to combine their companies .. In general, mergers reflect various forms of combining companies through some mutuality in negotiations" (Weston et al. 2001, p. 6)

Some definitions stress the complementarity and learning rationales of the mergers:

> A merger happens when two firms combine their practices in order that each gains a new area of expertise (Holtzman 1994)

Elsewhere, traditional economics literature has at times put it rather simply:

> "[A merger:] Firms combine the factors of production in different proportions" (Jervis 1971, p. 1)

While recent, arguably academically sound definitions give more emphasis to the M&A process:

> The expression M&A has been established to represent both joint agreement between the management of two firms to merge that is submitted to the shareholders for approval (including consolidation where the separate firms are dissolved into a new joint corporate identity) and acquisition of one firm by another through tender offer (i.e., publicly announced takeover bid) (Larsson 1990, cf. Jensen 1985)

In financial literature, capital structure has often been seen as the key:

> "A merger .. is an amalgamation or fusion of two or more firms into a new firm with a different capital structure" (Reid 1968, p. 22)

In legal dialogue, the European Union's definition[92] of "concentration", implying the common features of both mergers, acquisitions and other arrangements leading to the agglomeration of economic entities, is often employed. According to it, a merger occurs when:

d) Two or more previously independent undertakings merge
e) One or more persons already controlling at least one undertaking, or one or more undertakings, acquire, whether by purchase of securities or assets, by contract or by any other means, direct or indirect control of the whole or parts of one of more other undertakings.
f) The creation of a joint venture performing on a lasting basis all the functions of an autonomous economic entity.

As can be seen in the definitions, the phrase 'mergers and acquisitions', or M&A, is a reference to two categories of merger activity: mergers by consolidation and mergers by acquisition. Scholarly literature generally holds the term 'merger' to include both

[92] Council Regulation (EEC) No 4064/89 of 21 December 1989 on the control of concentrations between undertakings, published in the Official Journal. Only the published text is authentic: OJ C 385, 31.12.1994, p. 12.

consolidation and acquisition activity, but this study uses the term M&A (mergers and acquisitions) to encompass both fields. In essence, M&A can, and has been, treated as a single phenomenon in management, economics, business history, industrial organization, law, econometrics and finance alike (Marchildon 1991).

There are common denominators between the various definitions. Generally, the definitions all suggest that with M&A, we are facing a change process. The question is: what is the instance that changes? Looking beyond the surface of the definitions, at least the following change instances can be identified:

- Organization of activities and assets
- Human interplay
- Organizational reality
- Financial structure
- Corporate identity
- Number of existing companies
- Allocation of resources and/or factors of production
- Ownership structure
- Legal incorporation of companies

Looking at these instances, it could be claimed that the definitions of M&A, in addition to setting the conceptual boundaries, explicitly relate M&A to the organization of economic activity. As seen in Appendix 2, theories of the organization of economic activity at the level of the firm, i.e. governance theories of the firm, are essentially about the contracts of organizing assets and activities as well as the contracting problems involving organizational realities and financial trade-offs.

6.3 The Existence of M&A

The investigation of the existence of M&A concentrates on a key set of questions concerning the role of M&A on at least three levels: the economy, the organization and the individual. In order to understand the essence of M&A, their existence should be scrutinized, and ultimately justified, on all of these levels. Fortunately, research on the various aspects of M&A, for example their economic justification, role in organizing economic activity, profit-seeking objectives and other functions have been researched in depth since the 1970s. Unfortunately, various different perspectives have been presented and the scope of the research is much too broad for an complete in-depth coverage in this the context of this study, so the analysis is limited to a compact but investigative overview of the established schools of thought (See e.g. Haspeslagh and Jemison 1991, Cording et al. 2002, Weston et. al 2001, Larsson and Finkelstein 1999, Gammelgaard 1999, Marchildon 1991, Bengtsson 1992 and Auerbach 1988).

The aim of this Section is to look into the major motivations, justifications and explanations put forward for performing M&A. A variety of categorizations addressing different schools, approaches and arguments are presented in a number of review-type books and articles (e.g. Haspeslagh and Jemison 1991, Weston et al. 2001, Cording et al. 2002 and Larsson and Finkelstein 1999). In this study, these motivations are categorized, close to the lines of Haspeslagh and Jemison (1991) under the four headings of *capital markets*, *strategy*, *humans and organizations* and *process*. These 'schools' can be argued to form unique perspectives with different mindsets but similar research agendas; analyzing the *existence* of M&A. Here, the aim is also to give an overview of the different perspectives and thereby establish an understanding about the key issues in M&A. Ultimately, the purpose of this section is to identify relevant questions concerning the organization of economic activity, for which clarification could be sought from the various governance theories of the firm as explained in the introduction of this appendix.

6.3.1 Capital Markets

What Haspeslagh and Jemison (1991) peg the 'capital markets school' is fundamentally represented by financial economics work around the key concept of the creation and allocation of value through M&A[93]. Despite extensive empirical research showing that acquisition hosts will generally not gain in shareholder value, it is argued that M&A in general does create value and thereby encourages a market for corporate control.

Two fundamental studies on the research of the value outcomes of M&A in the US in the 1980s by Jensen and Ruback (1983), and Jarrell, Brickley and Netter (1988) conclude that, on average, target company shareholders value increases by approximately 20-30%, whereas the value gain on the hosting company's side is marginal if any. The spread of the researched M&A value outcomes is great and there are also a number of studies that argue against any net value gain existing.

Haspeslagh and Jemison (1991, p. 296) list a number of nation-based studies that support the general conception that targets gain more than hosts and the net outcome is positive presented in these two overviews and express the general notion that "financial economists conclude that acquisitions and mergers benefit society by creating wealth". Ownership is thus changed in the hope that the new owners can put the transferred assets into better use.

[93] It must be noted that from the perspective of the financial economics, mergers and acquisitions are not exactly the same thing. Whereas the analysis of shareholder value outcomes of mergers of equals is still a realm without evidence conclusive enough to draw prescriptive implications, the analysis of acquisitions and take-overs has been analytically framed with e.g. the concepts of 'value capture' and 'value transfer' from acquisition hosts, governments and bondholders in order to explain net shareholder value gains (Haspeslagh and Jemison, p. 296-298).

There is also a wealth of literature arguing against this. Nickell (1995) and Pene (1995) summarize the evidence in the literature according to which gains from takeover activity accrue primarily to the shareholders of the acquired companies rather than to the bidder. Bühner (1990) finds that gains by shareholders of acquired companies only represents a part of the losses by shareholders of the acquiring company in an overwhelming majority of cases. Richter (1999, p. 262), having analyzed a wealth of studies in Germany and in the UK, concludes that total shareholder value thus remains level at best following acquisitions and that acquisitions are not statistically followed by improvements in financial performance. These are merely a couple of examples.

Financial economics authors in this stream of thought (e.g. Lewellen 1971, Brealey and Myers 1988, Werden et al. 1996) base their work on several fundamental concepts and their underlying assumptions, namely a) the efficient markets hypothesis, b) agency theory, c) free cash flow analysis, d) the market for corporate control and e) the capital asset pricing model (CAPM). (Haspeslagh and Jemison, p. 293-295)

The efficient market hypothesis suggests that the market value of a firm's stock price reflects an unbiased estimate of all publicly available information about the firm's future cash flows and their related risks. Thus, it is argued, any acquisition that causes immediate increase in market value is good and vice versa. On the whole, extensive research has concluded that acquisitions do not, on average, create value for the acquiring firm. Acquisition targets, however, do yield a significant premium to their shareholders (Jensen and Ruback 1983, Jarrell, Brickley and Netter 1988). Agency theory, which is elaborated in more detail in Appendix 2, argues that problems arise in M&A situations when managers' and owners' interests are not congruent (Holmström 1979, Fama 1980). This may result in non-value creating acquisitive behavior due to e.g. empire-building acquisitions (Roll 1986) and managerial risk reduction through diversifying M&A (Amihud and Lev 1981). Free cash flow analysis, then again, is argued to reveal whether managers are acting in the shareholders' interest and allocating the appropriation rights of free cash flow to them (Jensen 1987). The market for corporate control (Manne 1965, Jensen 1986), which is defined as the right to determine the management of corporate resources, including the right to hire, fire and set top-level management compensation rates (Fama and Jensen 1983), essentially refers to the fact that different management teams compete against each other over the control of corporate resources (Jensen and Ruback 1986). They are measured against each other in terms of the shareholder value they are able to create. The CAPM provides a framework for assessing the rate of return that the market expects of an asset to earn, given its riskiness (Brealey and Myers 1988, Weston and Copeland 1987), with many applications to the acquisition evaluation. (Haspeslagh and Jemison, p. 293-295)

The methodology used by the capital markets stream consists almost entirely of event studies (See Brown and Warner 1980) that analyze the share prices of listed firms involved in

the M&A over a short period surrounding the announcement. Shortly put, if the net change in shareholder value during this short period is positive, the capital markets school concludes that wealth is created.

The key sources of financial synergy from M&A are argued be a) reduced capital cost as internal financing is cheaper than external financing, b) the utilization of tax shield and c) the increase in the debt capacity of the merged company. As Weston et al. (2001) point out, there was already early on considerable empirical evidence (see e.g. Nickell 1978, Nielsen and Melicher 1973) that the rate of the premium paid to the owners of the acquired company was greater when the cash flow rate of the acquirer was greater than that of the acquired firm. Raising the debt rate also creates financial synergy through the exploitation of the tax shield. This strategy is efficient as long as the value from reduced tax is higher than the cost of financial distress (Brealey and Myers 1988, see Gammelgaard 2001, p. 7). Weston et al. (2001, p. 143) also mention a possible gain in the economies of scale in flotation and transaction cost of securities.

This basic agenda and methodology of the capital markets school raises, however, serious concerns about the limitations of the capital markets approach, the most grave of which is its obsession with short-terminism, emerging from the underlying assumptions. For example the efficient markets hypothesis, which suggests that the market value of a firm's stock price reflects an unbiased estimate of all publicly available information about the firm's future cash flows and their related risks, feeds an impatience into the methodology. Conclusions about the value outcome of M&A are drawn even *before the organizations have been merged*, based solely on the reaction to the announcement (which can be and often is withdrawn or altered).

Haspeslagh and Jemison (1991, p. 298-299) present two further, related problems with the capital markets school. The first is that the assumptions simply "do not reflect the realities of the managerial world". In the real world, i) shareholders do not possess a full understanding of how the strategy of the firm will evolve and/or be developed in the future, ii) cash flows effects associated with the merger or acquisition cannot be accurately predicted and iii) managers and employees are certainly not perfectly aligned to the sole task of maximizing shareholder value (Donaldson and Lorsch 1983, Simon 1976), all of which are assumptions that the capital markets view adopts.

Secondly, the view can be argued to drive a simplistic conception of the firm and has arguably contaminated the markets with value short-terminism. Haspeslagh and Jemison (1991, p. 299) argue that the efficient markets hypothesis fails and/or the financial markets are too impatient (Jensen and Fuller 2002) as more and more seriously and continuously undervalued firms appear. An increase in the number MBOs is an indication of this. These days, it is no miracle to see a publicly listed firm have a market capitalization seriously less

than its book value, which can be argued to hint in the same direction. This critical vocalization is concluded by the argument that "changes in share price provide a convenient but hazardous and single-minded measuring stick" (Ibid., p. 300) and reminds the academic community of the more long-term M&A evaluation strategies based on the accomplishment or non-accomplishment of strategic objectives. These M&A evaluation strategies are more widely used in non-Anglo-American countries, e.g. Germany, Japan and Switzerland.

Ramifications

From the standpoint of this study, perhaps the most interesting question concerns the role of agency theory[94] as a fundamental theoretical cornerstone of the capital markets school. Given the central roles of shareholders and managers and the shifting patterns of power between them (Berle and Means 1932), agency theory is relevant in that it provides useful insight into analyzing their relationship. The basic setting deals with inefficiencies resulting from the incongruence of their interests (Holmström 1979, Fama 1980) and the possibility of shirking that necessitate monitoring from the shareholders' side.

Agency theory has contributed to the analysis of the financial aspects of M&A since the 1970s. Jensen and Meckling's (1976) seminal paper presented key findings in both the theory of finance and agency theory, both of which had remarkable repercussions to M&A. Agency theory soon spurred seminal M&A articles (e.g. Jensen 1986, Amihud and Lev 1981) carrying the capital markets mindset in the form of share price event study methodology. Financial economists (see e.g. Myers and Majluf 1984, Eckbo 1983, Jensen and Ruback 1983) were equally keen on M&A research. As Haspeslagh and Jemison (1991) indicate, the emphasis in M&A has strongly been on capital markets oriented research. A further indication of the intertwining of the finance and agency theory realms is that lately, the roles of investment bankers in M&A have been scrutinized from an agency theoretic point of view (e.g. Sharma 1997, Kesner, Shapiro and Sharma 1994).

The question becomes: *if agency theory is so relevant in understanding shareholder-manager relationships, what more can it contribute to the understanding of M&A?* The *existence* of M&A can be linked, at least in some cases, to a corporate governance struggle involving questions of incentive establishment and allocation. Furthermore, it can be speculated that interest incongruence exists in multiple patterns across the organization, not only between the 'collectives' called 'shareholders' and 'managers'. *Could the analysis of interest incongruence in M&A refined by incorporating analysis at the level of management layers, business units, and even entire firms? What implications do possible further agency*

[94] For an in-depth overview of agency theory, see Appendix 2

settings are there in M&A situations? These avenues remain largely unexplored. More agency theoretic viewpoints are elaborated upon in Appendix 2.

The possibility of input from other theories of the firm should not be overlooked either. An apparent source of justifications (due to the shareholder value intensity of the capital markets school) rises from property rights literature. *What, then, are the justifications this TOF puts forward for the transfer of assets from one set of shareholders to another? Does a closer investigation of the shareholder-based theories help us to understand the efficiency, authority, information and incentive mechanisms, which set the boundaries for M&A?*

Another important set of questions deals with the role of shareholder value considerations, both in the form of the capital markets perspective on M&A and the (possibly) related theories of the firm in the organization of economic activity. *To what extent do shareholder value considerations drive the existence of M&A in practice? How and in what direction do the shareholder value-related mechanisms drive the boundaries* (see above) *and the internal organization* (see below) *of the firm*? *Are there, for example, correlations between the types internal organization changes following M&A and changes in shareholder value.*

The answer to the first question can be speculated immediately. As outlined earlier, pure short-term shareholder value considerations, as emphasized by the capital markets school, are indeed considered the main judge of M&A rationales in the contemporary financial market driven economies. This is regardless of the various problems of the capital markets approach in its underlying assumptions, neglect of organizational realities as well as the empirical evidence indicating a large share of value destroying M&A outlined earlier:

> "Despite these and other problematic assumptions, the American and British business environments largely accept the capital markets perspective and the impact on current shareholder value as the overriding benchmark by which to judge the quality of [M&A] decisions" (Haspeslagh and Jemison 1991, p. 299).

It is also argued that this view may have become dominant in the US because research on M&A has been "financially oriented with an emphasis on measuring the outcome" solely from the point of view of shareholder value (Ibid., p.299-300). The question becomes: *has it really*? One of the major objectives of this study as well as its potential extensions is to map the *de facto* fundamentals of the M&A discourse and see whether and to what extent the capital markets approach and its underlying theories of the firm, namely agency theory and property rights theory, have been the driving forces of the discourse.

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capital markets approach in its underlying assumptions and neglect of organizational realities as well as the empirical evidence indicating a large share of value destroying M&A.

6.3.2 Strategy

Since the focus of this study are the governance theories of the firm, the detailed analysis of the strategy stream is focused strictly on issues that are directly relevant to the understanding of M&A from a governance point of view, i.e. the concepts of relatedness and synergy. The scrutiny of what has grown into a competence-based perspective of the firm as well as the extensive competitive strategy literature is primarily left for future research. These discourses are far too complex to be dealt with in the limited space of this essay. By concentrating on two concepts that the various corporate strategy schools agree on, relatedness and synergy, the analysis also avoids getting into the continuous rope pulling between the various strategy schools.

In contrast with the capital markets school, the strategy stream of M&A emphasizes the case of individual firms and lowers the level of the analysis from the wealth of the economy to firm-specific outcomes. Naturally, however, M&A is more of a central issue in certain areas of corporate strategy practice and research than others.

Key M&A related corporate strategy areas could be categorized as follows (along the lines of Weston et al. 2001):

1. Efficiency gains
2. Risk and diversification
3. Operating synergies
4. Financial strategy
5. Competitive realignment
6. Competence, resource, information realignment
7. Redistributive realignment

The basic agenda of the strategy stream can be argued have started from a rationalistic analysis of the fundamentals of the firm:

> "Claiming that the average performance findings of financial economists are of little relevance to the strategist in individual firms, strategic performance researchers have set out to examine the performance impact of a whole series of characteristics of the acquirer, the target, or the relation between them. The variables deemed to be associated positively with performance include relative size, market share, pre-acquisition profitability, and pre-acquisition growth and pre-acquisition experience"

(Haspeslagh and Jemison 1991, p. 300, see also Kitching 1967, 1974, Fowler and Schmidt 1989).

With the rise of the competence perspective to corporate strategy (see e.g. Hamel and Prahalad 1990, 1994, Rumelt, Schendel and Teece 1994) and a more elaborate understanding of the need for strategic and organizational fit (e.g. Porter 1996), the relatedness of activities has received extensive and increasing attention. Already the earlier contributions in the spirit of the resource-based theory of the firm (Rumelt 1974, 1982, Bettis 1981, Nelson and Winter 1982) found that large firms that were unrelated diversified (often as a result of M&A activity) were outperformed by firms with related activities on the whole. Early studies using managerial judgment as a measure of performance (e.g. Kitching 1974) also support this finding. Thus generally, relatedness between activities, i.e. synergies arising from appropriate portfolio management, restructuring, sharing of activities and the transfer of resources (Porter 1987), is argued to be a driving force behind the successful co-existence between merged firms in certain industries (e.g. pharmaceuticals). This is not insignificant vis-à-vis the *existence* of M&A.

The notion of synergy, then again, has derived from two particular intellectual orientations. The first is the theory of *differential managerial efficiency* (Teece 1987), which argues that M&A gains are due to more efficient organizations and pooling of complementary resources (Gammelgaard 2001). The other relates to the replacement of inefficient management following M&A, i.e. the operation of an allocative market for corporate control (Fama 1980, Manne 1965, see also Walsh 1988, 1989). More specifically, M&A synergies have also been categorized into operational synergies[95], collusive synergies[96], managerial synergies[97] and financial synergies[98] according to their measurability and the ability to generate benefits (Weston et al. 2001, Larsson and Finkelstein 1999).

Authors in the strategy stream have addressed the problem of M&A implementation by advocating better pre-M&A analysis and post-M&A planning (Salter and Weinhold 1979, Howell 1970, Berman and Wade 1981). In practice, this implies a better definition of the steps in the M&A processes[99], conventionally consisting of the definition of objectives, search and screening, strategic evaluation, financial evaluation, negotiation, agreement and post-merger-integration (Haspeslagh and Jemison 1991, p. 13, also Salter and Weinhold 1979).

