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Shaping M&A Capability as a Continuous Balancing Act: Lessons from Siemens

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Abstract

Recent theoretical and practical evidence indicates that certain serial acquirers develop a specific M&A capability which enables them to outperform other, less capable, frequent acquirers as well as single acquirers. This article summarizes the results from a study of this largely unexplored phenomenon by conceptualizing M&A capability as a dynamic, capability-bundling coordination that learns, senses and adapts processes. Based on insights from multi-level, embedded case studies at Siemens AG, two engineering activities are identified that allow managers to steer M&A capability development. Moderately dynamic contexts benefit from a stronger focus on process-framing activities resulting in a standardized type of M&A capability. In dynamic contexts, increased content-channeling efforts resulting in a more flexible M&A capability type enhance M&A value generation. These insights are crucial to advance both M&A and strategy process research and provide managers with normative guidance on how to engineer the evolution of the M&A capability type that suits their specific contextual challenges.

Keywords
M&A, acquisition series, serial acquirers, dynamic capabilities, capability building

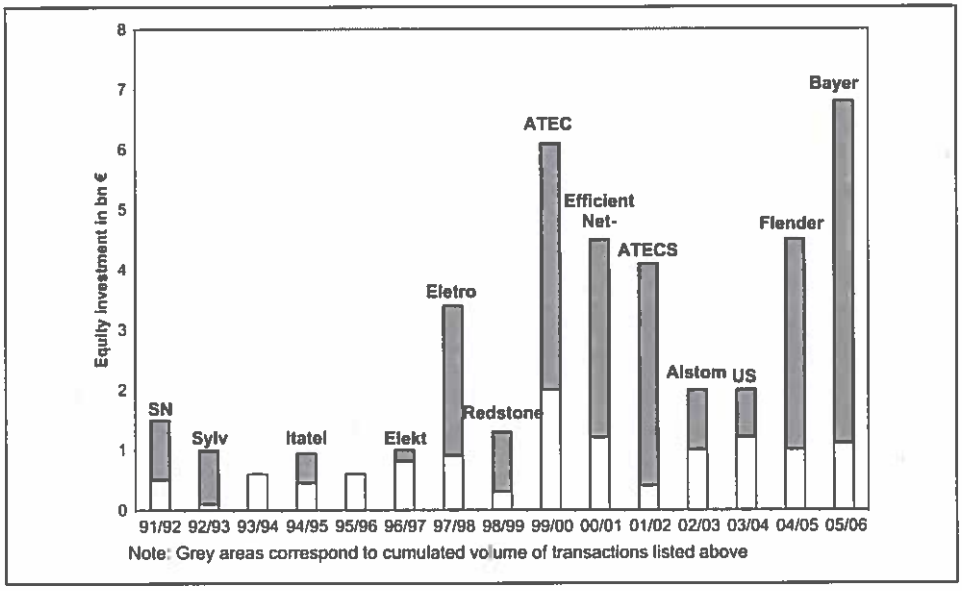
Mergers and acquisitions (M&A) have become an ever more important part of diversified companies' growth strategies. Many do not acquire just one company in a lifetime but realize whole series of acquisitions: Companies like Cisco, Danaher, IBM and Microsoft have committed significant resources to such transaction programs. From 2001 to 2005, Cisco Systems completed about 60 acquisitions with a total value of more than $17 bn. The best-known example is probably GE Capital. In a five-year period, this company realized more than 100 acquisitions, increased its workforce by 30% and – most importantly – achieved a doubling of its net income.[1] The quality of these companies' approach to M&A is a vital success factor, which leads to the question: *How can an M&A management capability be successfully built and engineered through various acquisition series.*[2]

[1] Ashkenas, R. N., DeMonaco, L. J. & Francis, S. C. (1998). Making the deal real: How GE Capital integrates acquisitions, *Harvard Business Review*, 76(1), 165-178.

[2] We define an acquisition series as a pattern of acquisition activity and acquisition decisions that influences the company's competitive advantage and includes several acquisitions realized by an individual firm in pursuit of its deliberate or emergent overall strategy.

