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**Managing poorly performing acquired companies
during an economic downturn:
Insights into the practices of post-acquisition
management from the last recession**

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Abstract

During this time of recession, poorly performing companies are potential acquisition targets. To improve their performance managerial actions are required but prescriptions from the turnaround literature are focused upon standalone organizations. These may not hold in other contexts such as acquired poorly performing companies which experience changes in corporate governance and additional organizational interdependencies. This paper focuses upon managerial turnaround change actions in an acquisition context to determine whether they are different to other i) acquired companies ii) standalone turnarounds. For robust results this paper employs a dual method to address criticisms of the practice stream; of over-reliance on case study methods which can lack generalizability. Findings indicate turnaround practices are distinct amongst all acquisition practices and there are two clear different approaches in use. This evidence suggest generic turnaround approaches need to recognise the effects of different contexts upon managerial practices.

Managing poorly performing acquired companies during an economic downturn

1. Introduction

During this time of recession many companies are performing badly and some may be perceived as acquisition targets (Dobbs and Koller, 2009). In order to improve performance in poorly performing companies a turnaround strategy may be adopted whereby substantial change is carried out to the organization. There is a substantial empirical literature on turnarounds, which shows they are managed in a significantly different way to control companies (Grinyer, Mayes, McKiernan, P. 1988; Slatter, Lovett, Barlow, 2006). This difference warrants the singling out of turnaround actions as a separate category of management action. The turnaround literature is in broad agreement about early key stabilizing actions appropriate in these circumstances (Robbins and Pearce, 1992), although there is debate over later stages of the process (Bibeault, 1982; Grinyer and McKiernan, 1990, Slatter et al. 2006). It is argued that if key actions are pursued there should be an improvement in organizational performance and this may be sustainable. However a limitation of these studies is that they have generally examined managerial actions in turnarounds as stand-alone companies – as firms standing in isolation to which changes are made to improve performance, and contextual variation has rarely been acknowledged. In particular little attention has been paid to whether turnaround prescriptions also hold for poor performing companies which have been acquired. The change in ownership of the poor performing company may make a difference as new interdependencies with the parent may result in new resources, such as capital infusion (Castrogiovanni and Bruton 2000) and different perspectives being brought to bear on the situation and these may affect managerial practices on the ground. Under these new conditions, the generic actions prescribed in the turnaround literature may not be in evidence in the same way as with standalone companies and may underline the importance of considering context when examining turnaround situations. The questions this paper sets out to address are:

- i) Are all acquisitions with poor prior health managed in the same way as other acquisitions which are not in poor health?
- ii) If there are differences in the ways poor health acquisitions are managed from other acquired non poor health companies, are the turnarounds managed in similar ways to each other in terms of organizational changes carried out?
- iii) Are acquired turnarounds managed differently from turnarounds of standalone companies reviewed in the turnaround literature?

Although the turnaround literature substantially pre-dates the Strategy-as-Practice literature, (taking a start date as Johnson et al., 2003), there are strong resonances between the literatures as both aim to understand what executives *do* (Hambrick, 2004; Jarzabkowski, 2004). Practice researchers try to uncover the detailed actions that constitute a strategy process (Brown & Duguid, 2001; Johnson et al., 2003) and so favor managerial agency and situated action (Jarzabkowski, 2005; Wilson & Jarzabkowski, 2004). In this paper attention focuses upon what managers do in order to bring about the turnaround of acquired companies which are in poor health.

The paper employs a dual method in order to address criticism of S-as-P approaches which can lack in generalizability. This dual approach consists of a part A quantitative analysis of survey data collected on acquisitions which took place in the UK during the last recession and a part B qualitative analysis of in-depth interviews of key informants. The quantitative analysis enables a picture to be constructed of the ways in which poor health acquisitions differ from other acquisition situations. Cluster analysis techniques are then applied to discern whether there are distinct turnaround strategies in evidence. With this statistical framework in place, qualitative

Managing poorly performing acquired companies during an economic downturn

evidence can then be used to understand and explore the reasons behind the patterns observed. In this way some generalization of findings can be achieved together with rich insights provided by case data of actual practices.

The findings from the paper show that different managerial actions occur in poor health acquisitions than in other types of acquired companies. Significant nuances are also found for the ways in which turnarounds are managed in post-acquisition contexts and qualitative findings reveal the reasons why managers act in the way they do in these circumstances. The implications for these findings are that turnaround research needs to be sensitive to context and these types of managerial action also do not sit easily within current M&A integration frameworks. By examining the detailed practices of managers in acquired recovery situations, many questions are raised about how practice may be captured in prevailing turnaround and M&A frameworks.