The empirical evidence on both relatedness arguments and synergy arguments is, however, not straightforward. It has been argued that relatedness, although it gives a conclusive *ex ante*

[95] Resulting from economies of scale in e.g. production, R&D, staff functions and marketing.
[96] Resulting from increased market power and bargaining power
[97] Corresponding to the efficiencies from the market for corporate control
[98] As elaborated in the previous section
[99] For a fuller analysis of the M&A processes, i.e. the internal organisation of M&A, see Section 2.3.

indication of potential sources of value creation, does not determine the nature, scope and profitability of value creation (Haspeslagh 1986, Haspeslagh and Jemison 1987). A possible explanation is the neglect of post-merger implementation work:

> "Taking synergies from relatedness for granted is symptomatic of a more fundamental weakness of the strategy school: its disproportionate emphasis on the strategic task, leaving aside practical impediments to value creation such as interpersonal, interorganizational, and intercultural friction" (Haspeslagh and Jemison 1991, p. 302).

In addition to the criticism directly related to the its M&A insights, the perspective suffers from the cloud of criticism bestowed by the continuous rope-pulling between the various corporate strategy schools, as much of the research effort in strategic M&A research concentrates on arguing about old propositions. This hampers further development and progressive new research.

Ramifications

The discussion of synergy-based *ex ante* and *ex post* value creation and related frictions in M&A represents an extremely interesting question to the realm of the theories of the firm. *How does an ex ante indication of potentially significant but unsure value creation influence M&A decision-making?* With their detailed analysis of the incomplete contracting setting, governance theories of the firm, especially transaction cost economics and agency theory, should be able to model and analyze such M&A settings. Likewise, the 'frictions' mentioned in the M&A value creation setting are directly addressed by transaction cost economics. The general question thus is: *How do transaction frictions influence the existence, boundaries and processes of M&A*?

In addition to discussing the firm level upshots of M&A activities, the strategy stream discusses issues related to industry and market structure as well as industry-wide vertical integration issues (Rumelt 1982, Christensen and Montgomery 1981). *What input do the theories of the firm have for industry market structure and industry-wide vertical integration questions*?

6.3.3 Humans and Organizations

Whilst the capital markets school concentrates on wealth effects at the level of the economy and the strategy stream at the level of the firm, what is called here the 'humans and organizations' stream has "focused on the people aspects of [M&A] implementation, often to the neglect of strategic requirements" (Haspeslagh and Jemison 1991, p. 303). The research

incorporates contours reflecting human resource management, crisis management and cultural compatibility ideas[100].

An important proponent of the human resource management literature is naturally the discussion of the employment relationship and contract pioneered by Simon and March (1952), which has its connections to the governance theories of the firm. From the standpoint of the employee or individual, much of the human resource management literature incorporates an organizational, softer perspective on both pre- and post-merger processes, thus departing drastically from the capital markets perspective. Similarly, the humans and organizations stream departs from the capital markets and strategy streams as it emphasizes on the *negative* impacts of M&A, e.g. labor turnover, which is considered an indication of a crumbling morale in the workplace[101]. This negative predisposition is shared by the crisis literature, which concentrates mostly on the adaptation process of the employees at the time of, typically, a hostile takeover. Cording et al. (2002, p. 17) elevate the employee distress perspective as a completely separate school of its own, given the contributors' background in industrial and organizational sociology and psychology, which thus differs remarkably from most M&A authors (See Buono and Bowditch 1989).

The view on cultural compatibility applies seminal corporate culture literature (e.g. Schein 1992, Deal and Kennedy 1982) to the context of M&A, emphasizing that a great deal of attention should be paid to the cultural compatibility between the merging organizations (Sales and Mirvis 1985). This argument, despite the fact that it draws directly from the culture literature and has thus different intellectual roots than the strategy stream, resembles the relatedness arguments in the way it talks about the need for similarity between organizations. Furthermore, the culture approach also explicitly argues that history matters, which is in accord with the competence perspective to strategic M&A literature (Blake and Mouton 1984). Finally, the resemblance of the two approaches is capped by their mutual emphasis of communication and information exchange in order to ensure that the M&A is assumes the form and is understood as a smooth interorganizational process (Buono, Bowditch and Lewis 1988), which is characterized by a long period of two-way communication and interaction. Empirical research advocating the dangers of cultural compatibility and acculturation is relatively abundant (see e.g. Chatterjee et al. 1992, Nahavandi and Malekzadeh 1988, Cooper and Cartwright 1992).

It is also relevant to include individual-level M&A considerations in the humans and organizations stream. Managerial hubris and empire building have been attributed as the most important motivations behind M&A behavior. Roll (1986) initially elevated hubris as an equally important motivation for M&A as taxes, synergy and removing inefficient

[100] For a list of authors in specific research topics, see Haspeslagh and Jemison 1991, p. 304-305
[101] This is quite opposite to the capital markets perspective, which traditionally emphasises the welfare *gains* of M&A and views labour turnover as a *positive* thing given that it is a potential synergy instance

management. Hayward and Hambrick (1997) relate the acquisition premiums paid to the extent of CEO hubris, and their findings imply that hubris might actually be a primary reason for acquisition price-related M&A 'failures'.

On the whole, authors in the human and organizational behavior literature stream "let organizational issues outweigh an acquisition's strategic potential and consider integration issues primarily from the standpoint of whether individuals accept the new situation" (Haspeslagh and Jemison 1991, p. 306).

Ramifications

With its organizational inclination, the humans and organizations stream poses rather different questions about the *existence*, *boundaries* and *internal organization* of M&A. In addition to lowering the analysis to the level of the individual, the organizational behavior literature poses the important question: *Do organizational considerations (or realities) threaten justifications for the existence of M&A?* One could also wonder *what kind of impact organizational considerations at the level of the individual can have to the boundaries, i.e. definition, of M&A*. On the basis of the evidence in the crisis literature, it seems viable to suggest that M&A is accomplished only after true integration of soft issues and cooperation patterns have also taken place.

The humans and organizations stream on M&A derives from the same original conception as early incomplete contracting literature and subsequently all theories of the firm based on this notion (most importantly transaction cost economics and new property rights theory), the uniqueness and incontractability of the employment relationship (Simon 1951). Since the humans and organizations stream lies close to early incomplete contracting literature (e.g. Simon 1945, 1951, Coase 1937, 1960) the incomplete contracting theories of the firm should be able to contribute to our understanding of M&A from an organizational standpoint. *Which conceptual elements do organizational M&A and incomplete contracting theories of the firm have in common?*

6.3.4 Process

The fourth stream of M&A literature, i.e. the process stream (see e.g. Hunt 1990, Haspeslagh and Jemison 1991, Pablo 1994, Larsson and Finkelstein 1999), was spurred by the strategy school's inability to emphasize the significance of the M&A processes. The basic argument is that the M&A process itself can be an important determinant of the various M&A outcomes (Jemison and Sitkin 1986). It is clear, however, that the process stream and the strategy stream derive from similar intellectual bases and authors of the process stream have often contributed across. A process stream could thus be viewed as a subset of a more

general strategic research stream in M&A (Vaara 2002). Indeed, the process stream does not mitigate the importance of a strategic and organizational fit, but rather draws from classic contributions in this field (e.g. Mace and Montgomery 1962, Lawrence and Lorsch 1967).

As recognized by Puranam (2001, p. 6-7), one of the central tenets in the process approach is that the acquisition of the equity of another company does not automatically lead to the creation of necessary links between the resources of the merging companies. Costly transactions, most importantly the alignment of incentives, the creation of coordination mechanisms and the adjustment of information flows governing the use of the resources, are needed (Ranft 1997, Zollo 1998, Zollo and Singh 2000). Subsequently, the process stream emphasizes the role of post-merger integration and the extent of administrative integration after the merger.

The process stream in M&A is interested in the role of change and change management as potential sources of improvements in competitive advantage (Jemison and Sitkin 1986). Here, the creation of value in the M&A context is thus not a given outcome of an 'average' merger or acquisition (like the capital markets stream and partly the strategy stream endorse, see e.g. Jensen and Ruback 1983 and Jarrell, Brickley and Netter 1988, Kitching 1967, 1974, Fowler and Schmidt 1989), but the M&A process is an underlying mechanism which, if skillfully managed, can potentially help create value through corporate renewal (Haspeslagh and Jemison 1991). What the process stream is naturally most interested in is the M&A process, or, arguably, a number of M&A processes (Hunt 1990, Pablo 1994).

A key aspect in the value creation is the active management of the M&A process. Already Mace and Montgomery emphasized the critical role of top management in determining the success of the process and subsequent value creation:

> "The value to be derived from an acquisition depends largely upon the skill with which the administrative problems of integration are handled. Many potentially valuable acquired corporate assets have been lost by neglect and by poor handling during the integration process" (Mace and Montgomery 1962, p. 230, in Haspeslagh and Jemison 1991, p. 307)

Ramifications

The process approach directly poses some acute questions about M&A: What is the internal organization, i.e. processes, phases and structures, of M&A? Furthermore, if the process is seen as an opportunity to influence the de facto outcome of M&A, what are the ways in which a more profound understanding of the M&A process can influence its management? Investing in post-merger integration processes, managing corporate culture and

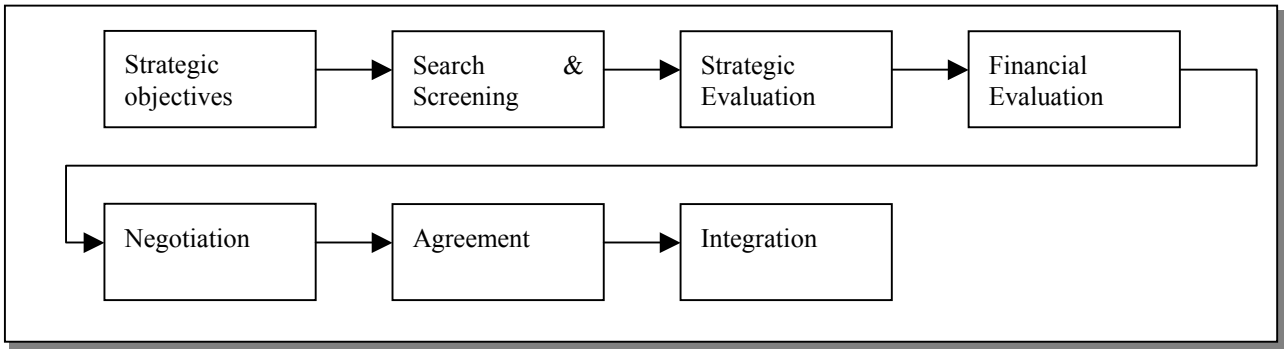
focusing on value creation are some of the solutions provided in M&A literature (see e.g. Birkinshaw et al. 2000, Shirivastava 1986, Jemison and Sitkin 1986, Cartwright and Cooper 1993, Larsson and Lubatkin 2001).

6.4 The Internal Organization of M&A

What the process stream is naturally most interested in is the M&A process (Jemison and Sitkin 1986), or, arguably, a number of M&A processes (Hunt 1990, Pablo 1994). Conceptually, the M&A processes are the 'content' of M&A and thus different views on what the M&A processes are correspond directly to the *internal organization* of M&A.

The process approach has been used to understand M&A in general, as well as partitioning the temporal content of the M&A project. Before the rise of the process stream in the 1980s, conventional M&A literature argued for a sequential, one-process view of M&A. The conventional view of the M&A process is illustrated in Figure 11.

Figure 11: Conventional view of the M&A process (Haspeslagh and Jemison 1991)



Proponents of the process stream of M&A, however, argued that there are at least two different processes, namely the decision-making process and the integration process (Haspeslagh and Jemison 1991, p.12). According to their view, M&A provides an opportunity for improvement by acting as a change catalyst:

> "In the process perspective, [M&A] are not independent, one-off deals. Instead, they are a means to the end of corporate renewal. The transaction itself doesn't bring the expected benefits; instead the actions and activities of the managers after the agreement determine the results." (Haspeslagh and Jemison 1991, p.12)

Accordingly, this more recent view on the M&A process holds managers responsible for managing the M&A process in a way that carries the result. The human element is also incorporated in the beginning of the whole M&A process, i.e. in the triggering and

conception of M&A ideas. Jemison and Sitkin (1986, p. 146) argued for using a combination of managerial and theoretical thinking by arguing that "clues to understanding acquisition outcomes may be discovered more readily in a variety of theories that direct to the underlying process-driven impediments to effective acquisitions" than applied and managerial research/. Figure 12 and

Figure 13 present a) the process stream's views of the embeddedness of the acquisition process in certain strategic and organizational fit and b) a coarse division of acquisition process problems. Both of these views engulf the same sequential steps as in the conventional view on the M&A process.

Figure 12: The process streams' view of the embeddedness of the M&A process in a certain strategic and organizational fit (Jemison and Sitkin 1986)

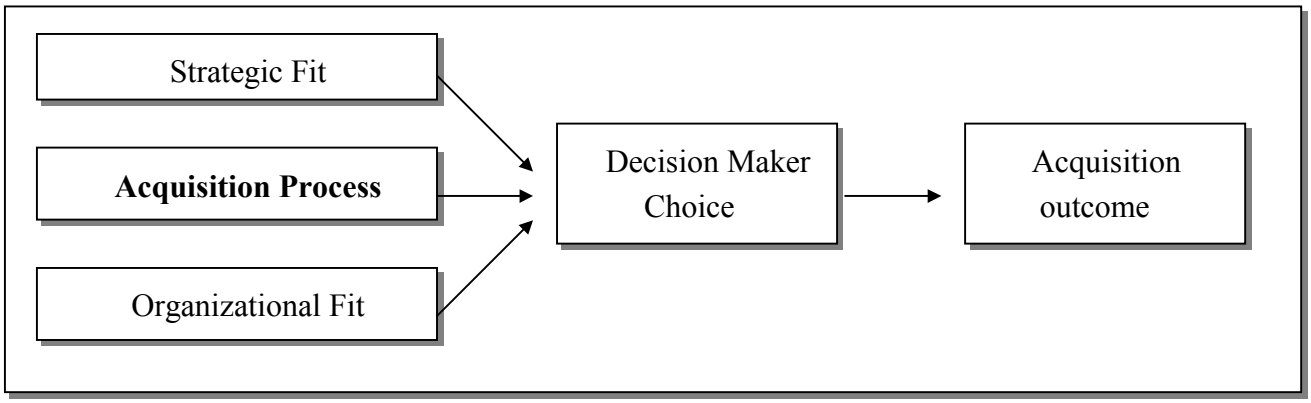
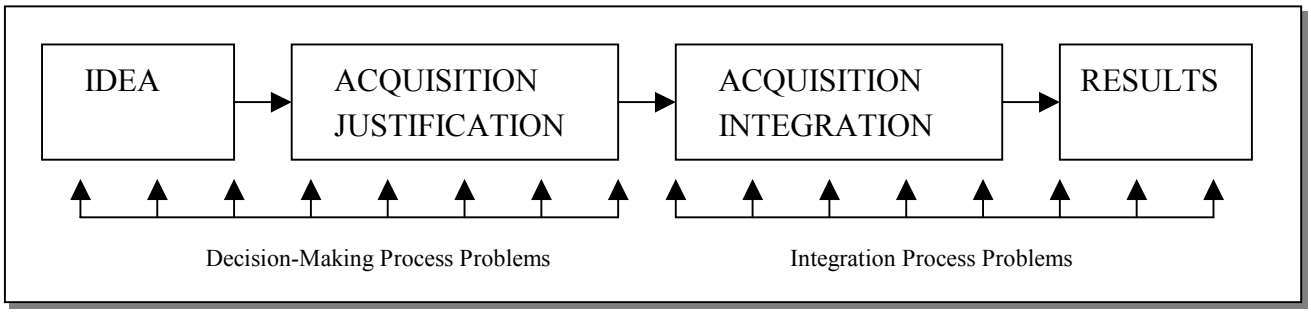


Figure 13: The process streams' view of the M&A process problems (Haspeslagh and Jemison 1991)



Jemison and Sitkin (1986) propose three critical dimensions for M&A process management, i.e. strategic, organizational and process factors. They argue that acquiring companies' managers frequently omit a variety of impediments in the process of analyzing, negotiating and integrating target firms. Such M&A process impediments or problems, that e.g. Jemison and Sitkin categorize into activity segmentation, escalating momentum, exceptional ambiguity and management system misapplication, have attracted further

considerable research attention to the process perspective in general (see e.g. Greenwood et al. 1994, Ashkanasy and Holmes 1995, Mottola et al. 2000, Kohers and Ang 2000). Haspeslagh and Jemison (1991) have identified two major categories of such problems, decision-making process problems and integration process problems, as highlighted in

Figure 13. Marks and Mirvis (1998) have elaborated the M&A process problems further and have classified the M&A process into three main phases according to the emerging problems. These are illustrated in Figure 14.

Figure 14: A classification of the M&A process into three phases according to emerging process problems (Marks and Mirvis 1998)

Phase	Problem
Pre-Combination	Unclear business strategy Weak core business Poor combination strategy Pressure to do a deal Hurried due diligence Overvalued targets and overestimated synergies, prospects and returns
Combination	Integration seen as distraction from "real work" Misunderstood value added and critical success factors Psychological effects denied or ignored Culture clash denied or ignored
Post-Combination	Renewed merger syndrome Rushed implementation Insufficient resources deployed Unanticipated implementation obstacles Coordination snags Inattention to team building Culture by default, not by design Unintended impact on employment attitudes and hence business performance Missed opportunities for organizational enhancement

The process perspectives can be criticized a) for their linearity and b) for the lack of feedback mechanisms. The M&A project can also be seen as an iterative, incremental development, where setbacks and repetitions of a particular phase of the M&A process are not only possible, but also likely. Several parts of the M&A process can also be performed at the same time, for instance the search and selection for other candidates can still be ongoing even though evaluations and negotiations with found potential M&A partners are already ongoing. Similarly, developments in later stages (e.g. financial evaluation) can have significant feedback loops to earlier stages (e.g. strategic objectives) and vice versa. Thus even though the process models are useful for conceptualizing the various tasks of the M&A project, their temporal linearity is questionable. Feedback and overlapping iteration of multiple stages occurs mostly within the acquisition justification and acquisition integration phases (as in

Figure 13), which renders Haspeslagh and Jemison's conceptions slightly less prone to this criticism than the traditional view.

Post-merger processes have received considerable emphasis and their role in value creation has been a subject of an intense discussion. Early on, Shrivastava (1986) identified unsuccessful post-merger processes management as a main reason for the high rate of divestment of fairly recently acquired companies. Integration in 1) procedures (operations, management control, strategic planning) 2) physical assets (product lines, production technologies, research and development, equipment, real estate) and 3) culture (management selection, organizational structure, corporate culture, strategic frame of reference, employee motivation, leadership development) is perceived crucial for M&A success (Shrivastava 1986, p. 65).

Larsson has advocated this view at length (see Larsson 1989). In the late 1990s, post-merger process literature has become more fine-grained emphasizing special fields of post-merger integration, e.g. communication and statements (Weston et al. 2001, p. 17-20), information systems integration (e.g. Weber and Pliskin 1996, Robbins and Stylianou 1999), learning (e.g. Kreiner and Lee 2000) and corporate culture and HRM aspects (e.g. Weber and Ganzach 1995, Olie 1994).