To date, the vast majority of scientific studies on M&A have focused on single acquisitions. Series of acquisitions have been largely neglected.[3] By investigating M&A management at Siemens AG, a multinational and diversified electrical engineering and electronics corporation, we intend to contribute to bridging this gap. Throughout the last 20 years, Siemens has been very active in the market for corporate control. Since the mid-1990s, it has specifically experienced a sharp increase in M&A transactions, which has led to an increasingly active portfolio management. Compared to the previous decade, the average annual M&A volumes more than quadrupled. There was, however, a temporary downturn in acquisition activity in 2002 and 2003 due to the economic recession and various firm-specific problems. M&A volumes, however, increased again in 2004 and reached a new peak in 2006.

Figure 1: Equity investments at Siemens



[3] The few studies investigating this phenomenon mostly conclude that, generally, serial acquirers do not outperform less frequent acquirers (see, e.g., Laamanen, T., & Keil, T. (2008): Performance of serial acquirers: toward an acquisition program perspective, *Strategic Management Journal*, 29, 663-672). Some companies' acquisition series are, however, very successful. Practical and theoretical evidence indicates that these companies have managed to develop a specific M&A management capability (see, e.g., Finkelstein, S. & Haleblian, J. (2002). Understanding acquisition performance: The role of transfer effects, *Organization Science*, 13(1), 36-47). Other researchers show that taking a real options mindset when valuing M&A targets as part of a serial consolidation strategy can change the single case perspective in platform acquisitions (see Smit, H. & Moraitis, T. (2010). Serial acquisitions options, *Long Range Planning*, 43(1), 85-103).

This article summarizes the main insights from our in-depth analysis of Siemens' M&A management at the corporate centre and four business groups. These insights are based on multi-level, embedded case studies. We conducted 38 in-depth interviews with Siemens managers at the corporate and business group levels.[4] Furthermore, a brief quantitative survey was undertaken in conjunction with each interview. A third data source was internal and external documents. To reduce the research's complexity, our analysis focused on acquisitions' strategic preparation phase.

It is noteworthy that while the Siemens corporate centre sets company-wide standards for M&A management, the business groups are free to engineer their own M&A capability within these corporate parameters. The investigated business groups were engaged in a continuous balancing act to match their M&A capability with the context dynamics.[5] During our analysis, we distinguished two generic types of M&A capability on the business group level: a standardized type in moderately dynamic contexts[6] and a flexible one in dynamic contexts. While the standardized type relied on comprehensive M&A structures, processes and systems, the flexible type focused on providing direction via vision statements and strategic guidelines. Nevertheless, each capability type also featured basic forms of the other type's key characteristics. Despite the investigated business groups' differing M&A capability types, they were all successful acquirers. We thus conclude that it is vital for serial acquirers to achieve fit between their M&A capability and context dynamics.

In a first step, this article makes the fuzzy M&A capability concept more tangible. Thereafter it describes the role that the Siemens corporate management plays in M&A capability development. In section three, the business groups' efforts to engineer – within the corporate parameters – their M&A capability towards fit with their specific context dynamics are analyzed and guidelines deduced for management.

[4] The interviews were conducted between January 2006 and May 2007.

[5] In line with previous research, context dynamics also comprise the three dimensions market dynamics (see Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic capabilities: What are they? *Strategic Management Journal*, 21, 1105-1121), organization development or path dependencies (see Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management, *Strategic Management Journal*, 18(7), 509-533), and acquisition series characteristics (see, e.g. Zollo, M., & Winter, S. G. (2002). Deliberate learning and the evolution of dynamic capabilities, *Organization Science*, 13(3), 339-351) in this article.

[6] We deliberately neglected low-dynamic contexts as currently almost all organizations face a certain degree of contextual dynamism (see, e.g., Eisenhardt, K. M. & Sull, D. N. (2001). Strategy as simple rules, *Harvard Business Review*,*79*(1), 106-116).

1 M&A Capability: A Bundle of Organizational Processes

Prior literature suggests that M&A capability is a dynamic capability[7] as it reconfigures the company's existing resource and capability bases in order to adapt the company to changing environmental contexts.[8] At first, the term 'dynamic capability' seems abstract and difficult to grasp. Lately, it has been argued that much of the confusion has been caused by the concept having been approached in very general terms.[9] In truth, dynamic capabilities research has from the beginning suggested that dynamic capabilities are developed and deployed through a very concrete and tangible set of organizational processes.[10] More precisely, dynamic capability researchers have repeatedly distinguished between coordination, learning, and transformation processes. Transformation can be further sub-divided into sensing the need to reconfigure the asset structure and the process of actually adapting to changing environments.[11]

Based on these considerations and on empirical evidence, we consider M&A capability a higher order construct that bundles a variety of organizational processes into a collective approach that forms acquisitions' preparation phase. Our interviewees thus define M&A capability as a "*dynamic capability enabling the organization to reconfigure its existing operating resource and capabilities base in order to achieve competitive advantage in changing environments.*" This capability bundles tangible *coordinating, learning, sensing,* and *adapting* processes, which together form an organization's integrative approach to M&A management.