2. Literature review

In this section literatures on i) post acquisition integration, ii) turnaround management and iii) strategy-as practice are reviewed in brief (the full literature review is contained in the main paper). In summary the post acquisition integration literature recognises different approaches to post-acquisition management but does not adequately deal with the prior health of acquired companies, which is our focus of attention. This raises important questions about the role of interdependencies between acquirer and acquired companies when the latter are in poor health. The turnaround literature provides detailed prescriptions for key changes needed to manage standalone companies in poor health, although there is academic debate about the nature of different stages in the process. The literature however is limited in rarely examining turnarounds in different contexts such as M&A. Bringing the two literatures presents a question over whether acquired turnaround opportunities are managed in a similar way to standalone turnarounds or whether change in ownership affects this process. The S-as-P literature legitimates focus upon the actual actions taken by managers in trying to turn around acquired companies. Although there are several elements to the S-as-P framework (Whittington 2006) the focus here is upon the day-to-day work of the manager – the praxis, and how intra-organizational interactions could explain patterns of strategic activity (Grant, 2003) in acquired turnarounds.

3. Research Methodology

In order to achieve generalizability of results across a sample of acquisitions and gain explanation for the nature and timing of post-acquisition change in poor performing target companies, a medium grained hybrid method with dual phase (dominant, less-dominant) design was followed. A questionnaire was used to survey a sample of acquisitions. A number of key dimensions were then examined, and the resultant patterns were then informed and interpreted by subsequent qualitative interviews.

3.1 Data gathering and survey design

The data for analyzing post-acquisition integration types was gathered from the UK; the most active M&A market outside of the US. The data was drawn from a list of all 'corporate' acquisitions in the UK over a three year period during the last economic downturn in the UK economy. The questionnaire was sent to the managing executive of acquired companies two years post transaction date which is the optimal time period to elapse from which to assess post acquisition change. A response rate of 30.17% was achieved is good for surveys in the

Managing poorly performing acquired companies during an economic downturn

acquisition field (Datta and Grant, 1990). The questionnaire elicited basic details about the respondents and firms and then focused in detail upon post acquisition changes made to the acquired company. These variables were drawn from the turnaround and M&A literatures.

3.2 Data Analysis

Following data cleaning and univariate analysis of the dataset (calculation of descriptive statistics, etc.), the dataset was split into good and poor financial health prior to acquisition. Statistically significant differences were found between the two groups in terms of changes made to the acquired companies (details are in the full paper). Next, a multivariate statistical analysis was conducted focusing upon cluster analysis (Hair et al., 2007) for organizing observed data into meaningful groupings, and hence developing or testing taxonomies. A number of hierarchical clustering algorithms were applied, and agglomeration schedules studied to gain insight into the number of clusters in the data. A high degree of consistency was found between the hierarchical and non-hierarchical methods, suggesting that a two-group solution was highly robust, and should be studied further. A two-group solution using Ward's method (with Squared Euclidean distance) is presented in the full paper.

4. Results

Two robust clusters emerged for acquired companies in poor financial health prior to acquisition. The clusters were distinct from each other on a number of dimensions of change as well as in terms of perceptions of performance. In order to explain these differences and gain a deeper understanding of these turnarounds and the managerial actions which took place the interview data revealed telling nuances. For instance the clusters differed on the amount of changes which took place and whether they used an Insider or Outsider to bring these changes about. To illustrate, in the words of one key informant, *'as an Outsider you can stand back and see things often clearer, in a visionary and strategic sense – you don't have an emotional burden and can carry out significant change'*. Unlike the turnaround literature which suggests very high percentages of turnaround use new Outsider managers, one of our clusters had high levels of Insiders. Another interesting difference between clusters was the level of interdependency between the parent and acquired company with one respondent saying *'it was definitely my worst hour – my relationship with Geneva (head office) almost totally broke down'* whereas in another cluster the integration manager and head office worked seamlessly as a team. *There were also differences in the pace of change between clusters. Finally* another finding was that the turnaround clusters did not sit well with conventional post acquisition integration frameworks suggesting a complex interdependency relationship at work.

5. Discussion

This paper suggests that not all acquisitions with poor prior health are managed in the same way. In particular, there are significant differences in the extent to which i) top management are changed, and ii) the amount and nature of changes carried out to the acquired company. These findings extend earlier work which suggests differential performance outcomes for acquired turnaround situations but does not open the black box of managerial actions used to achieve these ends (Bruton, Oviatt, White, 1994; Castrogiovanni and Bruton 2000). This paper supports the value of employing a S-as-P approach to studying strategic events as it reveals how managerial practices are an important influence upon strategies and performance.

Managing poorly performing acquired companies during an economic downturn

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