From the perspective of the theories of the firm and the organization of economic activity, a number of interesting questions arise. Firstly, *how do the dynamics of pre-merger (decision-making) and post-merger (integration) processes differ?* Clearly, the two phases are split by a contract, and thus theories of the firm should be able to provide insights to how different pre- and post-merger processes influence the resulting governance structure[102]. Secondly, *what are the 'process problems' in the light of governance?* Also, coming back to the conventional view of the M&A process, *what are the ramifications of e.g. agency theory on the negotiation phase of the M&A process? How can transaction cost thinking be applied to the strategic evaluation phase? What other insights do the theories of the firm have for the internal organization of M&A?*

The views on the M&A so far have been limited to managerial and financial concerns. In addition to this, there is a need to map the psychological and organizational processes related to M&A more carefully. Thus, *what organizational considerations or assumptions concerning the M&A process should we be aware of?*

Furthermore, it must be acknowledged that the M&A process involves a number of different stakeholder groups, and the above models only present a firm-internal perspective to looking at the M&A process. For example, the role of management consultants is often significant in the setting of strategic objectives, search and screening, strategic evaluation as

[102] The pre- and post-merger process problem setting is very reminiscent of the *ex ante* and *ex post* constraints or transaction costs of contracting situations

well as post-merger processes. Investment banks, then again, are often responsible for the financial evaluation (due diligence), negotiation and, increasingly and more often than is realized, the initiation or triggering of the whole M&A idea. Lawyers (mostly external) handle the agreement (contracting) phase of the process and are a key group in case of antitrust, i.e. looking at the possible adverse economic effects to a merger "with both market power and efficiency consequences" (Williamson 1996, p.281, footnote 4). The conclusion from this is that professional services are an important stakeholder group in the M&A process, especially if their remuneration is tied to outcomes and not behavior. *What is the relationship between the firm and professional services? How can it be analyzed in the light of e.g. agency theory to understand the governance outcomes? Do professional services advocate any theories of the firm, M&A perspective or governance outcome in particular?*

6.5 Summary

This Appendix aimed at providing a conceptual elaboration of the state of the M&A discourse by highlighting some of the key aspects of M&A research. This was done firstly by outlining some of the major motivations for increasing academic attention on M&A. The reasons were perceived to be two-fold. On one hand, there have been numerous real-life M&A sub-phenomena, which have definitely contributed to the attention that M&A has received from academic and professional communities. On the other hand, significant developments in various theoretical fields parallel, interlinked and overlapping with M&A have taken place during the same period. M&A, a significant and exciting management research phenomenon, has acted as a convenient subject for studies using an increasing variety of disciplinary angles. These disciplinary angles are reflected in the justifications put forward for the existence of M&A.

The conceptual boundaries of M&A, embodied in the numerous definitions selected from the literature, were also examined. Here, the disciplinary plurality was also highlighted. The definitions generally emphasized the role of M&A in the organization of economic activity, given that the organization of activities and assets, human interplay, organizational reality, financial structure, corporate identity, the number of existing companies, allocation of resources and/or factors of production, ownership structure and the legal incorporation of companies were found to be central to the definitions. Furthermore, the various justifications for the existence of M&A, as presented in a plethora of literature and review books and articles, were overviewed. The different groups were categorized as 'capital markets', 'strategy', 'humans and organizations' and 'process', which respects the original and sound categorization of Haspeslagh and Jemison (1991). Here, questions addressing the organization of economic activity and the governance theories of the firm in particular were identified. Finally, the internal organization of M&A, i.e. the processual approach to M&A,

was elaborated further by discussing the features, problems and emphases of different process approaches presented in the literature.

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7 APPENDIX 2: GOVERNANCE THEORIES OF THE FIRM

7.1 Introduction

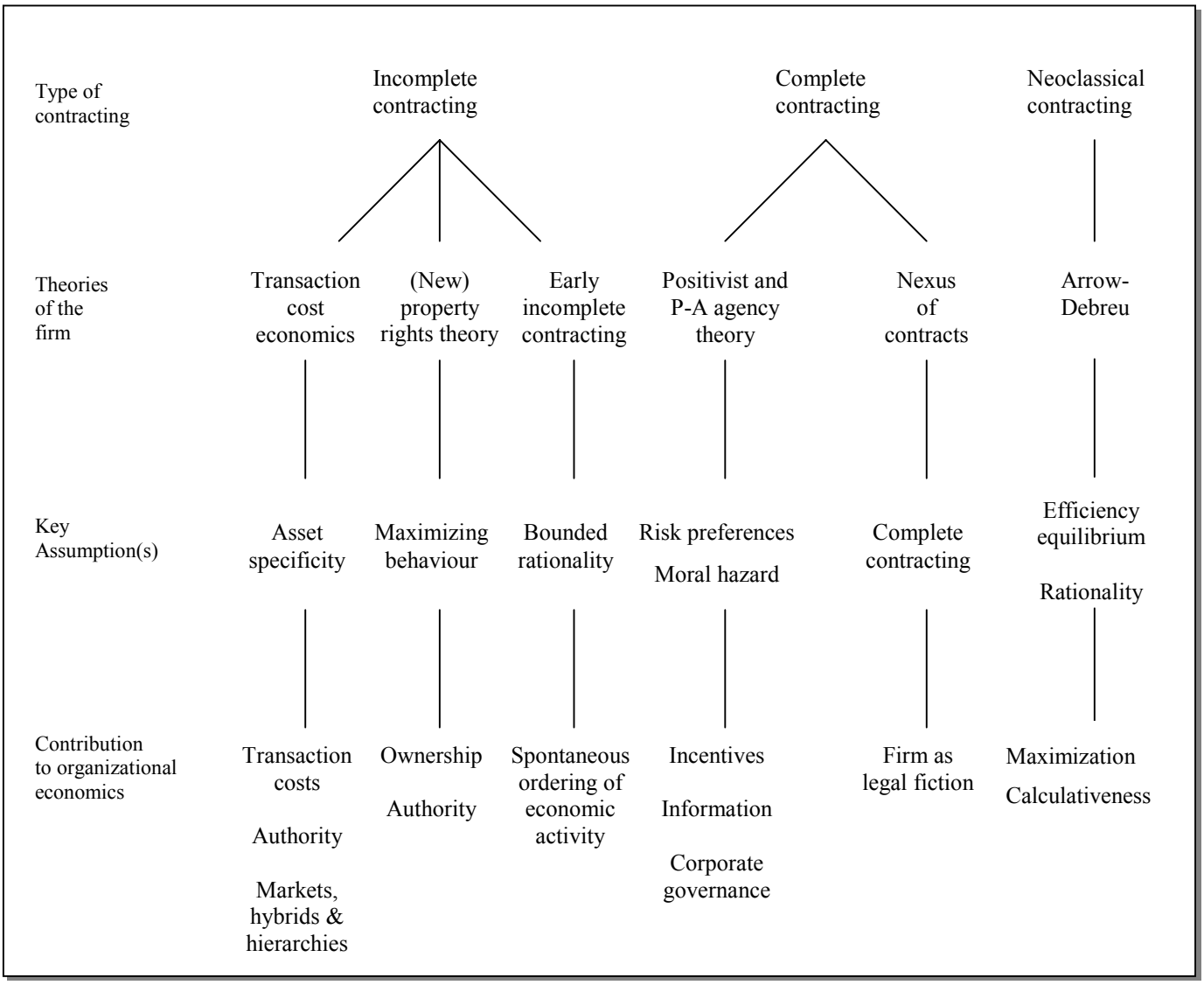
In order to investigate the contribution of theories of the firm to our understanding of M&A, an overview of the various attempts to formulate a theory of the firm is required. The most prominent branches in the governance theory of the firm literature include the neoclassical firm-as-a-production-function literature (e.g. Arrow 1951, 1962; Arrow and Debreu 1954; Debreu 1959 and Solow 1963), the nexus of contracts view (E.g. Alchian and Demsetz 1972; Jensen and Meckling 1976; Fama 1980 and Cheung 1983), the formal and positivist agency work and principal-agent theories (E.g. Hart and Holmström 1987; Ross 1973; Holmström 1979, 1982; Eisenhardt 1989; Jensen 1983, 1985; Fama and Jensen 1983; Jensen and Meckling 1992 and Harris and Raviv 1978), early incomplete contracting theory characterized by the coordination problem (e.g. Coase 1937; Simon 1945, 1951; Malmgren 1961), transaction cost economics (e.g. Williamson 1971, 1975, 1977, 1985, 1986, 1991 and 1996) as well as the property rights theory perspectives (e.g. Furubotn and Pejovich 1972; Hayek 1937, 1945; Coase 1960; Hart 1989; Grossman and Hart 1986; Hart and Moore 1990; Kreps 1990).

A conceptual analysis of the governance theory of the firm literature is employed as the research methodology in order to build a solid understanding of the governance theories of the firm. Arguably, governance theory of the firm literature attempts to tackle M&A concepts and phenomena directly. These direct linkages between "the true and undisputed" (Foss 2000, xv) cornerstones of theory of the firm literature and M&A phenomena must be explored in detail, since they can contribute to our understanding of what a) definition or true nature, b) justification of existence and c) internal processes are.

All governance theories of the firm are more or less centrally interested in the nature of contracting. Thus the type of contracting is a good starting point for when attempting to categorize the governance theories of the firm. Neoclassical economics, which dominated the landscape in the analysis of the organization of economic activity before the rise of the theories of the firm, considers contracting a mere side effect or outcome of continuous market interaction. After the reign of neoclassical economics during the first part of the 20th century, legally oriented and formal (e.g. P-A) contracting literature (Posner 1979; Fama 1980; Cheung 1970; Demsetz 1967; Alchian and Demsetz 1972) developed further using the notion of complete contracting. An alternative to this approach, focusing on the incomplete nature of contracts, developed from the Coasian concept of social cost (Coase 1937, 1960) and the Simonian approach to the employment contract (Simon 1951). It started gathering momentum in the 1970s and 1980s with the rise of transaction cost economics (Williamson 1975, 1985) and new property rights theory (Hart 1989; Grossman and Hart 1986; Hart and Moore 1990;

Kreps 1990). The logic behind using this rather traditional categorization is that introducing yet another categorization for the governance theories of the firm would add confusion. The categorization depicted in Figure 15 (strongly influenced by an earlier categorization by Foss (2000)) is thus both relevant and practical for the purposes of this analysis.

Figure 15: Governance theories of the firm with regards to their type of contracting, key assumptions and main contribution to the organization of economic activity (modified from Foss 2000)



Governance theories of the firm have introduced the widely known assumptions of asset specificity, maximizing behavior, bounded rationality, risk preferences, moral hazard, complete contracting, efficiency equilibriums and rationality to the context of institutional analysis. For instance, transaction cost economics has introduced the notion of a transaction cost, manifested in its part the importance of authority in justifying the existence of firms and introduced a conceptual explanation to three prevalent organization modes, i.e. markets, hybrids and hierarchies. Property rights theory has stressed the importance of ownership and

the authority that it bears with it in the determination of the organization of economic activity. Early incomplete contracting has indirectly argued against detailed strategic planning and advocated spontaneous ordering of economic activity in contemporary society by implying that not everything can be contracted. Then again, agency theory has argued for the importance of incentives and information in contracting settings, with a remarkable contribution to corporate governance.

The aim of Appendix 2 is to provide a conceptual overview of the various governance theories of the firm as well as investigate their potential linkages and contributions to the analysis of mergers and acquisitions. This is performed by incorporating three foci. Firstly, the general structuring of the governance theories of the firm is outlined together with some speculation of how the theory of the firm, by and large, could relate to M&A research and decision-making. Secondly, the governance theories of the firm, namely the neoclassical theory of the firm, the nexus of contracts perspective, agency theory, early incomplete contracting theory, transaction cost economics and property rights theory, are overviewed together with pertinent analysis of the linkages and contributions to the realm of M&A. The linkages are categorized, with the aim of constructing a governance theoretic approach to M&A, according to the *M&A existence*, *boundaries* and *internal organization rationales* that the governance theories of the firm provide. Finally, an analysis of the criticisms and shortcomings presented against the governance theories of the firm, as well as their application to M&A, is presented, together with a brief note on how the competence perspective, which is can be seen as either complementing or contrasting to the governance perspective (See e.g. Williamson 1999, Madhok 2002), could be related to this discussion and possibly contribute to the analysis of M&A. There have been some attempts to integrate the governance and competence perspectives using e.g. the dynamic transaction cost approach (Langlois 1992), the information and organization approach (Casson 1997) and the organization of economic activity as a common denominator (Madhok 2002). Thorough integrative analysis is, however, beyond the scope of this study and is largely left for future research.

7.1.1 Neoclassical economics – the firm as a production function

Overview

Neoclassical theory of the firm is based on fundamental assumptions about price taking, Pareto-optimality and competitive equilibrium (Arrow 1951, 1962, Arrow and Debreu 1954, Debreu 1959).

Key message: The firm is a production function, with decision-making mechanisms and consequently governance structures being dependent on utility

maximization in the presence of budget constraints and zero transaction costs (De Alessi 1983).

While assuming e.g. perfectly complete contracting (also known as 'neoclassical contracting') and symmetry of information in the market, the neoclassical literature employs a simplistic view of the firm, or more radically exercise "neglect of the firm" (Foss 2000, p. xvii). The neoclassical theory of the firm employs the firm as a transaction mediating mechanism, i.e. a part of the market mechanism. Economic behavior within firms is governed by pure utility considerations and the firm is not a governance mechanism, but merely a black box that contains the production function.

Contribution to M&A

Neoclassical economics is interested in M&A, but not especially at the level of the firm. Economists in this tradition have identified that mergers occur in waves (Bain 1944, Stigler 1950) and that they are vehicles of agglomeration, leading to monopoly concerns (Stigler 1951). Strict assumptions concerning e.g. complete contracting, perfect information, utility maximization and the constraints of the production function have rendered neoclassical theories a rigorous theoretical tool for analyzing and modeling industry level developments and outcomes, especially from a market power perspective.

Neoclassical reasoning has acted as a strong underpinning for industrial organization literature, which has since the times of e.g. George Stigler, Joe Bain, Kenneth Arrow and Gerard Debreu in the 1950-1960s been primary advocates of rigorous analytical reasoning in organizational and institutional economics. Current proponents of industrial organization (e.g. Luis Cabral, Stephen Parente, Gregory Werden, Andy Cosh, R.-L. Manning and Ingela Brundin just to mention a few) have developed industrial organization to a heavily applied direction. There are several application areas, most of which acts on the industry level, where 1990s industrial organization has been successful at pointing out wealth, efficiency, market power and price level effects with pure microeconomic reasoning that still bears a strong neoclassical flavor. Examples of such application areas include antitrust, legal and regulatory considerations in the hospital, pharmaceutical, airline, energy and telecommunication industries.

However, it is the same strict assumptions that enable analytical scrutiny at the level of the industry that can be suggested to deoperationalize the neoclassical theory of the firm at the level of the firm. In neoclassical economics definitions of M&A, a merger, when analyzed at

the level of the firm, is considered a mere amalgamation of two production functions[103]. Similarly, neoclassical economics sees the maximization of abnormal profit through monopoly power as the only justification for the existence of M&A. Furthermore, neoclassical economics is not interested in the managerial, psychological, legal or organizational processes the M&A. It is thus legitimate to say that neoclassical theory of the firm, constrained by its assumptions and limited in its interest, doesn't seem to significantly deal with the *boundaries, existence and internal organization* of M&A at the level of the firm.

7.1.2 Nexus of contracts perspective

Overview

The nexus of contracts view derives both its name and its underlying principle from Jensen and Meckling's 1976 paper, which can be argued to be seminal in a number of governance theories of the firm. Central to this approach is the conceptualization of the firm as a form of legal fiction, which serves as a nexus for complete contracting relationships. This notion is shared by a number of other influential governance theory of the firm contributions, e.g. by the seminal works Alchian and Demsetz (1972) as well as later inputs by Fama (Fama 1980, Jensen and Fama 1983) and Cheung (1983).

Key message: The firm is a form of legal fiction, which serves as a nexus for complete contracting relationships (Jensen and Meckling 1976).

The nexus of contracts perspective is based on the idea of "divisible residual claims on the assets and cash flows of the organization that can generally by sold without the permission of the other contracting individuals" (Jensen and Meckling 1976: 311). This implies that firms are best understood as merely special kinds of market contracts and the types of problems associated with firms are similar to those present in the market. Alchian and Demsetz (1972) make this point with a common non-market coordinated contracting relationship, i.e. the employment relationship:

> "It is common to see the firm characterized by the power to settle issues by fiat, by authority, or by disciplinary action superior to that available in the conventional market. This is delusion. The firm does not own all its inputs." (Alchian and Demsetz 1972, p. 772)

[103] On the level of the industry and the level of the economy, the neoclassical literature is more interested in what the merging firms are like, since this might be significant from the point of view of monopoly power and macroeconomic stability respectively.

Actually, much of the governance theory of the firm literature originates from the seminal Alchian and Demsetz (1972) paper, given that it effectively introduced the notion of an agency problems between the owners and managers of companies and further reinforced the early property rights and contracting ideas initiated in the 1960s (Alchian 1965, Demsetz 1967). Recently, together with rise of new theories of the firm, the complete contracting perspectives have been heavily criticized. For example, Williamson (1996, p. 283) pegs differential risk anomaly explanations to contractual anomalies, widely used by the early complete contracting theories, as "fads and fashions, which are best sorted out by sustained academic critique".

Contribution to M&A

The conclusion the nexus of contracts perspective draws concerning the centrality of contracting to the organization of economic activity is that actions and transactions involving firms are essentially similar to those on the market. This has remarkable repercussions on our understanding of mergers and acquisitions. If as an employer I can "fire or sue [an employee], just as I can fire or sue my grocer" (Foss 2000: xxxi), does this imply that just as a firm can buy products or services, it can actually buy an organization or a part of it? Is the signing of a ten-year, mutually exclusive contract with a small importer the same thing as acquiring that firm for ten years?

The nexus of contracts perspective challenges the definitions of M&A. The boundaries of M&A are not set by the type of contract but the outcome of arrangement[104]. From the perspective of the nexus of contracts, it doesn't matter whether the contract between two companies is a mutually exclusive and exhaustive sales agreement, or a merger agreement. Within a given time frame, the outcome vis-à-vis the organization of economic activity is the same.

Lately, contributions in the nexus of contracts stream have echoed the ideas of M&A shareholder value literature [find sources] in that interest should center on the guaranteeing function of equity capital in determining the scope and size of the firm (Barzel 1997: 77-78). Again, it is the outcome, not the type of contract that matters. In this view, the nexus of contracts perspective challenges the other justifications for the *existence* of M&A presented in the M&A literature.

[104] The importance of 'outcome' is highlighted in Jensen 1983. Here, 'outcome' can be though to refer to what is nowadays been conceptualized as the organization of economic activity (Williamson 1996, 1999; Madhok 2002)

7.1.3 Formal and positivist agency theory

Overview

Parallel and linked to the nexus of contracts view, formal work on agency theory took off in the 1970s with the publication of such seminal works as Ross (1973) and Holmström (1979), but rose to prominence only after the formal models were branched out to cover a multitude of real-life contracting phenomena (Jensen 1983, 1985, Jensen and Meckling 1976, 1992, Fama 1980, Fama and Jensen 1983). For a good overview of the 1980s developments see “The Theory of Contracts” by Hart and Holmström (1987).

The key idea behind agency theory is that incentive mechanisms are designed, in the presence of perfect information, in a way that determines the resulting contracting forms. This so-called mechanism design literature (for an elaboration between the different branches of agency theory see Hart and Holmström 1987) assumes that the parties striking a contract are characterized by unbounded rationality (Holmström 1979), contracts can be crafted in unrestricted complexity and that information is complete in nature even if it can be asymmetric between the contracting parties. Contrary to the property rights approach (e.g. Grossman and Hart 1986, see Section 3.2.6 below), the mechanism design literature holds that there are no residual property rights since each party's obligation to the other is completely specified for every state of nature (Holmström 1979).

