Chapter 3
Management as a Limit to Organizational Change:
Implications for Acquisitions

David R. King
Iowa State University, USA

ABSTRACT

Acquisitions inherently involve change, but the success of desired change varies. This reflects the inherent difficulty of organizational change and attempts to maintain a fit with an organization's environment. A possible limitation to successful change is that the managers responsible for it face conflicting demands. This chapter develops multiple ways that acquisition circumstances and involved managers can limit organizational change. For example, middle managers can have information about organizational challenges but not the authority to direct change, while top managers have the authority but face implementation constraints. Acquisitions may also offer a solution to these challenges through the reconfiguration of a firm's management to increase management perspectives and to update organizational identities. Implications for management research and practice are discussed.

INTRODUCTION

Maintaining a fit between an organization and its environment becomes an increasing challenge in dynamic conditions (D'Aveni, Dagnino & Smith, 2010). Organizational change helps firms maintain a fit with their external environment, creating a circumstance where change complements organizational continuity (Graetz & Smith, 2010). Acquisitions represent a strategic tool managers use to react to external changes and reconfigure a firm and its resources, and research supports acquisitions are more likely to occur in dynamic environments (Haleblian, Devers, McNamara & Davison, 2009; Heeley, King & Covin, 2006). This suggests that acquisitions can facilitate organizational change. Both acquisitions and organizational change are within the purview of a firm's management and demand significant time and attention. The result is the combination of environmental and organization demands can exceed the capability of available management.

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This chapter explores how acquisitions both impose managerial limits and how they can be overcome by developing conditions that facilitate or hinder the use of acquisitions for organizational change. In developing these ideas, multiple streams of existing research are referenced including: absorptive capacity (Cohen & Levinthal, 1990); behavioral theory (Barnard, 1938; Greve, 2008); employee socialization (Bauer & Green, 1998); organizational identity (e.g., Ibarra, 1999; Yost, Strube & Bailey, 1992); founding conditions (Boeker, 1989); learning curve (Benkard, 2000); organizational culture (Chatman & Jehn, 1994; Weeks & Gallunic, 2003); and sensemaking/sensegiving (Gioia & Chittipeddi, 1991; Maitlis, 2005; Weick & Roberts, 1993). In drawing on this literature, factors that influence management's ability to use acquisitions as a strategic change tool for change are explored.

The developed ideas offer several contributions. Foremost, this chapter offers an explanation for Penrose's (1959) observation on managerial limits to growth. The chapter also develops the concept of management capacity to explain observations that mergers of equals are generally poor performers (Hitt et al., 2012), because the demands of managing a firm twice the prior size exceeds available managerial capacity and processes. Management capacity is defined as the ability to sustain growth with changes that increase an organization's fit with its environment. The premise is that an organization can only grow as fast as it has management capacity to oversee resulting organizational change. Existing research suggests this idea has merit, as the availability of management was identified early as the strongest restraint on firm growth (Penrose, 1959; Richardson, 1964). However, the mechanism for how the constraint exists and its implications for acquisitive growth are less developed. For example, integrating target firm managers may have a generative impact on management capacity for organizational change. Additionally, research on divestment has consistently remained in the shadow of acquisitions with additional research needed to explain divestment decisions (Brauer, 2006), and this chapter offers an explanation for divestments as strategic change to adjust firm size to available managerial capacity.

In pursuing the objective of examining acquisitions as a path to organizational change, the remainder of the chapter is organized into the following sections. Background on research explicitly examining acquisitions and organizational change are reviewed in the next section. Reviewed literature highlights the importance of management and leads to a discussion of how management limits organizational change. Following the development of this foundation, factors facilitating and hindering the use of acquisitions for organizational change are separately discussed. Associated issues, involving high-technology acquisitions, divestment and strategic ambiguity, are discussed with potential implications for acquisitions and organizational change. The penultimate section involves a discussion of the implications for management research and practice. In the final section, the chapter then presents concluding remarks.

BACKGROUND

Merger and acquisition (M&A) activity is intimately tied to organizational change with even small or routine acquisitions fundamentally altering the involved firms. However, limited M&A research explicitly addresses organizational change with the majority of research focused on the performance implications of research variables known at announcement (Cording, Christmann & Weigelt, 2010). The literature that exists is relatively fragmented with some literature focused on empirical examination of performance and other research being more exploratory. Research representative of these competing themes from management research published between 2005 and 2012 are summarized in Table 1. The articles were identified with key word searches of articles containing both "change" and "acquisition" appearing in

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