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[7] E.g., Laamanen et al. (2008), op. cit.; Eisenhardt et al. (2000), op. cit; Teece et al. (1997), op. cit; Winter, S. G. (2003). Understanding dynamic capabilities, *Strategic Management Journal*, 24, 991-995; Zollo et al. (2002), op. cit.

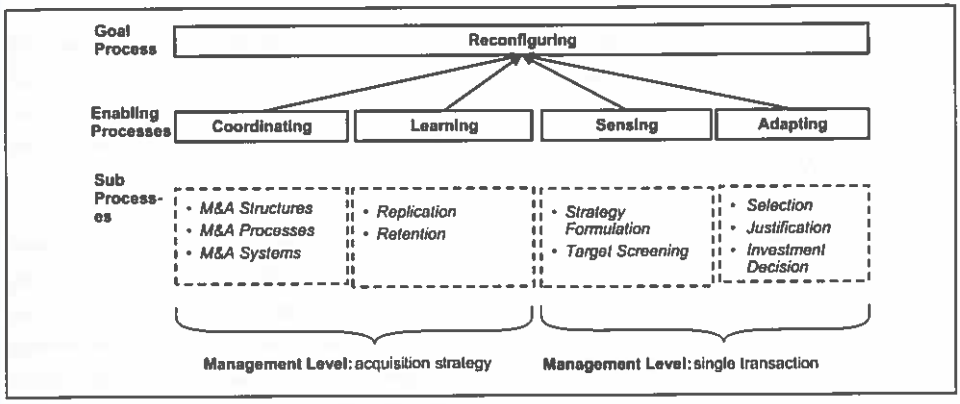
[8] E.g., Laamanen et al. (2008), op. cit.; Winter (2003), op. cit.; Zollo et al. (2004), op. cit.; Zollo et al. (2002), op. cit.

[9] Winter (2003), op. cit.

[10] Maritan, C. A. (2007). Dynamic capabilities and organizational processes. In C. Helfat, E. S. Finkelstein, W. Mitchell, M. A. Peteraf, H. Singh, D. J. Teece & S. G. Winter (Eds.), *Dynamic capabilities. Understanding strategic change in organizations*, Blackwell Publishing, Oxford, 30-45; Teece et al. (1997), op. cit.

[11] Teece, D. J. (1998). Capturing value from knowledge assets: The new economy, markets for know-how, and intangible assets, *California Management Review*, 40(3), 55-79.

Figure 2: M&A Capability Framework (Preparation Phase)



Sensing and adapting processes are mainly located on the single transaction level. *Sensing* an opportunity and need for change is crucial for organizational survival and has been defined as the process during which an organization "receives and interprets messages about new markets, new technologies, and competitive threats."[12] In M&A, this process embraces the formulation of the general growth strategy as well as identifying targets and screening activities. Nevertheless, merely sensing opportunities is not enough: Once an opportunity appears, it needs to be seized.[13] This is done by *adapting* processes, which have been defined as processes "accomplishing the necessary internal and external transformation".[14] Translated into M&A terms, an acquisition target needs to be selected, the selection has to be justified, and the investment decision needs to be made.

[12] Teece (1998), op. cit.: 73.

[13] Teece (1998), op. cit.

[14] Teece et al. (1997), op. cit.

However, sensing and adapting processes' quality depends largely on the higher level coordinating and learning processes. In corporate strategy literature, *coordinating* has frequently been discussed as a process that efficiently and effectively integrates all activity inside a firm.[15] It has been suggested that assigning tasks[16], allocating resources[17], and synchronizing activities[18] are important coordination methods. In M&A, coordination is about steering and controlling the organization's M&A activities via specific structures, processes, and systems.