Agency theory has developed along two primary lines of thought, namely positivist agency theory and principal-agent literature (Jensen 1983, Eisenhardt 1989). Positivist agency theory is focused on goal conflict between the principal and the agent and is primarily concerned on the subsequent analysis of the governance mechanisms arising to limit the agent's opportunistic behavior. It also introduced the terms 'outcome-based contract' and 'behavior-based contract' (Fama and Jensen 1983) to governance literature, linking incentive structures and contracting directly to the agency problem. While an outcome-based contract pegs the rewards of the agent to the resulting state of economic organization, a behavior-based contract pegs it to the agent’s behavior that may in theory lead to any contingencies vis-à-vis economic organization. It is shown that the selection of incentive form in an agency problem situation influences the selection of the governance form (Jensen and Meckling 1976) and thus the organization of economic activity. (Eisenhardt 1989, p. 59-60) "All of the relevant contracting action is packed into *ex ante* incentive alignments" (Williamson 1985, p. 27). Jensen argues that "positive theories are required for purposeful decision-making" (Jensen 1983, p. 319), emphasizing their managerial relevance (Harris and Raviv 1978)

The more formal treatments of the principal-agent (P-A) setting, then again, hold the same postulates as the positive agency theories, but the inclusion of private information, implying information asymmetry, has operationalized the P-A setting. In short, "the focus of P-A

literature is on determining the optimal contract, behavior versus outcome, between the principal and the agent" (Eisenhardt 1989, p. 60).

Key messages: "Principal-agent relationships should reflect efficient organization of information and risk-bearing costs" (Eisenhardt 1989, p. 59).

Incentive mechanisms are designed in the presence of perfect information and contracting situations are characterized by unbounded rationality. Thus contracts can be crafted in unrestricted complexity. (Holmström 1979)

As a theory of the firm, agency theory directly sets to the task of "developing a body of theory to explain why organizations take the form they do and why they behave as they do" (Jensen 1983, p. 319). Agency theories thus place major emphasis on the contracting environment in the determination of the existence, boundaries and internal organization of the firm:

> ".. capital intensity, degree of specialization of assets, information costs, capital markets, and internal and external labor markets are examples of the factors in the contracting environment that interact .. to determine the contractual forms" (Jensen 1983, p. 334-335)

As Holmström and Milgrom (1994) point out, the incentive structure of a firm is a key variable in determining the size of the firm. They refer to an empirical study comparing the circumstances in which insurance salesmen are working independently and in which they are employed in an insurance company. The study implies that the type of insurances sold (e.g. life insurance vs. travel insurance) and the possibility to measure the output of the salesmen determines the appropriate incentive structures, which then determine whether the salesmen prefer to work for him/herself or the firm. By doing this, Holmström and Milgrom in effect incorporate the concepts of monitoring and authority, which are central concerns of the less formal agency-related approaches based on the notion of incomplete contracting.

On the other hand, vertical integration can be seen as an “extreme form of *relational* contracting, in which the parties submit to the common authority of a chief executive” (Milgrom and Roberts 1988: 446-447, see also Klein, Crawford and Alchian 1978). The role of authority, authority being understood as the right to pick some action that affects part or whole of an organization (Simon 1951), is thus evident in the context of incomplete contracting and establishes as a common denominator between the complete-contracting based agency-related work and academic perspectives on incomplete contracting. It is, however, important to realize that authorities are not necessarily driven only by considerations of efficiency but also by personal interest (Williamson 1985, Grossman and Hart 1986) or even by bribes and favors (Milgrom and Roberts 1988). The monitoring solution provided to this problem is *the* solution provided for the traditional P-A problem of

corporate governance: introducing non-executive directors. This is a mere example, as corporate governance and the incentive settings between stakeholder groups have been researched extensively from an agency theoretic point of view in the context of e.g. diversification decision-making (see e.g. Amihud and Lev 1981; Fama and Jensen, 1983; Denis, Denis and Sarin, 1999), managerial compensation (e.g. Baker, Jensen & Murphy, 1988; Jensen & Murphy, 1990), bargaining (e.g. Baldenius, 2000), distribution network building (e.g. Baiman & Rajan 2002), and M&A (See e.g. Kesner, Shapiro and Sharma, 1994; Walker & Weber, 1984; Walking and Long 1984, Stallworthy & Kharbanda, 1988) likewise.

Contribution to M&A

Agency theory has provided social scientific research with a theoretical tool, which can be employed to "common problem structures .. across research domains" (Eisenhardt 1989, p. 64). Given the many application areas above, it seems natural that agency theory can be applied to the analysis of M&A as well. These represent both the inter-firm, inter-stakeholder group, intra-firm and the industry level settings. *Thus agency theory is capable of analyzing organizational restructuring, like M&A, on a number of levels of analysis.*

Arguably, positivist agency theory, with its inclusion of softer assumptions about the contracting environment (concerning e.g. the nature of information and the completeness of contract-writing) is managerial and interpersonal in nature. With the incentive arguments, the principal-agent framework is especially useful for understanding the motivations behind M&A at the level of the individual. For example, agency theory predicts that risk-neutral managers are more likely to engage in vertical integration than risk-averse ones due to differences in the incentive structures of outcome- vs. behavior-based contracts (Walker and Weber 1984, Eisenhardt 1989). Also, conglomerate mergers and acquisitions have been linked to manager-controlled firms (Amihud and Lev 1981), which is consistent with agency theoretical arguments concerning the tendency of managers to engage in empire-building and personal risk-diversifying M&A activity (Jensen and Meckling 1976). Managers that have equity positions in their firms have also been found to be exert less resistance towards M&A (Walking and Long 1984).

Agency theory has another major contribution to the study of M&A at the level of organization in the treatment of information (Eisenhardt 1989). The most conspicuous information aspect of the organization is the epitome of the corporate governance system, the board of directors. Looking from the point of view of agency theory, boards are used as monitoring devices for shareholders interests (Fama and Jensen 1983). They have, however, another role as information conveyers between managers, shareholders and the public. Agency theory provides *both* incentive *and* information-based reasons for agency problems

and thus solutions to agency problems must engulf mechanisms to alleviate both. Information-related concepts, e.g. information asymmetry, are very useful in analyzing M&A decision-making processes. The incompleteness, asymmetric nature or exchanging of information are determinants of both the progression of an M&A process and an underlying reason why some separate entities are united into one hierarchy. In addition to the fact that agency theory can treat entire organizations or groups of people as principals or agents, agency theory can also be argued to provide answers to firm-level M&A outcomes[105]. Thus the information-related aspects of agency theory, as discussed in the context of the capital markets school of M&A in Appendix 1, are a direct input into the discussion concerning the *existence* of M&A at the level of the firm[106].

Agency relationships along the different phases of the M&A process involve multiple stakeholder groups, e.g. owners, managers, employees, governments and different professional services providers (Parvinen and Tikkanen 2002). Incentive asymmetries, which can be considered key to the creation of the presented M&A outcomes, are underpinned by information, risk and self-interest considerations among others. Striving for an understanding about these types of linkages between information asymmetries, incentive asymmetries and M&A outcomes is a fruitful exercise for researchers and practitioners alike.

Thus, the conclusion this section discussing agency theory in M&A as a whole is that agency settings do influence the process and thus the outcome of the M&A. Generally, the corporate governance aspects of agency theories thus seem extremely fruitful for the analysis of the *existence* of M&A and influence the organization of economic activity through the determination of governance structures. The various incentive and information asymmetries, then again, can be seen to have a significant impact on the details of the M&A process, i.e. the *internal organization* of M&A. The argument that agency theories are, strictly speaking and from a social scientific point of view, neither models nor theories as such (Eisenhardt 1989, Foss 2000) can be assumed to imply that the applicability of agency theory to M&A research and decision-making is limited. Thus, researching potential academic and managerial avenues for the utilization of agency theory could prove out to be useful.

[105] This is not to say that some industry-level outcomes could not be explained by agency settings. When analyzing the incentive structures of e.g. investment banks, it seems that an entire profession has an incentive asymmetry with the rest of the economy or at least with the 'top manager collective' of some particular industries. In any case, major firm level M&A outcomes of agency settings can be argued to have industry level, or even global, ramifications (e.g. market power, industry inefficiency, financial market driven-recessions, employment issues, resource allocation and so on)

[106] Interestingly, many pro- and anti-M&A weapons, e.g. greenmail, golden parachutes and poison pills are based on corporate governance manoeuvring

7.1.4 Early incomplete contracting and the coordination problem

Overview

In 1937, incomplete contracting was introduced by Ronald H. Coase, who broke the neoclassical assumptions of the complete contracting perspective and questioned why transactions are shifted from markets to organizational frameworks and the efficiency effect of spontaneous market order (North 1990, Hayek 1937) relinquished. The ideas that were first incorporated as a departure from traditional economic theory were that contracting involves self-interest-seeking that causes transaction costs (Coase 1937) and that property rights matter in the determination of the organization of economic exchange and social costs emerge (Coase 1960).

Coase was thus the first to introduce the costs of transacting in the market, incurring mainly from learning about and haggling over the terms of trade. The introduction of transaction costs necessarily also differentiates between types of relationships or interaction: long-term and complex relationships involve a substantially larger amount of haggling than simple spot contracts. Regardless, long-term and complex exchange and interaction relationships are essential to e.g. the success of organizations working primarily in convoluted business-to-business industries (e.g. Axelsson and Easton 1992). Yet the theory suggests that many of these exchanges would, in the presence of transaction costs, remain unrealized and Pareto-sub-optimal exchanges take place instead.

Despite Coase's contribution as early as the 1930s, the incomplete contracting tradition did not really take off before the 1960s. This was partly due to the fact that neoclassical economics developed swiftly in the mid 1900s and basically established a dominant foothold in economics, management and organizational discourse. Another significant factor was that Coase's (1937, 1960) reasoning needed support from the academic invention and diffusion of the notion of incomplete contracting in order to be fully recognized.

Bounded rationality (e.g. Simon 1951; March and Simon 1958) is a key concept in contracting literature. In essence, their argument is that it is not only the laws of economics, but also behavioral patterns and psychological principles that govern the organization of economic activity. Economic actors are inherently boundedly rational, i.e. cannot be conscious of all relevant characteristics and terms of the contracting setting. Similarly, all contingencies and conditions of all possible contracting nuances cannot be engulfed by any (written or oral) contract. Furthermore, economic actors are also faced with a moral hazard due to the combination of an asymmetry in their preferred outcomes of the contracting situation and the unobservability of their activities by other parties. Thus all contracting, but particularly market contracting characterized by short-term relationships, is subjected to

severe behavioral limitations and all contracts are ultimately incomplete. This reasoning, coupled with Coase's (1937, 1960), represents the fundamentals of the incomplete contracting tradition.

Key message(s) Transacting in the market involves contracting costs due to e.g. self-interest seeking (Coase 1937).

Property rights matter in the determination of the organization of economic exchange (Coase 1960)

Market exchange is plagued by bounded rationality and moral hazard, which create a coordination problem in the organization of economic activity (Simon 1951).

A distinguishing feature of Coase's (1937) explanation for the emergence of the firm is that it is ultimately due to the coordination problem. Langlois and Foss (1999) have elaborated on the coordination problem and acutely redefine the firm as an institution that lowers the costs of coordination in a world of uncertainty. This conspicuously Coasian reasoning opens at least two avenues to analyze the coordination problem in incomplete contracting.

Firstly, the environment in which the contract is struck can be altered to convey information about the terms of trade and the possible outcome patterns. An important consideration of entering into a long-term relationship in order to alleviate transaction costs is the introduction of implicit contracting and trust. Tacit and implicit conditions of a contract are somewhat immune to at least two major categories of transaction costs, namely information costs and haggling, which brings about major improvements in contracting efficiency.

Secondly, transaction costs can be reduced by giving one party authority over the terms of trade (Williamson 1996). According to Coase (1937), the presence of authority is precisely what defines the firm: authority represses the price mechanism of the market by issuing compelling instructions or orders in a repeated manner. This bears close resemblance to Simon's (1951) analysis of the employment relationship. Simon compares the contracting efficiency of spot contracts and employment contracts, pegging the latter as the more efficient on grounds of flexibility in the context of a potentially repeated relationship. The employment relationship is a bundle of both implicitly and explicitly uttered contingencies of the employment contract, which is manifested in e.g. the multiplicity of remuneration, monitoring and enforcement mechanisms. Furthermore, the notion of authority is central in the definition of the employment relationship: while the employee is subject to the authority

of his superior, an independent contractor, working often on the basis of a spot contract or a string of spot contracts, acts more autonomously.

Contribution to M&A

The coordination problem and its solutions are linked to the M&A discussion in two ways. On a more general level, Coase's and Simon's original ideas act as the basic foundation for the markets vs. hierarchies, i.e. the boundaries of the firm discussion. They introduce the key semantics and the central idea of incomplete contracting to the more recent transaction cost economics and property rights literature[107]. As the contribution of these two closely related research streams indicates, their impact on how M&A is viewed by the academics has been more than substantial[108]. Furthermore, all of the governance theories of the firm that rely on Coasian and Simonian ideas about the functioning of organizations can be hypothesized to be able to broaden their input to the organization of economic analysis. This surely makes Coase's and Simon's groundwork a relevant contribution from the perspective of M&A literature as well.

Beyond this indirect input to M&A, the identification of the coordination problem as the *raison d'être* of the firm as an institution is a major finding from an M&A perspective as well. The coordination problem can be perceived to act on all units of analysis within a firm. Uncertainty prevails and therefore the coordination problem is a conceptual tool at various levels of analysis: shop floor, business unit, single organizations and holding companies likewise. The same rationales are available in the analysis of two or more firms, and how to efficiently coordinate them, i.e. whether to merge, which firms or parts of firms to merge, to merge or to acquire etc. The coordination problem of Simon's (1951) employment contract and Coase's (1937) market transactions is essentially the same as the problem of selecting merger or acquisition candidates, modes, methods and the resulting organization structure. Both are issues of the "governance structure" (Williamson 1996), which already highlights the importance the incomplete contracting tradition in defining the *boundaries and internal organization* of M&A likewise.

[107] See the transaction cost economics and property rights perspective sections below
[108] See the 'contribution to M&A' part of Sections 7.1.5 and 7.1.6 respectively

7.1.5 Transaction cost economics

Overview

Transaction cost economics (TCE) (epitomized by the works of Oliver E. Williamson, see e.g. 1971, 1975, 1985, 1986, 1991 and 1996) as well as property rights theory (embodied by the works by Oliver Hart and various associates, see e.g. Grossman and Hart 1986, Hart 1989 and Hart and Moore 1990), both incomplete contracting theories, are distinguished from the coordination problem discourse in that they incorporate ideas from contracting and agency theories, combining them into a more operational form (Williamson 1985). The key idea behind them is *ex post* opportunistic behavior and its influence on governance structures[109].

TCE inter-links the earlier assumptions of moral hazard, opportunism and incomplete contracting[110] with the notion of asset specificity. Defining the concept of quasi-rents from an economics point of view, early transaction cost economics literature[111] pegs asset specificity as the single most important precondition for the existence of quasi-rents and the attempt to appropriate them[112] (Williamson 1985).

Based on the above, Williamson (Williamson 1971,1975, 1985, 1986, 1991, 1996) has constructed a strikingly cohesive theory. Blending the "self-interest seeking with guile" embodied in opportunism with the sequential nature of decision-making implied by the uncertainty from bounded rationality, he presents first the distinction between two governance structures: 'market' and 'hierarchy' (Williamson 1975). Later, the literature has extended to include a third governance structure, commonly known as 'hybrid', to represent intermediate, incremental and relational forms of contracting and safeguarding the contingencies of these contracts (Williamson 1985, 1996). While 'hierarchy' is synonymous with 'firm', real life 'hybrids' include such organizational arrangements as networks, alliances, joint ventures and clans (Powell 1990).

The basic TCE reasoning behind the determination of governance structures is that asset specificity facilitates opportunism. Incomplete contracts, resulting from incomplete information and bounded rationality, are subject to continuous changes in the degree of uncertainty surrounding the potential outcomes. This subjects the party with specific assets to continuous renegotiating of contract terms, as the non-contingent party uses the threat of

[109] This is also the main critique of both streams on the nexus of contracts view and the coordination perspective

[110] The two first ones introduced by agency literature and the last by the coordination perspective of Coase (1937) and Simon (1951).

[111] The concept of asset specificity was initiated, as is rightfully pointed out by Foss (2000), in Klein, Crawford and Alchian's 1978 paper

[112] The quasi-rent and appropriation discussion actually captures, quite like the bulk of transaction cost economics, many of the concepts introduced in agency and contracting theories, e.g. risk preferences, asymmetric information, hidden action and information, adverse selection, signalling, moral hazard/opportunism and second best outcomes.

hold-up (withdrawal) to appropriate the possible quasi-rents of the contract. This results in Pareto-inferior outcomes and prompts the emergence of non-market governance structures.

Key message: Asset specificity, facilitating opportunism, and bounded rationality, implying incomplete contracting, lead to the appropriation of quasi-rents through hold-up. This prompts the emergence of non-market governance structures, i.e. hybrids and firms.

The solution to this problem of extending the boundaries of the firm to achieve Pareto-improvement dates back to Williamson's early work on antitrust efficiency considerations (Williamson 1971). Already at this point, the relevance of more 'human' fields of organizational study, especially contract law (e.g. Llewellyn 1931, MacNeil 1974) and behavioral organization theory (Simon 1945, 1951; March and Simon 1958) to the boundaries discussion is explicit. This is visible in the following extract:

> ".. when conflicts develop, the firm possesses a comparatively efficient resolution machinery. To illustrate, fiat is frequently more efficient way to settle minor conflicts .. than is haggling or litigation" (Williamson 1971, p.114)

The determination of governance structures is therefore a weighing of alternatives, which are characterized by an unknown or uncertain set of issues relating to not only the pure economic efficiency, but also the other transaction costs[113]. As the problems of governance are not necessarily related to economic efficiency, neither are the solutions. For example, the existence of authority to facilitate efficient dispute resolution can be a major factor in the determination of the governance structure and hence in the organization of economic activity. This illustrates the explanatory power of the transaction cost approach. In theory, nearly all aspects of governance can be reduced to transaction cost based analysis.

Contribution to M&A

At a general level, transaction cost economics has managed to develop a set of conceptual tools to analyze the boundaries of a firm. As Klein (1988) rightfully points out, the applicability of the concepts and terminology of asset specificity and property rights perspectives is not limited to the mere analysis of single firms, but is especially valuable in the analysis of inter-firm activities, e.g. M&A.

[113] Williamson uses an analogy from contract law, 'forbearance', which essentially refers to the ability of a hierarchy, through the allocation of authority (reminiscent to the semantics of agency theory) to establish an internal justice system to resolve conflicts effectively (Williamson 1991). The bottom line of dispute resolution is that it is more efficient under a governance structure marked by authority and the psychological appeal for a solution (i.e. hierarchy) is argued to apply to other contracting problems alike.

To start with, TCE discusses the concept of the organization of economic activity from the standpoint of M&A, more specifically e.g. diversifying mergers and antitrust (Williamson 1996, Chapter 11). According to this argument, M&A and antitrust are the main cases or drivers of economizing and can be "held to be primarily responsible for shaping and changing the organization of economic activity" (Williamson 1996, p.279). Moreover, transaction cost economics can be said to approach explicitly the question of justification for the *existence* of M&A. M&A is a essentially an outcome of the seeking for an efficient[114] governance structure under the assumptions of incomplete contracting and *ex post* governance.

On a more practical level, transaction cost economics has, with its basic contribution to the incomplete contracting perspective, offered a set of tools for assessing M&A processes both within and outside the merging organizations. Some of the concepts used to analyze M&A today, in e.g. corporate strategy conversation, can be argued to have been introduced through transaction cost economics. Without the input of transaction cost economics, M&A and antitrust wouldn't be "assessed with reference to ease of entry, economies of scale, managerial efficiencies, or related transaction cost features" (Williamson 1996, p. 287, footnote 14).

Additionally, transaction cost economics argues that the human elements of transactions, behavioral attributes of human actors and the cognitive complexity of information, are of critical economic significance due to the fact that they are largely responsible for the *ex post* bargaining. In the context of M&A, this corresponds to post-merger processes. From the point of view of the conceptual tools and the analysis of human elements in forming the transaction environment, transaction cost economics can thus be said to also tackle the *internal organization* of M&A, i.e. the nature of M&A processes somewhat.

Along the same lines, transaction cost economics also discusses in depth the impact of M&A on the 'transacting environment' or the 'transaction cost balance'. For example, Williamson (1985, p.100) mentions that vertical integration through a merger or an acquisition can lead to reduced market efficiency, because it may imply a change in the transaction cost balance in a way that discourages entry. As mentioned above, M&A also has "anticompetitive concerns .. regarding the cost of capital" (Williamson 1985, p. 101, Posner 1979). Depending on the type of M&A processes, the capital structure of the merged firms can alter the transaction cost balance in a way which leads to efficiency losses, especially if capital assets are long-lived and specialized to the market, i.e. asset specificity is high. This is yet another ramification to the internal organization of M&A, i.e. the processes and decisions through which the deal is carried out.

[114] In terms of both pure production costs and transaction costs

Generally, transaction cost economics scorns the type of dichotomous reasoning it incorporates in the governance structure discussion in the context of M&A:

> "Dichotomous reasoning – by artificially classifying mergers or predation as Type A / Type B is too simple. Efforts to derogate strategic behavior have likewise been overdone." (Williamson 1996, p. 305)

It seems, however, that many of the aspects of the old industrial organization tradition have contributed and continue to contribute to M&A discussion through transaction cost economics. The importance of the inputs of transaction cost economics in understanding M&A is mirrored in the growing appreciation for transaction costs in antitrust enforcement:

> "Public policy toward firm and market organization is unavoidably transformed as the concept of the firm as a governance structure takes hold and by efforts to assess complex contracts in a comparative institutional way." (Williamson 1985, p. 365)

Transaction cost economics can be argued to be extremely influential at assessing M&A, to the extent that, "in effect, firms that are proposing a merger are now invited to present evidence as support for the merger" (Williamson 1985, p. 370) by antitrust authorities. It must be noted that this attention is seems to be overwhelmingly concentrated in the legal spheres of M&A and other application areas are lacking (Joskow 2002).

In fact, the relationship between the development of transaction cost economics and antitrust legislation has formed an intriguing discourse. Williamson argues that antitrust legislation has developed in line with our increased understanding of transaction cost economics and shifted the focus of antitrust legislation away from monopoly power to efficiency and economizing (Williamson 1996, p. 281). Notably, commentators have argued that this development has been insignificant (e.g. Stigler 1982). Regardless, transaction cost economics can be said to approach explicitly the question of the *existence* of M&A. M&A is a main driver of the organization of economic activity and it is a essentially an outcome of the seeking of an efficient (in terms of both production costs and transaction costs) governance structure under the assumptions of incomplete contracting and *ex post* governance.

Regardless of the fact that market power has, according to Williamson, ceased to be the main case of antitrust reasoning: "the important issues in the control of monopoly are economic" (Dewey 1959, in Williamson 1986, p. 287), this does not render the concept of power as meaningless in the sphere of M&A. On the contrary, authority and power can be seen as key considerations of the efficiency of the organization of economic activity in M&A.

The idea of authority[115] as a transaction cost reducing dispute resolution mechanism can be directly applied to an M&A decision-making situation. Establishing a common authority through M&A can reduce transaction costs if there is a danger for lengthy and costly legal disputes or hostile marketing activities between two firms. Here again, pure TCE reasoning discusses explicitly one justification for the *existence* of M&A. Authority is also a key consideration in defining where M&A occurs. As the authority of the hierarchy is involved in the anticipation of unforeseen contingencies, it becomes the key determinant of which superior-over-the-market governance modes are available to the firm. The role of authority is elevated in importance and the task of maintaining and improving authority becomes a key M&A consideration. TCE thus holds the *boundaries* of M&A to be defined in terms of the availability of information regarding different governance structures; M&A will occur in the presence of potential gains from (and information about) new information and authority structures that economize on transaction costs. The basic argument is thus that there is more to integration represented by M&A that the mere transfer of property rights.

Furthermore, transaction cost economics incorporates elements from both finance and law dialogues into the discussion about its relationship to M&A. For example, cost of capital considerations have long been linked especially to vertical merger rationales (Williamson 1975, 1977b, see also Posner 1979). Williamson (1996, p.285) also encourages an incremental and fungible approach into understanding M&A from a legal point of view. In accord with the property rights perspectives, transaction cost economics also holds that ownership matters (Williamson 1985, p. 29). M&A, which can be seen as, and is often only seen as, a transfer of the ownership of an asset thus presents a change in the balance of transaction costs as formerly market mediated transactions between the two firms come under hierarchical governance. As M&A also influences both or all relevant organizations, the relevant transaction costs vis-à-vis other parties in the market are changed.

There is no doubt that transaction cost economics, which has been primarily concerned with vertical structures, has contributed a great deal more to our understanding of vertical than horizontal M&A. Regardless, the reasoning behind transaction cost economics is, as a driver of the organization of economic activity, applicable to M&A in more than just vertical mergers. The way in which transaction cost economics generally discusses the existence of hierarchies as well as the boundaries and internal organization of the firm has generally contributed to our understanding of M&A as a driver of the reorganization of economic activity. The realm in which transaction cost analysis is applied to M&A could be boldly extended to increasingly discuss e.g. the rationales of where to draw organizational boundaries horizontally, the efficiency implications of horizontal M&A in terms of transaction cost and the comparison of different M&A processes in terms of their influence

[115] Authority, as it is used here, refers to the rights to hire and fire assets of the firm (including people). The authority is usually albeit not always personified in executive managers

on the transaction cost balance before and after a merger. In practice, this could mean that the transaction costs of performing a vital function (e.g. procurement for a assembly-oriented manufacturing firm) would be measured before and after a capacity-increasing horizontal merger to evaluate its success.

Transaction cost economics also adopts a "comparative contracting perspective" (Williamson and Bercovitz 1996, p. 7), i.e. it compares all kinds of contractual arrangements on the basis their cost properties. Naturally, the comparative "efficiency oriented approach can be applied .. to decisions regarding the organizational structures within firms" (Richter 1999, p. 60). For M&A, this implies that transaction cost economics logic can be used to analyze numerous instances that deal with the eventual internal transaction costs related to the M&A processes.

Pressures to diversify prompted a significant share of all mergers during the 20th century, especially during the merger wave of the 1960s. The logic behind the diversification thinking has subsequently been analyzed using transaction cost economics logic. More specifically, the focus has been on the synergistic efficiency considerations, and they have been analyzed with respect to their transaction cost economic properties (Richter 1999, p. 51-55). Richter's transaction cost economics logic manifests how both economies of scale-based synergies between two separate businesses lower the transaction costs of using a factor of production (e.g. the same investor, the same external consulting services, the same distribution channel), thereby encouraging diversification into seemingly unrelated businesses. Similarly, potential benefits from diversification may arise if one business creates such positive externalities (e.g. a great motivation within a research department) that can be internalized by the other business in the form of productivity enhancing spillover effects. However, the potential benefits from diversifying mergers have to be pegged against the costs of running unrelated activities and the costs of the post-merger integration process. More generally, according to the transaction cost logic, firms will diversify until the economies of scope are equal to the diseconomies mounting from sheer organizational scale (Rumelt and Steven 1992).

At least the following internal organization issues and their transaction cost applications can be identified:

Table 25: Internal organization issues from transaction cost economics

INTERNAL ORGANISATION ISSUE	TRANSACTION COST ECONOMICS INSIGHT	REFERENCES
Formation of teams	Incorporate authority, facilitate specialization, extract joint production gains, overcome indivisibilities and offer insurance thereby lowering transaction costs (also when related to M&A)	Williamson 1975, Ch. 3

(De)centralization	Transaction cost efficiency criteria should be used to decide on the degree of decentralization	Pugh 1997 Richter 1999
Head office size and functions	Varying incentive intensity, opportunism of sub-groups and bounded rationality of managers set limits to head office size and functions	Williamson 1971, 1975 Besanko et al. 1996
Number of management layers	Bounded rationality sets an upper limit for the number of communication channels a manager can deal with. This determines the efficient number of management layers.	Williamson 1975 Besanko et al. 1996
Administrability / fiat	Hierarchies provide power and authority that remove inefficiencies from bargaining and coordination processes	Barnard 1938 Simon 1951 Williamson 1975, 1993 Morgan 1986

Given that M&A influences dramatically the internal organization of the firm, it can be concluded that the aforementioned considerations offer at least partial insight into what the potential transaction cost problems of M&A processes, particularly post-merger processes, are. For example, running an integration project in two organizations with very different degrees of decentralization in decision-making will inherently be difficult. Likewise, a very large number of management layers can set limits for what can be done during an M&A process. In real-life M&A projects, multiple layers of middle management often dilutes the original intent of top management and very little actually changes at the grassroot or shopfloor level.

Concluding, TCE has revolutionized the way we look at the organization of economic activity, the existence of hierarchies as well as their boundaries and internal organization, and has thus generally contributed to our understanding of M&A. Transaction cost economics succeeds, partly due to its interdisciplinary nature, at contributing to M&A thought on all key levels of analysis: the *existence*, *boundaries*, and *internal organization* of M&A.

7.1.6 Property rights and new property rights theory

Overview

Property rights literature and the view that 'ownership matters' dates back to early authors in so-called Austrian economics[116], who discussed private ownership rights as the fundamental concept behind capitalist, spontaneous ordering of economic activity. Subsequently, it was actually the early contracting literature (of e.g. Coase 1960, Alchian and Demsetz 1972, Demsetz 1967, Alchian 1965, 1967 and Furubotn and Pejovich 1972, cf. Williamson 1993, p. 26-27) that were the primary advocates of property rights thinking until

116 An 'Old' (Eugen von Böhm-Bawerk, Friedrich von Wieser, Carl Menger), a 'New' (e.g. Ludwig von Mises, Joseph Schumpeter 1942, Friedrich von Hayek 1937, 1945) and a 'Late' (e.g. Israel Kirzner 1972) strand of Austrian Economics are often identified in the related literature (cf. e.g. Foss 1997)

the emergence of the so-called new property rights theory (e.g. Grossman and Hart 1986, Hart 1989, 1990; Hart and Moore 1990 and Kreps 1990).

Property rights are defined as "the set of economic and social relations defining the position of each individual with respect to the utilization of scarce resources" (Furubotn and Pejovich 1972, p. 1139). Alchian (1967) has argued that economics is in essence the study of property rights and property rights theory derives heavily from neoclassical economics. This is visible in the central position of resource allocation and maximizing behavior.

Two strands of property rights theory exist, namely 'traditional' and 'new' property rights approaches. Traditional property rights theory rests on the three key principles that a) it is the tendency of individuals "to seek their own interest and to maximize utility subject to existing organizational structures" (Furubotn and Pejovich 1972, p. 1137), b) wealth maximization is not assumed because mistaken property rights alignments are responsible for inefficiencies through wrong resource allocation (Alchian and Demsetz 1972) and c) transaction costs are recognized to be greater than zero (Coase 1960, see De Alessi 1983, pp. 66-67). Born in the 1960 and 1970s, traditional property rights co-existed with the early incomplete contracting literature, Williamson's early transaction cost economics work, as well as agency theory.

The so-called new property rights theorists (see e.g. Hart 1989, Hart and Moore 1990, Grossman and Hart 1986), then again, have continued researching property rights from an institutional perspective. By the 1980s, incomplete contracting literature had already developed and diffused enough to influence the property rights literature. New property rights theory thus acknowledges incomplete contracting and the influence of *ex post* behavior on contracting outcomes. New property rights literature has concentrated more on researching the role of property rights in a) the determination of information structures and b) the allocation of authority.

Key messages: Property rights define the position of individuals with respect to the utilization of scarce resources. Property rights assignments govern value maximization behavior and thereby facilitate the allocation of resources to their highest valued uses, influencing the level and character of economic activity (Furubotn and Pejovich 1972).

Different ‘systems’ or ‘sets’ of property rights present decision makers with different structures of incentives, resulting in different alignments of resources and different input-output mixes, and thus governance structures (Alchian 1965, 1967, Demsetz 1967).

The ownership of a factor of production determines the control rights over output. The control rights determine the boundaries of the firm (Hart 1986).

Contrary to TCE[117], new property rights theory suggests that integration (M&A) or internal organization is not able to remove opportunism as such, but the choice of governance structures can shift the incentives for opportunistic behavior through the reconfiguring effect it has on ownership rights. TCE holds that notions of asset specificity and incomplete contracts as the fundamental building blocks for the justification for hierarchies, new property rights theorists argue that it is the ownership of a factor of production that determines the control rights over output. The control rights, the ability to exclude other agents from deciding on the use of certain assets, are what determine the boundaries of the firm (Hart 1986). Asset specificity is just a product of non-contractible investment and the ultimate determinant of whether or not Pareto-suboptimal outcomes are reached is ownership. If one undertakes non-contractible investment in terms of an asset owner by somebody else, the control rights create an opportunity for hold-up and quasi-rent appropriation.

A second difference gushes from the perspective on authority, which in property rights theory is not inherent in the governance structures of the firm but arises from its ownership. This is in line with a long philosophical capitalist tradition[118]. Foss has succinctly succinct summarized the authority reasoning in the new property rights theory:

> "The ability to deprive an agent of the piece of capital with which she works (and to which she might be heavily specialised) is what provides room for authority" (Foss 2000: xliii)

Authority, therefore, is determined by ownership, which gives a better understanding on how authority is actually allocated within the arising hierarchies. A whole stream of corporate governance literature, both from the sociological (see e.g. Lash and Urry 1987, Scott 1990, 1997, Herman 1981) and the institutional and organizational economics perspective (see e.g. Holmström and Tirole 1989, Gaved 1995), which conspicuously incorporates the principal-agent construct to a large extent, has subsequently taken over the discussion of the allocation authority and control vis-à-vis ownership and work. It could be argued that traditional economics-oriented property rights literature has been somewhat subdued or at least heavily complemented by corporate governance literature that is not a holistic academic stream of

[117] In the words of Foss (2000: xli), “the ideas elaborated by Oliver Hart, John Moore and others over the last fifteen years or so may be seen as a formal version and development of elements found in Williamson’s work”.

[118] From a social scientific point of view, the idea of property rights dates back to the early legal and social philosophers, such as Thomas Hobbes, John Locke and John Stuart Mill. The property rights theory of the firm shares the authority of ownership ideals introduced by John Locke (ca. 1772) in 'Two Treatises of Government'. The basic idea is that in a industrial civil society, it is no longer work, but ownership that determines the control rights over output. Similarly, Locke also acknowledges the mutually reinforcing coexistence of legal order and property rights: the existence of a legislative authority is necessary to the maintenance of property rights. Based on Locke's views on property, utilitarists then linked authority even more closely to property rights. The key idea was that authority over one's own property (money) gives authority over people and things that can be controlled or purchased respectively.

literature, but derives from a number of disciplinary orientations, including not only economics but also organization theory and sociology.

The basic idea that property rights influence authority, incentives and behavior (Coleman 1966) is not difficult to accept. From the standpoint of the organization of economic activity, early contracting literature suggests that the realignment of property rights in 'non-standard' ways in order to capture productivity increases, which is responsible for the arising of 'complex' forms of contracting (see Furubotn and Pejovich 1972). "The crucial task for the new property rights approach is to show that the content of property rights affects the allocation and use of resources *in specific and predictable ways*" (Furubotn and Pejovich, p. 1139) so that the organization of economic activity, "the effect of various property rights assignments on the level and character of economic activity in the community" (Furubotn and Pejovich, p. 1139) could be conceptualized better. New property rights theory thus attempts to address the existence, boundaries and internal organization of firms directly.

A deep familiarization of the contours of institutional and organizational economics in the context of the conceptual analysis seems to reveal some converge between agency and property rights theories. Starting with the publication of Jensen and Meckling's (1979) article, conspicuously representing traditional property rights theory while integrating the structure of property rights to agency theoretic stakeholder considerations, the two streams have been in increasing dialogue. It seems that the emergence of so-called ‘new property rights theory’ (e.g. Grossman and Hart 1986, Hart 1990, Hart and Holmström 1990) has been influenced by the development of agency theory. Whereas agency theory was in its cradle in the 1960s, when e.g. Ronald Coase (1960) and Armen Alchian (1965, also Alchian and Demsetz 1972) wrote seminal articles highlighting the importance of ownership and property rights, many of the new property rights theorists, e.g. Oliver Hart, have also written extensively about agency problems.

Contribution to M&A

Already the early complete contracting literature presented the very basic contribution of property rights theory to analyzing M&A (e.g. Coase 1960, Alchian 1965, Demsetz 1967). The contribution to the boundaries, i.e. definition, of M&A is straightforward. M&A, from this perspective, is defined as a transfer of ownership, control and/or appropriation rights. The traditional property rights literature considers the firm to be defined and demarcated by the "structure of property rights within which the firm exists" (Jensen and Meckling 1978, p. 2). M&A is thus a mere transfer of these property rights and the new entity is defined by the structure of property rights after the transfer. New property rights literature (Hart and Moore 1990, p. 1120) defines M&A as a transfer of "residual rights of control over the firm's assets". M&A, in this view, provides an opportunity to shift governance structures, which, then again,

can shift the incentives for opportunistic behavior through the reconfiguring effect it has on ownership rights.

What is more, property rights theory holds M&A as a vehicle for changing the ownership of a set of assets, thereby allocating (or attempting to allocate) the production resources in the hands of those who can use those assets most productively. M&A is thus merely a 'natural' allocation mechanism and should, from this respect, always be justified on grounds of economizing and productivity. Property rights theory thus very much addresses the question of the *existence* of M&A and provides a simple and solid answer for it.

Similarly, property rights literature directly addresses the case of shareholder value perspectives for M&A and arguably presents an intellectual foundation for the capital markets school. The rights of shareholders are accentuated by the crucial role of property rights in the efficient allocation of resources. A careful definition of individual property rights diminishes uncertainty and promotes the efficient allocation and use of resources (Demsetz 1964), whereas the existence of a market place (stock exchanges) for the transferability and competitiveness of ownership rights (Cheung 1970) ensures the allocation to the highest valued uses (Furubotn and Pejovich 1972).

With respect to corporate governance issues in the context of M&A, "the market for control of the enterprise" (De Alessi 1983, p. 67), property rights theory argues that changes in property rights influence the utility maximization setting, changing e.g. the conditions of *monitoring*, *detecting, policing and enforcing* (Larner 1966), of managers significantly (Furubotn and Pejovich, p. 1147, 1149). This highlights further the role of property rights considerations in the capital markets perspective. The major question in property rights literature has become the determination of how well the market or hierarchy protects shareholders' wealth and property rights. Three issues dominate the discussion: market valuation (share prices), managerial rewards (stock options, handcuffs and parachutes) and competition among managers (corporate governance and managerial politics) (Furubotn and Pejovich 1972, p. 1150). Interestingly, these three are *exactly* the same three that dominate M&A discussion in the capital markets perspective. It could therefore be argued that, theoretically and ideologically, there should be a direct linkage between the capital markets perspective of M&A and basic property rights principles.