The constant modifying and extending of existing dynamic capabilities are an important part of the capability and is based on *learning* mechanisms.[19] More precisely, "learning [as part of a dynamic capability] is a process by which repetition and experimentation enable tasks to be performed better and quicker."[20] Consequently, M&A knowledge needs to be replicated and improved in different acquisition projects. This further implies that M&A capability has to be retained within the organization. Learning thus refers to the ongoing experiential and cognitive processes through which these M&A structures, processes, and systems are replicated, renewed, and retained over the course of time.

2 The Role of Siemens Corporate Management

Siemens AG (SAG) is a diversified multinational corporation with a long tradition, which is mainly active in the electronics and electrical engineering industry. At the end of our research period, SAG consisted of 13 business groups, which were further structured into 90 divisions and approximately 200 sub-divisions with individual profit and loss responsibility.[21]

[15] Teece et al. (1997), op. cit.

[16] Eisenhardt, K. M. & Brown, S. L. (1999). Patching: Restitching businesses to market opportunities, *Harvard Business Review*, 77(1), 72-82.

[17] Burgelman, R. A. (1983b). A process model of internal corporate venturing in the diversified major firm, *Administrative Science Quarterly*, 28, 223-244; Okhuysen, G. A. & Eisenhardt, K. M. (2002). Integrating knowledge in business groups: How formal interventions help, *Organization Science*, 13(4), 370-386.

[18] Eisenhardt, K. M. & Galunic, D. C. (2000). Coevolving: At last, a way to make synergies work, *Harvard Business Review*, 78(1), 91-101.

[19] Eisenhardt et al. (2000), op. cit.

[20] Teece et al. (1997), op. cit.: 520.

[21] After the study period, Siemens underwent an intense restructuring process. Since early 2008, the corporation's operating business has been divided into three sectors (industry, energy, and healthcare) to reduce complexity.

SAG considers itself a strategy holding, i.e. the corporate centre focuses on defining its business groups' overall strategy. This means that corporate management is not involved in operating issues but determines the overall strategy, the organizational structure, allocates resources, appoints top managers, and controls the business development. The 13 business groups are thus managed independently. Globally, they are entrepreneurially responsible for their divisions, are in charge of R&D, production, sales activities, and are responsible for earnings.

SAG's corporate centre offers its business groups general strategic guidance and process support by defining the company-wide strategic direction, allocating resources, setting up programmes to achieve identified growth and profitability targets, and by defining compulsory company-wide review policies and processes. This especially applies to wide-ranging strategic decisions such as M&A. On the corporate level, the M&A structures and processes fulfil three main functions:

- They make the M&A pipeline transparent for the corporate management, who can then facilitate the control and resource allocation decisions.
- They support the business groups' approach to M&A management by providing tools and templates.
- They guide the business groups' acquisition strategies by providing an overall strategic orientation framework.

With the exception of large portfolio deals that affect more than one business group, the corporate centre does not usually drive acquisition initiatives, it focuses more on providing overall support during acquisition projects.

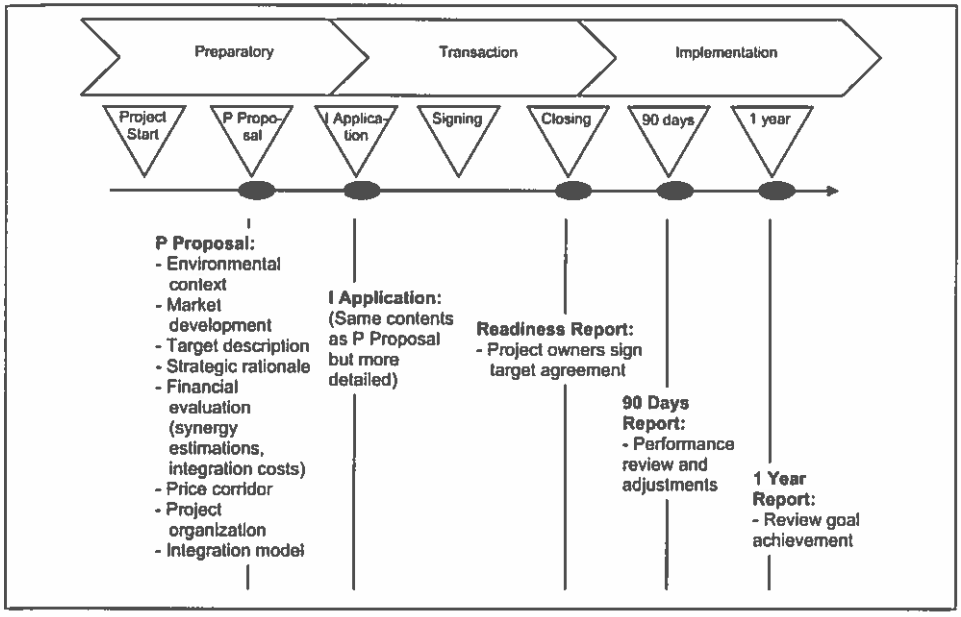
Since the late 1990s, the corporate centre has supported the evolution of M&A capability within business groups by creating awareness of M&A's importance, establishing an overall framework, and providing generic guidelines for strategic orientation and direction. Nevertheless, the corporate centre does not fully drive the M&A capability evolution within the groups. Rather, the groups have substantial freedom to design their own M&A structures, processes, and systems within the overall corporate framework.