However, this is not, at least to a large extent, the case. Looking at the existing literature, the capital markets school and its shareholder value emphasis are more linked with corporate strategy literature from the competence perspective than with property rights literature. Actually, the extant linkages are very few. One of them is the idea of Economic Value Added

(EVA)[119], which essentially accounts for the opportunity cost of equity capital in the determination of a company's net income. The linkage to property rights ideology is that is that shareholders, in return for providing the risk-bearing function, get unlimited upside potential by acquiring property rights to the residual income. Also Jensen (1989) and Pejovich (1990) have attempted an integration of the two. These attempts to integrate shareholder value and property rights perspectives make little reference to M&A directly. Therefore, it would be severe exaggeration to speak of a *direct* connection between the capital markets approach to M&A and the property rights theory of the firm.

Indirect linkages prevail. As said, new property rights theory argues that corporate governance issues, as such, can influence the organization of economic activity. Shareholders have property rights over assets yet are dependent on managers to appropriate their fullest value, and therefore are inclined to monitor them. Monitoring costs explain the heterogeneity of firm size and type of organization within an industry (Williamson 1967, and De Alessi 1983). M&A represents a step towards the 'natural' boundaries and internal organization of the firm in a given industry[120]. "Taking .. the structure of property rights into account is thus beginning to yield insights not only to why firms exist, but also into the choice of particular kinds of business organizations" (De Alessi 1983, p.68). M&A's *existence* is justified as a driver towards this kind of governance structure. Furthermore, ownership changes facilitate changes in the structure and allocation of authority within the organizations, which ideally lowers the transaction cost of breaking up old and designing new dispute resolution mechanisms and information structures. Thus, the contribution of TCE and new property rights theory vis-à-vis authority as a justification for the existence of M&A is very closely related.

In sum, property rights theory attempts to provide a solid justification for the *boundaries* and *existence* of M&A, but its contribution to the internal organization of M&A is very limited if existent at all. M&A, a transfer of property rights creating discontinuity in the governance structure of the organization and thus a possibility to change the incentive structures, is justified as an allocation mechanism which shift the organization towards more efficient authority structures and resource allocation. This clear intellectual contribution stems from the same feature of property rights theory that renders it nearly useless for analyzing M&A processes more carefully. Namely, property rights theory is closer to a higher-level logic, principle or philosophy than an operable theoretical model (Foss and Foss 2000).

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[119] As introduced and trademarked by Stern Stewart and Company, EVA refers to the monetary value of an entity at the end of an time period minus the monetary value of that same entity at the beginning of that time period. For a company, EVA is calculated as after-tax earnings minus the opportunity cost of capital. As with any other entity, economic value added essentially measures how much more valuable a company has become during a given time period (Investorwords.com Investing Glossary)

[120] Intuitively, this would explain industry merger waves.

7.1.7 Shortcomings of governance theories

An M&A-minded conceptual overview of the governance theories of the firm would not be complete without a collection of critical judgments concerning the various theories. The criticisms can be categorized along two dimensions, i.e. whether the criticism is towards a) a specific governance theory of the firm or the governance theories of the firm in general and b) the governance theories themselves or their application or applicability to M&A. Given the chronologically and thematically intertwined development of the various governance theories, which can also be seen in Figure 15 above. The criticisms are here grouped hierarchically, with general criticisms outlined first, criticisms concerning certain groups or theories or their shared assumptions next and criticism regarding single theories after that. The implications for the applicability of these criticisms are carried along the way.

Criticism towards the governance theories of the firm in general

Firstly, the governance theories of the firm have a rather limited scope in organizational analysis. They are, by definition, theories of the *firm*, whose main level of analysis is the single organization, and, to some extent and with some governance theories (e.g. agency theory), the level of the individual. In this sense, the governance theories of the firm do not contribute extensively to discussions operating on higher levels of analysis.

Nevertheless, M&A is topic and phenomenon, which incorporates inter-organizational, industry level and, to some extent, macro-level issues. The strength of theories of the firm in the analysis of M&A as an institutional phenomenon yields a shortcoming to considerations at a higher level of analysis. The governance theories of the firm belong a larger area of organizational research, namely organizational economics, which also contains research avenues devoted to inter-actor (e.g. relationship), inter-organizational (e.g. networks, alliances, partnerships), industry (e.g. clusters, market structure) as well as global (e.g. the 'network society', population ecology) level analyses (Tikkanen and Parvinen 2002). Lessons from such avenues as these should be drawn to complement the analysis of M&A from the perspective of the governance theories of the firm in order to build a fuller organizational economics understanding of M&A.

Secondly, As discussed on numerous occasions, M&A is an interdisciplinary research area inviting academics from numerous disciplines, e.g. finance, business, management, accounting, organization theory, sociology, law, social psychology and so on. Despite the many governance theories of the firm and their different assumptions and historical backgrounds, the theories of the firm, despite the richness they provide to the discourse, are somewhat fixed to an economics mindset. M&A cannot be easily tackled with governance

theories of the firm that have strict assumptions emerging from their economics background. The major problem with the "economic approach" in the governance theories of the firm is that they sometimes "postulate hypothetical ideals, making it nonoperational [and] focuses too narrowly, thereby omitting or undervaluing important attributes" (Williamson 1996, p. 286).

Thirdly, the governance theories of the firm have also been criticized for their narrow focus on the economic effects of corporate restructuring. M&A is also a bureaucratic effort, which is frequently diverted or defeated by dysfunctional responses from various stakeholder groups often working with non-economic rationalizations, e.g. workers, labor unions, governments or 'politicized' competition authorities (See e.g. March and Simon 1958, chap. 2). The social and human perspective to M&A is, despite growing interest, still frequently omitted. The efficiency reasoning behind the justification of the boundaries discussion pegs theories of the firm "bad for practice" (Ghoshal and Moran 1996: p. 1).

Fourthly, another criticism in the direction of the governance theories deals with the lack of decomposing and systematically analyzing the specifics of the internal workings of the firm. For example, "organizational economics scholars employ terms like moral commitment, trust and social conventions mostly in *ad hoc* form without analyzing the empirical conditions for their suitability or adequacy" (Mueller 1995, p. 1222). This criticism thus interlinks with the general criticism that governance theories of the firm have not been empirically validated (Perrow 1986, cf. Conlisk 1996, Vriend 1996). A repercussion of this is that in the analysis of M&A processes, governance theories of the firm need to employ not only economic measures and tools, but consider the dynamic and interactive nature of stakeholder relationships and, perhaps, derive from institutional sociology[121].

As is seen in the elaboration of shortcomings in specific theories of the firm (below), some of the prevailing disagreements between the governance theories of the firm establish limitations to the applicability of the theories of the firm to M&A in general.

Criticism towards particular assumptions

Many of the important assumptions that are often shared by more than one governance theory of the firm have been criticized. Firstly, the assumption concerning the opportunistically behaving human, the Macchiavellian Man, is criticized heavily for the exclusion of such considerations as collaboration and moral (Ghoshal and Moran 1996, p.

[121] In must be noted that also agency theory but particularly game theory are applicable at the level of a single individual and that non-efficiency considerations can already be built into such decision-making models (Nilakant and Rao 1994)

14)[122]. Arguably, even if this simplified model of human nature is appealing and renders generalization, the critics are right. Incorporating a more multi-faceted and diverse human element (i.e. the idea of *homo sociologicus*) into the governance perspectives would reduce homogeneity of contracting outcomes and introduce unpredictability, which is only rational.

Secondly, the assumption for a drive towards commonly defined 'success', often measured in terms of pure efficiency, has been criticized (Ghoshal and Moral 1996, p. 14). The argument here is that not all actors are striving for the same goals and, even if actors would be completely self-interest seeking, there is still potential for collaborative and/or peaceful coexistence. As is admitted by Ghoshal and Moran (1996), this perspective is much better understood in later theory of the firm developments (e.g. North 1990, Coase 1988, arguably also Hart and Moore 1990).

Thirdly, one of the early, heavily criticized assumptions employed by some governance theories of the firm is that of perfectly complete contracting (e.g. Alchian and Demsetz 1972, Jensen and Meckling 1976, 1978, Fama 1980, Klein, Crawford and Alchian 1978). As originally demonstrated by Simon (1951) in the context of employment contracts, there is strong reason to believe that contracts cannot be written exhaustively to include all possible contingencies. This follows Llewellyn's (1931) original contention that all contracts are always incomplete. Williamson (1975) raised a concern about the significance of incomplete contracting in the determination of contracting outcomes. Namely, the fact that contracts cannot be written to include all possible contingencies gives rise to opportunistic behavior *ex post*, which, then again, is prompts the emergence of hierarchies instead of market contracting.

These criticisms towards the assumptions of opportunistic behavior, pure efficiency-seeking and perfect contracting can be assumed to have significant repercussions in the way governance theories of the firm can be applied to the academic and real-life analysis of M&A. The three criticisms raise at least three issues, which should be briefly analyzed, namely a) the role of collaborative action in M&A, b) the role of managerial and other non-efficiency minded M&A strategies (e.g. hubris-driven M&A) and c) the role of non-contractible (*ex post*) bargaining in M&A (e.g. employee and labor union non-compliance to post-merger plans).

M&A is actually a good example of the real-life fact that seemingly similar contracting settings can spur various different types of behavior. Already in the planning phase of a

[122] Ghoshal and Moran's (1996) arguments are intended to highlight weaknesses in transaction cost economics reasoning, but in the author's opinion, criticism dealing with such fundamental assumptions should be able to be generalized to other governance theories of the firm and the governance perspective in general. Many of the criticisms are directed at the underlying assumptions about human nature, efficiency orientation and the tendency to simplify contracting settings, all of which relate to the economics mindset of the governance perspective and subsequently, all of the individual governance theories of the firm.

prospective merger, acquisition or takeover, the managers, shareholders and employees of bidders, targets and equals likewise have the choice of which attitude to assume: friendly, hostile or somewhat indifferent. The same applies for the actual negotiations concerning the terms of the deal. What seems arguable is that whether to apply predatory tactics and/or behave opportunistically is at least partly a human choice, not a result of the contracting environment. Ghoshal and Moran's (1996) criticism concerning the lack of human consideration in governance theories of the firm highlights the importance of psychological and organization theoretical considerations in the determination of the internal organization of M&A both *ex ante* and *ex post*. In practice, this implies that stakeholder group incentives, emotions and intentions should be mapped and managed both before and after the M&A agreement.

The criticism against pure efficiency-minded goals and success criteria in the governance theories of the firm is directly applicable to M&A settings, and relates strongly to the justification for the existence of M&A. Berkovitch and Narayanan (1993) categorize M&A related motives into three categories: a) efficiency or synergy, b) managerial hubris and c) agency problems. As we know that also the two categories of non-efficiency-minded explanations of M&A are well researched from governance theoretical angles, starting with Jensen and Meckling (1976) and Roll (1986), this piece of criticism seems less pertinent to M&A as an application area of the governance theories of the firm, since governance theories have, indeed, been used to analyze non-efficiency minded goals and motivations of M&A. What seems more pertinent, however, is the lack of success or evaluation criteria that would respect these apparently valid non-efficiency-oriented motivations. Profitability (e.g. EPS, net income), growth (e.g. CAGR), financial productivity (e.g. EVA, ROI, ROCE) and shareholder value (e.g. P/E) measures dominate in the determination of success[123]. Arguably, given that the governance theories of the firm have been able to explain M&A using motivations that are not tied to pure economic efficiency, they should be able to evaluate them using a diverse set of criteria including measures beyond the very same efficiency mindset.

The criticism highlighting the role of non-contractible bargaining has strong repercussions to the analysis of M&A. M&As are typically large deals, in which perfect contracting or monitoring are impossible. Particularly the middle managers and the employees of the merging companies have a possibility to undermine the integration process and cause considerable harm to the operation of the new merged entity. Grassroot level behavior, which is particularly important after the merger, is impossible to govern through contracting. This implies that imperfect contracting has particularly strong upshots in the determination of post-merger processes. On the other hand, the incontractibility of all aspects of inter-

[123] The financial earnings, growth, productivity and value measures of M&A success are many. Examples include EPS (earnings per share), net income, CAGR (compound average growth rate), EVA (economic value added), ROI (return on investment), ROCE (return on capital employed) and P/E (price/earnings) changes.

organizational exchange can be argued to justify the existence of M&A and act as a prime motivator for executing at least some M&A deals. An example of this is the increasing tendency of large pharmaceutical firms to acquire smaller biotech companies instead of contracting with them. Contracting and external patent portfolio maintenance costs are, quite simply, too high and the Big Pharma rather subject the biotech firms to their hierarchical command than waste money on contracting that is, in any case, severely incomplete and thus bears the risk for *ex ante* opportunism.

Criticism towards individual governance theories of the firm

In order to bring the analysis further, a closer investigation of the criticisms presented towards individual theories of the firm is needed. Here, attention is paid to criticisms in the direction of neoclassical theory of the firm, agency theory, transaction cost economics and property rights theory. The early nexus of contracts and early incomplete contracting perspectives mainly deal with completeness of contracting, which was already discussed above. The focus is now turned to analyzing governance theories of the firm that are not as focused on single contracting assumptions (i.e. neoclassical theory of the firm, agency theory, transaction cost economics and property rights theory) and the criticism they have received, which naturally reflects the shortcomings and inadequacies of their theoretical foundations. Again, the focus is not only on how the governance theories of the firm have been criticized, but particularly on what repercussions these criticisms have on the contribution that the governance theories can have vis-à-vis the existence (justifications/motivations), boundaries (definitions) and internal organization (pre-and post-M&A processes) of M&A.

Neoclassical theory of the firm

In addition to the general and assumption-specific criticisms above, one of the most important criticisms in the direction of neoclassical microeconomic theory of the firm is towards the assumption that the internal workings of a firm are irrelevant in establishing an understanding about and explanation of aggregate market outcomes, i.e. 'the black box' (Mueller 1995, p. 1222). Organizational economics, as a whole, can be seen to have emerged due to this single shortcoming in traditional neoclassical economics. As social scientific academic thought advanced in the 20th century, it became more and more evident that some of the analytical principles and ideas of traditional economics could be used to analyze organizations without strict formalization. This is where the industrial organization tradition, Hayekian property rights thinking and Simonian organizational theory enter the picture, laying the foundation for governance theories of the firm and, on a larger scale, the analysis of the organization of economic activity, i.e. organizational economics.

In any case, the consideration of a merger as a mere amalgamation of two production functions limits the applicability of neoclassical theory of the firm to the discussion concerning the definitional boundaries of M&A. More specifically, neoclassical theory of the firm has been argued to be confined by strict assumptions concerning not only e.g. complete contracting and utility maximization as already discussed above, but also perfect information. Similarly, the omission of other justifications for the existence of M&A than the maximization of abnormal profit through monopoly power severely limits the ability of neoclassical economics to discuss the existence of M&A. Finally, the fact that neoclassical economics is not interested in the managerial, psychological, legal or organizational processes related to M&A makes it impossible to partake in the discussion of these issues in the context of M&A as well.

Therefore, by and large, neoclassical theory of the firm, even though it has acted as both as a 'springboard' and as a 'dartboard' for organizational economics contributions, is severely limited in its ability to contribute directly to the contemporary M&A dialogue. At the level of the firm, these limitations seem to apply equally much to the *existence*, *boundaries* as well as the *internal organization* of firms. On the other hand, at the level of the industry and at the level of the economy, neoclassical literature has considerable merit in analyzing the qualities of M&A from the perspective of antitrust, monopoly power, macroeconomic stability, wealth and market efficiency.

Agency theory

In addition to the general and assumption-specific criticisms above, agency theory has mostly been criticized for the narrowness and limitations of its analysis as a theory of human behavior (Nilakant and Rao 1994). Kaplan (1983) questions the argument that managers are involved in continuous utility maximization. Perrow (1986) argues that agency theory omits opportunistic behavior by principals, underestimates the importance of authority, neglects empathetic behavior and fails to account for organizational slack and promotion policies, which reduce the effects of adverse selection and moral hazard. The argument is that that positivist agency theory is abstract and minimalist (e.g. Perrow 1986) and that formal P-A work has a constrained mathematical nature (Hirsch et al. 1987, Perrow 1986). This makes agency theory somewhat inaccessible to organizational theorists and other M&A related audiences. This line of criticism applies to agency theoretic analysis of M&A just like other contracting settings. It renders agency theory a valid, but not sufficiently generalizable as method in analyzing complex organizational realities. The repercussion is that agency theory needs to be complemented with other perspectives that do not try to model the contracting setting as strictly or simplify behavioral and organizational realities so strictly.

Moreover, agency theory, as a social scientific theory, has been argued to be epistemologically incomplete and represent rather a collection of models and frameworks than a holistic theory (Eisenhardt 1989). This has led to somewhat limited appreciation in the academic community and thus at times reduced the number of articles applying agency theory contemporary management issues, such as M&A in the 1990s.

Considerably less criticism has been presented about the argued ability of the principal-agent setting to explain and predict certain performance and behavior outcomes. Nilakant and Rao (1995) argue that agency theory omits a number of sources of outcome uncertainty within the organization. Most importantly, contemporary agency theory, even though it has incorporated multiple agency settings and contract renegotiation (Gupta and Romano 1998, Al-Najjar 1997, Tsoulouhas 1999), still lacks consideration of the dynamics of incomplete knowledge and information asymmetry in the creation of incentive asymmetries and, consequently, outcomes. Understanding incomplete knowledge and information asymmetries and their effects on M&A processes and outcomes is particularly important in the analysis of e.g. M&A involving immaterial resources (e.g. patent-intensive industries such as ICT and biotech) and acquisitions of less developed organizations (e.g. privatized ex-communist state monopolies, firms in the developing countries). More generally, the interplay through which information asymmetries affect the outcomes of particular parts of the M&A process is understood rather poorly. Much like multiple agency settings and incomplete contracts, these are, however, avenues, which can be pursued in future research and are not excluded by the nature of agency theory.

Finally, a problematic aspect of agency theory from the perspective of analyzing M&A is that agency theory is ultimately not interested in organizational boundaries at all. Given certain P-A conditions, agency theory doesn't care whether the change in governance structure involves the amalgamation of organizations or not. Agency problems and their solutions are indifferent of organizational boundaries, unless they are significant from the perspective of incentives. Since incentive structures are not strictly defined by organizational boundaries, agency problems and their solutions do not match M&A settings one-to-one. Even though agency theory can be applied to analyze numerous M&A related issues, it does not address M&A *per se*.

Thus, on the whole, criticisms on agency theory argue that it is not a sufficient as a theoretical foundation and not generalizable enough as an M&A tool (Perrow 1986). It needs to be complemented with other perspectives that fill these voids.

Transaction cost economics

In addition to the general and assumption-specific criticisms above, Williamson (1985, p. 390-393) has also identified a number of limitations to the reasoning presented in transaction cost economics. Here, these limitations are explored and analyzed in terms of the types of shortcomings they imply to how the theory can be applied to the understanding and analysis of M&A. Three basic limitations are listed: transaction cost economics is crude, it is given to instrumentalist excesses and it is incomplete.

The crudeness of the theory of the firm as presented by transaction cost economics is manifested in the primitiveness of the models, the underdeveloped nature of the trade-offs between governance structures, severe measurement problems and the too many degrees of freedom (see Williamson's 1985 self-criticism). The primitiveness of the models makes the application of transaction cost economics theory to real life settings, M&A or any other, difficult. Likewise, the trade-offs between different governance structures, e.g. when evaluating the rationality of two different structures as M&A outcomes, would be central to the analysis and their underdevelopedness complicates application. The measurement problem is a very general M&A argument in the sense that M&A creates so much turmoil within and around the organizations that it is very difficult to single out or measure the gains or losses of changes in governance structure. This does not imply, however, that transaction cost economics would be useless in the context of M&A, but sets some limitations to the cases to which the theory can be easily applied. Generally, the clearer the governance structure options and fewer the changing variables, the simpler the application and evaluation of transaction cost economics reasoning to M&A.