Figure 3: Siemens contribution to M&A capability

Category	Indicator	Contributions of corporate centre
Coordinating	M&A structures	– Creating of transparent responsibilities for M&A on the corporate level – Providing high degree of freedom on the group level to design own M&A structures
	M&A processes	– Providing high degree of freedom on the group level to design own M&A processes – Embedding group level processes in the compulsory authorization process – Integrating M&A issues into the strategic planning process
	M&A systems	– Defining M&A sub-system – Providing a compulsory company-wide performance evaluation system
Learning	Replication	– Training M&A managers and sending them to the groups – Offering platforms for M&A knowledge articulation and rationalization
	Retention	– Offering groups process templates – Maintaining databases on M&A performance and the pipeline – Allowing knowledge rationalization through a compulsory performance evaluation system
Sensing		– Providing recommendations on the systematization of screening processes – Providing generic strategic orientation and the direction that the groups will further fil out
Adapting		– Providing a compulsory company-wide authorization process for M&A resource allocation

In addition to providing basic coordination mechanisms, the corporate centre contributes to learning from M&A by training M&A managers for the groups, as well as by providing generic process templates and maintaining databases on M&A performance and the pipeline. A further important contribution to learning is the introduction of a compulsory performance evaluation system. During the last decade, the corporate centre has continuously provided the business groups with suggestions on how to systematize and frame M&A-sensing processes. These are, however, not compulsory. In addition, a conceptual 'umbrella' has evolved for sensing processes as the corporation offers a general strategic direction and orientation. The adapting processes' soundness has been guaranteed by introducing a compulsory company-wide authorization process for M&A initiatives.

Figure 4: The compulsory M&A process at Siemens AG



3 Engineering M&A Capability on Business Group Level

Siemens corporate management sets formal standards and overarching guidelines for M&A management on the business group level. During our single- and cross-case analyses we found, however, that these corporate parameters were in themselves insufficient for a successful acquisition in all contexts and specific situations. Rather than purely relying on the corporate standards and guidelines, the four investigated business groups engineered their M&A capability towards fit with their specific context dynamics. Despite the resulting idiosyncrasy of their M&A capability, all the business groups were successful acquirers. This implies that there is equifinality in terms of outcomes: Various types of M&A capability enable organizations to manage their acquisition series successfully as long as there is fit between their M&A capability and context dynamics.

This consistent with contingency theory's basic proposition, i.e. the strategy-structure fit.[22] The contingency approach recommends tailoring organizational structure to the degree of uncertainty that the organization faces.[23] Across the investigated business groups, environmental, organizational, and acquisition-strategy-specific factors affect the design of the resulting M&A capability. Depending on these contextual factors' characteristics, two overall types of M&A capability were observed at the business group level:

- *Standardized M&A capability* characterized by extensive coordination mechanisms, high levels of replication and retention, and an overall standardized approach to sensing and adapting.
- *Flexible M&A capability* characterized by basic coordination mechanisms, low levels of replication and retention, and a flexible approach to sensing and adapting.

Both M&A capability types reveal basic commonalities across the investigated cases, i.e. they both feature coordination, learning, sensing, and adapting processes to some degree. In line with other researchers[24], we therefore argue that best practice is possible across firms. We did, however, observe that the standardized and flexible M&A capability types are highly idiosyncratic in detail.