The instrumentalism critique relates to the human element of the theory, which is closely related to the *internal organization* of M&A processes. In transaction cost economics, humans are unrealistically calculative and the theory omits irrationality. The main repercussion is that transaction cost economics fails to accurately analyze the M&A processes, e.g. the triggering of M&A ideas, selection of M&A strategy, initiation of the M&A dialogue as well as negotiation, contract writing and various post-merger processes. On the other hand, the insistence of rationality is also a great strength of economics (Arrow 1974) and helps transaction cost economics deal with the basic questions of the theory of the firm as well as the *existence* and *boundaries* of M&A as a social scientific discourse.

One major criticism towards TCE is concerned with the lack of application of TCE into M&A issues beyond the simplified make-or-buy setting. Rumelt and Steven (1992) and Richter (1999) have indicated that TCE thinking can be applied to a number of issues close to a) the diversification and b) the internal organization of firms, which are dramatically changed as a result of M&A decisions. Ghoshal and Moran (1996: 13), however, peg transaction cost economics as "bad for practice" by arguing that:

> "Prescriptions drawn from this theory [TCE] are likely to be not only wrong but also dangerous for corporate managers because of the assumptions and logic on which it is grounded" (Ghoshal and Moral 1996: 13).

The core message of this criticism is that TCE, as a theory, much due to the unrealistic assumptions outlined above, is not ready to be applied to decision-making since it considers organizations as mere substitutes for structuring efficient transactions when markets fail. Arguably, this does limit the ability of transaction cost economics to analyze the internal processes of firms, which naturally also applies to M&A. In fact, also Williamson (1985, p. 392) argues that the incompleteness of transaction cost economics hinders the application of the theory to such non-*ceteris paribus* situations, which M&A represent. It is also mentioned that the study of the internal organization of the firm is very primitive and suffers from a general lack or theoretizations on the internal, administrative aspects of organizations. As the organization is not understood properly, it is very hard to understand the outcomes of the various M&A processes on the organization of economic activity within the involved firms.

To conclude, transaction cost economics succeeds, partly due to its interdisciplinary nature, at contributing to M&A thought on all key levels of scrutiny: the *existence*, *boundaries*, and *internal organization* of M&A. It is evident, however, that the limitations of transaction cost economics are limiting the application of the theory to especially the understanding of the *internal organization* or, in other words, the processes of M&A.

Property rights theory

In addition to the general and assumption-specific criticisms above, the peril of the property rights theory is that it offers a simplistic, quasi-economic theory to justify an ownership-centered approach to the boundaries of the firm discussion. While property rights theory has undoubtedly yielded valuable insights into justifying the existence of M&A as an authority and resource allocation ideology, it might withdraw high-level attention away from the organization(s) as such. Resorting to the property rights approach as the sole theoretical foundation without understanding its shortcoming in the organizational side risks elevating M&A decision-making above the essential substance of management: the organization. Limiting the analysis of M&A situations to financial due diligence, consolidated balance sheet valuations, market response estimates, market share analyses, technology valuations, scenario-building and so on is to peg portfolio management as the task in M&A strategy and mitigate the relevance of e.g. restructuring, maintaining or achieving operational effectiveness, sharing activities and transferring skills which in strategy jargon establish the central meaning of synergy (see e.g. Porter 1987, 1997).

Furthermore, the very basic ownership-centered property rights mindset omits softer sides of the organization. In the 1990s, however, a number of extensions to property rights theory the have evolved, addressing e.g. power and capabilities (Rajan and Zingales 1998), cooperation and corporate culture (Kreps 1990) as well as teams and the inalienability of human capital (Klein 1988). The extensions have remarkably broadened the theoretical scope of the property rights approach, although one might question how the explanatory power of the new pack of theories measures against the simple appeal of the shareholder value approach in the minds of managers.

But while property rights theory manages to analyze the allocation of authority more succinctly, many concepts wonderfully incorporated in Williamson's work are sacrificed "on the altar of formalization" (cf. Kreps 1996). Property rights theorists unequivocally deny the need for bounded rationality as a primary behavioral assumption (Hart 1990) and thereby lose the explanatory power of ex post contractual reasoning. Consequently, new property rights theorists overlook the importance of the employment relationship as well as softer aspects of the organization like power, capabilities and culture (Rajan and Zingales 1998).

Another serious (arguably intentional, cf. Hart 1989) omission is the fact that new property rights theory fails to incorporate other aspects of the organization beyond ownership, e.g. structure and communication as independent determinants of the efficient contracting setting. This converges with the aforementioned general idea that Pareto-improvement possibilities are limited to the reallocation of ownership and control rights. Property rights literature fails to acknowledge that economizing on the organizational structure and information channels may have welfare consequences. At the same time, it thus fails to understand the 'synergy' arguments in M&A and generally leads to an incomplete understanding of M&A.

Given the difficulties new property rights has with the assessment of both managerial decisions made under bounded rationality, the difficulty of assessing the *ex post* efficiencies of ownership changes and the neglect of numerous softer organizational realities, new property rights theory, whilst it succeeds at providing a clear-cut explanation for the *existence* of M&A, fails to scrutinize the *boundaries* and the *internal organization* of M&A. If the outcomes of ownership changes didn't suffer from *ex post* anomalies and information was indeed perfect, property rights explanation could handle the boundaries question easily: M&A starts where the net efficiency outcome of a change in ownership is positive. The shortcomings in terms of the processes or internal organization of M&A are straightforward. New property rights simply mitigates the importance of internal processes, elevating the impact of ownership on efficiency far beyond e.g. organizational structures and information channels. It is unclear whether the investigation of internal markets (within hierarchies) could

be employed with the property rights approach to justify the internal organization of M&A through similar resource allocation efficiency claims[124].

7.2 What could the competence perspectives offer?

This study has so far focused solely on the governance approach to the theory of the firm and what have become known as the governance theories of the firm, with very little regard to other research avenues that have provided and could provide insights to the analysis of M&A. There are a number of motivations for this. Firstly, it seems that the governance perspective (Williamson 1999), as it is broadly interpreted here, consists of fragmented theories that need to be reconceptualized so that it is better operationalizable in the context of phenomenon-centered inquiry. Only after this is done can the governance theories of the firm be related to other research streams in a more elaborate manner. Secondly, the governance theories of the firm are insufficiently applied to managerial thinking. Regardless of the fact that the governance perspective discusses crucial M&A aspects, professional and semi-professional M&A dialogue leans on more easily comprehendible managerial rules of thumb, like value creation, competitive positioning, competence development, market power maximization and so on. The governance perspective needs to be chewed thoroughly in order to make its lessons accessible to a wider audience. Thirdly, the governance theories work on varying levels of analytical and social-philosophical depth and can thus, combined, provide a multi-faceted approach to M&A. Finally, a conceptual analysis has to be limited to a manageable set of theoretical perspectives. Here, the governance theories of the firm, with a short comparative reference to the competence perspective, were perceived as a controllable research area with enough common denominators (e.g. history, traditions, assumptions etc.).

In addition to the governance perspectives, the theory of the firm discourse has recently been enriched by theories that have come to be known as the competence- (or, alternatively, resource-, capability-, or knowledge-) based views of the firm. These research streams, which can be argued to be heavily overlapping and complementary, constitute the so-called 'competence perspective' which has been seen as one of two dominant perspectives in contemporary strategy research (Williamson 1999). This Section concentrates on introducing a) the distinction between major sub-paradigms, b) the intellectual roots, and c) the key messages of the competence perspective in order to be able to reflect them to the development of the marketing research discourse.

[124] The author is interested in investigating whether intra-organizational ownership of a particular aspects of the M&A process (e.g. the search and screening phase or the post-merger information systems integration) could be conceptualized using the property rights approach. Intuitively, allocating the property rights, authority and resources to the hands that put them into most use within the organization(s) would promote success in M&A process management.

This section offers a brief glance at the fundamentals of the so-called competence perspective to theory of the firm and its existing and potential inputs to M&A analysis. The purpose here is not to present an exhaustive investigation of the neither competence based strategy research, nor its linkages to M&A, but rather to relate the governance theories of the firm to an arguably equivalent theoretical perspective. At the same time, the purpose is to manifest the breadth of the issue and thereby put the governance theories of the firm in perspective: they are, however broad and all-encompassing they might sometimes seem, merely a corner of management literature that has, despite differences, some indisputable common emphases and areas of interest[125].

7.2.1 Distinguishing between different competence-related approaches

According to Foss (1997), the economics-oriented capability/competence perspectives are characterized by the evolutionary theory of the firm (or 'evolutionary economics', Nelson and Winter 1982) and of the contributions of some influential post-Marshallian economists (Richardson 1972; Loasby 1991, 1999). In these theories, the conceptual focus is on the efficient use of bounded knowledge and on adapting to unanticipated change. These approaches emerged in the 1970s and 1980s as a critique to the rather static, equilibrium (of economic efficiency)-oriented governance theories of economic organization. They focus on institutions that will make best use of dispersed knowledge and allow adaptation to change to take place in firms (Foss 1997).

In strategy and organization research, similar competence-based approaches also emerged after the 1970s. Most importantly, they consist of the resource-based perspective of the firm (e.g. 'the resource dependence' view by Pfeffer and Salancik 1978; also Wernerfelt 1984; Dierickx and Cool 1989), the dynamic capabilities perspective (Nelson 1991; Teece, Pisano and Shuen 1997), the knowledge-based theory of the firm (Kogut and Zander 1992; Nonaka and Takeuchi 1995) and the core competencies/competence-based competition theory approach (Hamel and Prahalad 1990; Sanchez and Heene 1997).

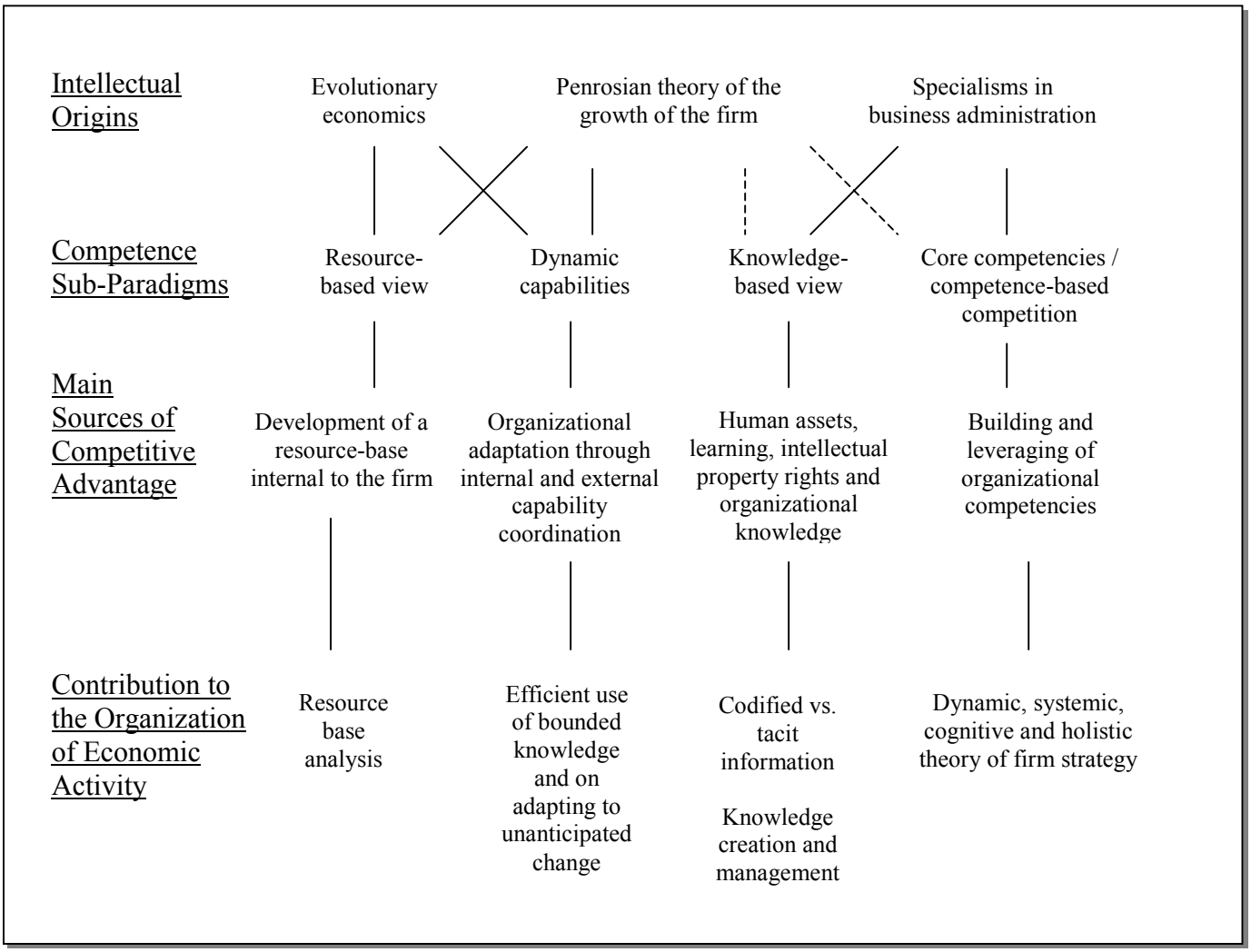
Some debate concerning the relationships between different viewpoints within the broad competence paradigm, and whether each viewpoint constitutes a theory of the firm in its own right (see e.g. Eisenhardt and Santos 2000; Kogut and Zander 1992; Kogut and Zander 1996) exists. For instance, while the 'resource-based view' argues for the importance of a wide array of fungible competences generally not distinguishing or prioritizing between different asset categories, the 'knowledge-based view' concentrates on and argues for the importance of human assets, learning, intellectual property rights and organizational knowledge. The basic postulates are the same: the level of analysis is the firm and the basic argument is that it

[125] These, in the author's opinion, include e.g. the emphasis on *contracting*, the interest in *efficiency*, the interest in the *governance mode* of the firm, as well as the *depth* and *fundamental nature* of analysis.

is the distinctiveness and inimitability of resources that matters in the fundamental task of sustaining competitiveness.

The knowledge-based view emphasizes the role of human knowledge in this process and can in this sense be viewed as a subset of a more overarching resource-based theory of the firm. Both strands emphasize the role of information and communication as a fundamental factor in the determination of *de facto* organizational structure. Furthermore, there is a further strand of literature that emphasizes the role of information processing even more, arguing that one important function of the firm is to adapt to and process new information in order to survive the problems of bounded rationality and coordination (See e.g. Huber 1990; Cremer 1980; Aoki 1986; cf. Simon and March 1958). Thus, despite differences in the degree of importance on the role of knowledge and information, the competence perspectives have similar priorities and emphases (See Figure 16). The issues and logic behind the Figure are discussed in the next Sections 7.2.2-7.2.4.

Figure 16: The competence perspective with regard to the key intellectual origins, main emphases and the conceptualization of the organization of economic activity



7.2.2 The intellectual origins of the competence approaches

The background or origins of the resource- (and knowledge-) based theory of the firm exhibits great diversity, with the majority of the resource-based aspects being found in the proximity of the fields of economics and business administration. Among the more evident areas of intellectual foundation within different business administration specialisms, e.g. strategy, international business studies and technology-based literature, however, a clear effect of organization theory and organizational psychology can be distinguished. More specifically, the two further prominent intellectual bases of the resource-based theory of the firm are found in evolutionary economics on the one hand and in the early Penrosian concept of the firm as a collection of resources and services organized under an administrative framework on the other (Penrose 1959).

The primary contribution from the realm of evolutionary economics comes through the concept of learning. Nelson and Winter's (1982) identification of the need for agents to constantly build new representations of the environment and develop new skills to exploit arising opportunities in order to maintain efficient governance structures is a fundamental idea in the resource based theory of the firm. Especially in environments strongly characterized by permanent and repeated opportunities for technological and organizational innovation, the ability to acquire information and convert it into knowledge to grow the intellectual capital of an organization, i.e. 'learn', is of central importance (Dosi and Marengo 1994). Thus the basic idea in evolutionary industrial organization economics of relating competence and learning with organization and structure (Dosi and Marengo 1994, 164-165; Dosi, Winter and Teece 1992), is an essential building block of the resource- and knowledge-based views, as is an emphasis on innovation and technology along the lines of Schumpeter (e.g. 1908).

Apart from evolutionary economics, the origins of the resource-based theory of the firm date back to Edith Penrose's (1955, 1959) initial attack on her contemporaries' shared neo-classical perception of the firm as a production function. Her basic argument states that firms may be understood as collections of resources and services performed by these resources, all organized under a common administrative framework. This conceptualization is necessary for understanding the learning, growth and restructuring processes of firms. Interestingly, Penrose relates the whole discussion to the question of the boundaries of the firm by phrasing the final question of her paper: "Are there limits to the size of firms?" (Penrose 1955, p. 539). Even though Penrose writes from a non-economics basis, she immediately pegs the boundaries discussion a central concept of the resource-based, like any, theory of the firm. Arguably, the Penrosian boundaries discussion has received enormous help from Williamson's transaction cost analysis of the problems with market governance, justifying the mission to explore the internal dynamics of the firms more carefully (Teece 1982).

7.2.3 Key messages of the competence perspective

The concept of core competence, central to the resource-based strategy language, was first introduced by Selznick (1957). Core Competencies (CC) and Distinctive Capabilities (DC), are defined as

> [CC] "Corporate wide technologies and production skills that empower individual businesses to adapt quickly to changing opportunities." (Hamel and Prahalad 1990)
>
> [CC] "Collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies within an organization" (Hamel and Prahalad 1990)
>
> [DC] "A set of differentiable skills, complementary assets and routines that provide the basis for a firm's competitive capacities and sustainable advantages." (Teece, Pisano and Shuen 1990)

Competencies serve as the basic guiding tool for organizational design (Richardson 1972). In the same instance, Richardson emphasizes the importance of knowledge assets and elaborates the semantics, introducing "the term capabilities to talk about the necessarily limited range of productive knowledge firms and individuals possess" (Foss 2001: xlvii). Again, the determination of governance modes is a central, underlying purpose for the analysis of capabilities and competences, as Richardson concludes how governance structures and cooperation modes actually reflect the complementarity and similarity degrees of the capabilities used (Richardson 1972, 893-894).

Vis-à-vis Williamson's work, Richardson elevates resources and capabilities above transaction costs as the overriding factor determining the boundaries of the firm. This position is also echoed by Demsetz (1993) in his attempt to redefine the knowledge-based view as an overpowering theory of the firm on the basis of its explanatory power. Here, transaction costs merely mirror the information structures inherent in the marketplace. Knowledge and information are prime determinants of economic organization and firm size.

Key messages: Firms exist because they more efficiently than markets produce and utilize knowledge, particularly tacit knowledge (Kogut and Zander 1992).

Moreover, a routine is thought of as 'the skill of an organization'. Capabilities (competencies, dynamic capabilities, higher-order organizing principles…) are meta-routines that represent a firm's

> capacity to sustain a coordinated deployment of routines in its business operations (Foss and Foss 2000).
>
> The boundaries of the firm are determined by knowledge-based considerations, not by mere contracting related to the solving of various incentive conflicts. Knowledge assets that are non-contestable and idiosyncratic are usually governed within the firm, whereas complementary but dissimilar knowledge assets are best obtained through an inter-firm cooperative arrangement. (Foss and Foss 2000)
>
> Firms' internal organization is best understood as a matter of creating a shared context (e.g. in terms of organizational culture) that can help in integrating and utilizing essentially local knowledge to build and leverage core competencies (Foss and Foss 2000; Sanchez and Heene 1997).

Following the concept of the resource-based theory of the firm established by e.g. Penrose (1959), Richardson (1972), Rumelt (1974), Nelson and Winter (1982) and Wernerfelt (1984), subsequently advocated by e.g. Rumelt, Schendel and Teece (1994), Hamel and Prahalad (1994), Demsetz (1993) and many others, a number of authors in the resource-based tradition have continued the pivotal prioritization battle about what is really important in the determination of governance structures. The debate is mainly one of priority, i.e. which is the determinant factor: activities, capabilities, transaction costs, ownership rights or something else.

For example, Conner and Prahalad (1996) argue that the organization modes for learning, innovation and cooperation are largely determined by the knowledge assets possessed and utilized by the organization. The key to operation mode selection, organizational structure and, on a side note, firm success, is dependent on what types of knowledge assets the organization has ended up with over time. To illustrate, e.g. the vertical boundaries of the firm can be determined by the asymmetry in knowledge about a high-tech product's anatomy and production requirements between the firm and its component supplier. If a firm possesses unique knowledge about the provision of a product or service, and this knowledge is at least to some extent tacit and fungible, i.e. endemic to the organization (Teece, Pisano and Shuen 1997), the suppliers might not simply understand what is required. Here, "the costs of making contracts, of educating potential licensees and franchisees, of teaching suppliers what it is one needs from them etc. become very real factors determining where the boundaries of the firm will be placed" (Foss 2001, xlviii).

On the other hand, it might be just this tacitness and fungibility that makes the organization's competencies unique, unimitable and therefore success sustainable. Thus the resource-based view establishes a set of determinants for governance structures and modes a

completely different from transaction cost economics, not to mention the new property rights theory.

Information flow, communication structures and, for example, information technologies are a mediating mechanism, which also plays a key role in the creation and fruition of distinctive competencies. Here, a linkage to the contracting approaches is found. With its perception of information, the knowledge-based is actually converging with the theory of the firm as an information processor (see e.g. Aoki 1986; Cremer 1990; Bolton and Dewatripont 1994; Carter 1995), which derives strongly from Williamson's conception of the firm's information structures (Williamson 1985). Especially the concept of 'dynamic transaction costs' (Langlois 1992)[126] derives conspicuously from both transaction cost economics and the innovation perspectives of the resource and knowledge-based views. In the information processing perspective, even though the reasoning is not similar to organization theory (see Foss 2001), the problem is nearly the same as with the early incomplete contracting theorists (cf. March and Simon 1958). It is basically the same coordination problem that emerges in both analyses. The notion of dynamic transaction costs, as well as incomplete contracting, both argue that a single, definable governance structure, may it be built around employment contracts, information structures, both or something else, is unable to solve the coordination problem of the firm due to 'environmental' limitations. The only difference seems to be that the environmental limitation is different; with early organization theory literature, it is the notion of incomplete contracting arising from bounded rationality, hidden information and information asymmetries, while in the information-based view the environment is argued to be in constant flux.

7.2.4 The existence, boundaries and internal organization of M&A

The competence perspective has relatively clear implications in the direction of the justification for the existence, the definitional boundaries and the internal organization of M&A. The key concepts of the competence perspective, e.g. resources, relatedness, learning, unimitability, distinctiveness, path dependency, technological and organizational innovation and tacit knowledge emerge time and again in the analysis of all of these three areas.

The boundaries of M&A, i.e. how the competence perspective defines M&A, reflect these concepts. From the resource-based view, M&A is the amalgamation of two sets of resources in order to attain a resource combination, which would not have been attainable otherwise. The knowledge-based view argues that such a situation occurs most often between related firms in the presence of possibilities for promoting learning and innovation. Another highly interesting proposition put forward by the advocates of the competence perspective is that a

[126] Langlois and Foss (1999, p. 14) loosely define dynamic transaction costs as the costs of the costs of not having the capabilities you need when you need them (See Langlois 1992 for a full treatment).

firm's resource endowment is dependent on the history of the organization. In addition to resource amalgamation, M&A also implies path amalgamation. Two organizational entities that have thus far had separate and distinct organizational paths merge and from there on share a single path. Ideally, the parts of the merged organizations that are unable or unwilling to follow this common trail need to be spun off or divested.

This analysis provides a comfortable bridge for analyzing the justifications for the existence of M&A as explained by the competence perspective. These are many but similar in ideology. Perhaps the most conspicuous is the "synergy" explanation for M&A, which essentially states that relatedness between firms is the key to M&A success (see e.g. Lubatkin 1983, Singh and Montgomery 1987, Chatterjee 1986). Similarly, the role of M&A in acquiring otherwise hard-to-get unimitable and distinctive resources and competencies has been acknowledged. A distinctive stream of literature has concentrated on the transfer and acquisition of unique technologies through M&A (see e.g. Hagedoorn 1990, Hagedoorn and Sadowski 1999, Laamanen and Autio 1996, Laamanen 1997). Organizational learning through M&A (e.g. Kusewitt 1985, Zollo and Singh 2000, Haleblian and Finkelstein 1999) and M&A in technological and organizational innovation (e.g. Kabiraj and Mukherjee 2000) are related explanations. Many of these justifications for the existence of M&A rely on and emphasize the role of tacit knowledge in value creation. Tacit knowledge can imply the possibility for unimitability, can engulf a valuable resource, can be the source of innovation, the outcome of learning and so on. It is thus a common environmental denominator for most of the competence-based explanations.

Path dependency is also relevant here. The management of fungible capabilities is a dynamic process, which often offsets compatibility problems to the realm of M&A. Path dependency is central to understanding how to realize strategic objectives (Teece, Pisano and Shuen 1994). This, *ceteris paribus*, makes the resource-based theory of the firm more skeptical towards the idea that the strategic goals of an organization can be attained as easily through M&A than organic growth, if not easier. Combining organizations implies combining two independent historical paths of resource and capability development, which necessarily spurs compatibility problems. The dynamic aspects of capability creation are at the forefront of the discussion of the knowledge-based view, particularly in the explanation of opening windows of opportunity in the face of radical Schumpeterian change (Langlois 1992). Likewise, it is specifically a characteristic of the knowledge-based approach to emphasize the role of information structures in the creation of sustainable capability bundles over time (Cremer 1990).

On the whole, the competence perspective has, unlike the governance approach, considerable merit in the analysis of the internal organization of M&A. The competence perspective has had a strong influence on literature on the M&A process (see e.g. Jemison and Sitkin 1986, Shrivastava 1986, Haspeslagh and Jemison 1991, Pablo 1994). One of the

basic contributions of the Penrosian boundaries discussion to M&A comes through the apparent link is has to horizontal restructuring processes (Teece, Rumelt, Dosi and Winter 1994). As the organization mode is dependent on the current and aspired configuration of capabilities, the capabilities essentially determine the boundaries of the firm and thus act as the first and foremost decision-making determinant in due diligence process. Even more generally, resource endowments and synergy seeking can be argued to influence pre-merger processes like growth strategy selection, candidate selection, strategic and even financial due diligence as well as negotiations. Technology and IPR related issues are often important even in the contract-drafting phase. Respectively, the resource combination resulting from the merger often leads to a reassessment of corporate foci and subsequently to the development and execution of the integration plan. Post-merger processes (especially e.g. the divestment of business units, the rationalization of personnel, the concentration of staff functions) are highly dependent on which capabilities, resources and competencies are seen as valuable assets and which not. Ultimately, from the competence perspective point of view, post-merger processes are about the criteria according to which resources, competences and capabilities are evaluated and the process of prioritizing them according to these criteria.

There are interesting repercussions from the prioritization debate[127] to the M&A discourse and especially to managerial and prescriptive M&A rationales. There are profound differences in how e.g. consultants have applied the different perspectives to M&A decision-making frameworks. There are roughly four categories, all of which follow a different strategic paradigm. Firstly, there are cost structure intensive rationales, which can be highly appreciative of transaction cost economics rationales, indicating the amount of cost savings attainable from M&A through internalizing some functions and outsourcing others. Secondly, there are consulting services and frameworks that concentrate solely on shareholder value and the rights of shareholders to maximally appropriate their investments. Thirdly, there are frameworks concentrating on the basic ideas of path dependency compatibility, fungibility of knowledge capabilities and importance of sustained innovation within M&A, which carries a strong resource- and knowledge-based flavor. Finally, there are decision-making frameworks concentrating on the strategic fit between activities, which can be created through sharing activities, transferring skills and restructuring through M&A. This corresponds to Porterian portfolio management (Porter 1987). These are mere examples how the battle between paradigms diffuse into decision-making rationales and, arguably, can possibly lead to territorial-ideological wars in how M&A should be performed and, subsequently, to the possible exclusion of important insights across perspectives.

[127] I.e. the debate about which issue, e.g. transaction cost vs. resources vs. knowledge vs. activities to prioritize in the determination of governance structures (Kogut and Zander 1992, Eisenhardt and Santos 2000, Eisenhardt and Martin 2000, Cohen and Levinthal 1990).

7.3 Summary

At the theoretical end of the M&A discourse lies the conception of M&A as a driver of the organization of economic activity. Theories of the firm, the body of theory that addresses the existence, the boundaries and the internal organization of firms, deal closely with the organization of economic activity. In doing so, the theories of the firm are hypothesized to be able to refine our understanding of M&A, the justifications and explanations of its existence, its conceptual boundaries and its internal processes.

This Appendix concentrated on conceptually analyzing the position of the governance theories of the firm to the M&A discourse. The aim was to provide an clarifying overview of the governance theories and present a hierarchical categorization in order to understand the key assumptions and contributions of the various theories. An overview of neoclassical theory of the firm, the nexus of contracts perspective, agency theory, early incomplete contracting literature, transaction cost economics and property rights theory was provided with a focus on their contribution the existence, boundaries and internal organization of M&A.

This analysis was perceived to need depth and refinement in the form of criticism acknowledgement and an analysis of alternative angles to the organization of economic activity. Therefore, an overview of the criticisms and shortcomings presented about the governance theories of the firm in general, about some key assumptions held by group of governance theories as well as criticism in the direction of individual theories. A short passage briefly outlining the basic postulates of the 'competence perspective', engulfing the so-called resource-, information- and knowledge-based views to strategy research was then laid out together with their M&A definitions, justifications and internal organization influences. This was done in order to bring in a comparative element and highlight the relatedness or of the governance perspectives.

The key findings of this Appendix are firstly that the governance theories of the firm discuss amply a number of issues that are of essential importance in the analysis of M&A and secondly that there are clear shortcomings in the way they try to define, explain and help in the governance of M&A. What this means is that the governance theories of the firm can and should be used in discussing M&A and they have vast potential for the development of an integrative theory in this field. At the same time, however, it is becoming increasingly clear that none of the governance theories of the firm alone, and perhaps not even all together, suffice at providing a satisfactorily exhaustive theoretical and semantic arsenal for performing and developing M&A theory and practice. Integrative work, definitely between governance theories, and possibly between the governance and competence perspectives, is needed.

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8 APPENDIX 3: THE SEMANTICS OF THE STUDY

This Appendix aims at clarifying the conceptual and semantical questions that have arised during the study. This is done by

a) Outlining the relationships of the major schools of thought that might be considered to belong in the category of governance theory from an economic history standpoint. The major source for this information is the informative History of Economic Thought website at http://homepage.newschool.edu/het/.

b) Listing some of the central concepts of the theoretical discussion surrounding the conceptual treatment of the governance theories of the firm, M&A, institutional and organizational economics and the organization of economic activity in general. These definitions are drawn from the many literature sources listed in Chapter 3, whilst explicit original sources, where applicable, are referenced in the definitions below.

The New Institutionalist Schools of Economic Thought

Much of literature pegged 'governance theoretic' in this study refers to the theory of the firm centered contributions that have emerged from the traditional New Institutionalist School of economic thought. The "New Institutionalist Schools" to refer to the collection of schools of thought that seek to explain political, historical, economic and social institutions such as government, law, markets, firms, social conventions, the family, etc. in terms of Neoclassical economic theory. New Institutionalist schools can be thought of as the outcome of the Chicago School's "economic imperialism" -- i.e. using Neoclassical economics to explain areas of human society normally considered outside them. In this sense, New Institutionalism can been seen as the precise opposite of the old American Institutionalist school, which sought to apply the reasoning of the other social sciences into economics.

Although the term "New Institutionalism" is usually reserved for the work of Ronald Coase, Armen Alchian, Harold Desmsetz and Oliver Williamson,and others on the transactions costs and the property rights paradigm, it can nonetheless be meaningfully stretched to embrace "economic" theories of the non-market social relationships (e.g. Becker, Mincer), political processes (e.g. the "Public Choice" school of Buchanan and Tullock), jurisprudence and legal processes (i.e. the "Law- and-Economics movement of Posner and Landes) and social and economic history (the "New Economic History" school of Fogel and North).

While the predecessors of the New Institutionalist Schools include the American Institutionalist School, the English Historical School as well as George J. Stigler and the Chicago School, New Institutionalism can be divided into five schools.

These schools and their most notable contributors are:

New Institutionalism, including Ronald H. Coase (1910-), Armen A. Alchian (1914-), Harold Demsetz (1930-), Herbert A. Simon (1916-), Michael C. Jensen (1939-), Eugene F.

Fama (1939-), Oliver E. Williamson (1932-), Richard M. Cyert (1921-), Richard R. Nelson (1930-) and Sidney G. Winter (1935-).

New Social Economics, including Theodore W. Schultz (1902-), Jacob Mincer (1922-) and Gary S. Becker (1930-)

New Economic History including Robert W. Fogel (1926-), Douglass C.North (1920-), Robert M. Townsend (1948-) and Donald/Deirdre N. McCloskey (1942-)

Public Choice School including James M. Buchanan (1919-), Gordon Tullock (1922-), Anthony Downs (1930-) and William A. Niskanen, (1933-)

Law and Economics Movement including Richard Posner (1939-) and William M. Landes, (1939-).

As is evident, the notion of 'governance theory' is, in this study, heavily concentrated on governance theories of the firm, which belong to the so-called New Institutionalism. While also relevant to the discussion, the other schools have been left for less attention given that they mostly operate on a higher level of abstraction and analysis. What is more, the New Institutionalism has been influenced by the other schools during their coexistence mostly in the latter part of the 20th century.

Some key concepts and their definitions

Organization of economic activity	There are two principal questions with respect to the organization of economic activity. The first deals with why an activity is organized within firms and not purchased in the market, and the other is why an activity is organized within a particular firm.
M&A	In this study, M&A is defined as a single business phenomenon, which engulfs two or more organizations within a single organizational boundary and thereby significantly alters the organization of economic activity.
M&A discourse	In this study, the M&A discourse is defined as the academic dialogue dealing with the area of mergers and acquisitions.
Merger	By and large, this study adopts the definition that "a merger is a combination of organizations which are similar in size and which create an organization where neither party can be seen as the acquirerer." (Vaara 2000, p. 82).

Acquisition	"The complete absorption of one company by another, where the acquiring firm retains its identity and the acquired firm ceases to exist as a separate entity" (Ross et al. 2000)
Takeover	The definition of a "takeover bid" covers three situations: (1) acquisitions of an equity security; (2) offers to acquire an equity security; and (3) requests or invitations for tenders of an equity security. (The Supreme Court of New Hampshire, Kaplan vs. Booth Ski Group, November 20, 2001).
Theory of the firm	"The body of theory that addresses the existence, the boundaries and the internal organization of the firm" (Foss 2000, p. xv)
Governance (theory)	The general treatment of contracting around the issues of appropriation, ownership, alignment of incentives, self-interest (Madhok 2002, p. 536), as well as authority, the employment relation, economizing and coordination, financial structure, regulation and property rights (Williamson 1999, p. 1088) and their influence on the organization of economic activity.
Competence (theory)	Competence theory is seen to consist of a number of theoretical branches that emphasize the structure of complementarity and similarity among the various capabilities in the economy (Langlois and Foss 1999, p. 4).
Risk preferences	An economic actor's risk preferences determine the way his utility function behaves with different levels of risk. With increasing risk, *ceteris paribus*, a risk averse actor experiences diminishing, a risk neutral actor constant and a risk loving actor increasing marginal utility.
Asymmetric information	A situation where economic agents involved in a economic relationship have different information on the qualities of the transaction or on the intentions of the parties.
Hidden action	Action that can be performed by one party in his own interest without the other party knowing.
Hidden information	Information about the transaction that is available to one or no party of the transaction, but which would typically be of use to both parties.
Adverse selection	Asymmetric information, creating a possibility for opportunistic behavior by the more knowledgeable

	actor, results in a selection of goods with relatively less attractive characteristics being draws to the market.
Signalling	The economic actors' possibility to reveal certain information about or characteristics of the transaction in order to reach a mutually more efficient outcome.
Moral hazard	Actions of economics agents maximizing their own utility to the detriment of others in situations where they do not bear the full consequences of their actions because of uncertainty, incomplete information or the nature of the contract.
Second best outcomes	Incomplete information and risk averse behavior lead to the development of sub-optimal, but good, outcomes.
Bounded rationality	A behavioral assumption implying that human behavior is "intendedly rational, but only limited so" (Simon 1976, p. xxviii). Economic actors intend to maximize profits, but are not always able to do so, because, due to bounded rationality, humans are unable to write completely unambiguous contracts.
Opportunism	A behavioral assumption that refers to the tendency of economic actors to "self-interest seeking with guile" (Williamson 1991, p.7). Contracting has to account for the possibility that the parties will lie about their intentions and/or not honor contracts. This leads to adverse selection (*ex ante*) and moral hazard (*ex post*).
Complexity and uncertainty	An environmental assumption that sets a limit for human actors to understand the full range of contracting outcomes and contingencies. This leads to further ambiguity in contracting.
Asset specificity	A characteristic of contractual relationships implying the extent to which transaction-specific investments must be made, which locks actors into the relationship. This exposes actors to opportunism, e.g. hold-up, and necessitates safeguards, i.e. additional contracting cost.
Small numbers condition	A characteristic of contractual relationships, where the number of bidders is very limited and this makes it difficult to select the lower cost counterpart. This is due information asymmetries that give rise to opportunistic behavior and is most often apparent in contract renewal situations.

Ex ante and *ex post* transaction cost	Refer to the transaction costs arising during contract preparation and after contract completion respectively (Kreps 1990).

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9 APPENDIX 4: RESEARCH MATERIALS

This appendix contains a number of lists, statistics, tables and materials used and produced during the research process of this study.

The essential contents of this Appendix are:

1. The data used in the bibliometric analysis

The initial list of 567 M&A related articles published between 1991 and 2001 in 65 core management, economics, business, finance, law, organizational behavior and sociology journals, screened from the journals in the Social Science Citation Index (SSCI) on January 20th 2002. The articles are organized alphabetically according to the journal in which they have been published and chronologically, the newest articles first, within the journals.

2. Most-published first author analysis results

The table displays all of the first authors of the 567 articles, listed according to author surname. The number of articles first-authored is given in the row after the surname.

3. Most-cited first author analysis results

The table displaying 94 of the most-cited first authors, i.e. all authors with at least 30 first-author citations.

4. Most-cited text results

The table displays 74 of the most-cited texts, i.e. all texts with at least 20 citations.

5. Network centrality analysis result matrix

The matrix displays the presence (denoted with 1) or the absence (denoted with 0) of the 28 theory and 25 antecedent facets (displayed on the X-axis) in the 567 M&A related articles (displayed on the Y-axis).

6. Facet co-occurrence analysis result matrix

The cells of the matrix display the number of articles that contain the two facets in whose intersection the cell is situated.