[22] Bacharach, S., Bamberger, P. & Sonnenstuhl, W. J. (1996). The organizational transformation process: The micropolitics of dissonance reduction and the alignment of logics of action, *Administrative Science Quarterly*, 41, 477-506; Lawrence, P. R. & Lorsch, J. W. (1967). *Organization and environment*, Harvard University Press Cambridge, MA; Powell, T. C. (1992). Strategic planning as competitive advantage, *Strategic Management Journal*, 13(7), 551-558; Venkatraman, N. (1989). The concept of fit in strategy research: Toward verbal and statistical correspondence, *Academy of Management Review*, 14, 423-444; Venkatraman, N. & Camillus, J. C. (1984). Exploring the concept of fit in strategic management, *Academy of Management Review*, 9(3), 513-525.

[23] Child, J. (1972). Organizational structure, environment, and performance: The role of strategic choice, *Sociology*, 6, 2-22.

[24] See e.g., Eisenhardt et al. (2000), op. cit.

3.1 Engineering Activities: Process Framing and Content Channeling

Although the insight that different types of M&A capability are required for different context dynamics is certainly valuable, an equally important question is: What can managers do to promote the development of successful M&A capability?

In our search for the managerial actions which contribute to engineering M&A capability towards fit with the context dynamics, we observed two activities: process framing and content channeling. The two follow a different logic and require different management capabilities.

In line with our interviewees, we define process framing as *„engineering the evolution of M&A capability by establishing M&A processes, structures, and systems."* We observed that this activity can enhance M&A capability evolution, as it makes the acquisition decision processes more efficient, improves the quality of target selection, and reduces momentum. This study's notion of process framing is very similar to the „process strategy" concept, which is believed to be an efficient approach for dealing with complexity. Process strategies are defined as strategies in which top management controls the process while leaving the content to business management, i.e., the business groups' top management designs the processes, structures, and systems which provide middle management with the flexibility to evolve patterns.[25]

The second managerial engineering activity is content channeling, which we again define as *„engineering the evolution of M&A capability by restricting and steering the business management's focus with the help of guidelines"* in line with our interviewees. Rather than establishing a framework in the form of extensive M&A processes, structures and systems, the business groups' top management provides orientation and direction. Such orientation and direction take the form of for example, long-term goals that reflect the firm's preferred future direction. Content channeling is thus, a managerial activity similar to 'umbrella strategy' notion. Mintzberg and Waters[26] define an umbrella strategy as a strategy in which leaders set the general guidelines from which strategies can emerge.

[25] Mintzberg, H. & Waters, J. A. (1985). Of strategies, deliberate and emergent, *Strategic Management Journal*, 6(3), 257-272.

[26] Mintzberg et al. (1985), op. cit.

3.2 Guidelines for Context-specific M&A Capability Engineering

The context dynamics of the investigated Siemens business groups vary significantly in terms of their market dynamism, development paths, organizational stability, and their acquisition series characteristics. In their efforts to engineer their M&A capability towards fit with their context's requirements, the business groups' top managers prioritize the engineering activities process framing or content channeling differently.

- In *moderately dynamic contexts*, characterized by moderately dynamic markets, stable organizational settings, and high acquisition frequency and similarity, the business groups engage in *intense process framing activities combined with less intense content channeling* to engineer the evolution of M&A capability. The resulting *M&A capability tends to be rather standardized.*
- Business group managers facing *dynamic contexts* characterized by dynamic markets, fluid organizational settings, and low acquisition frequency and similarity combine *intense content channeling with basic* process framing activities to engineer the evolution of M&A capability. This combination favours the evolution of a more *flexible M&A capability type.*

Figure 5 depicts these insights, which are subsequently discussed in depth.

Figure 5: Engineering M&A Capability (overview)

Engineering Activity	Moderately Dynamic Context (standardized M&A capability)	Dynamic Context (flexible M&A capability)
Process framing (reduces uncertainty originating from complexity and tacitness)	**Intense**	**Basic**
Content channeling (reduces uncertainty originating from opportunistic M&A markets)	**Basic**	**Intense**

3.2.1 Moderately Dynamic Contexts: Intense Process Framing with Basic Content Channeling

In moderately dynamic contexts, managers should engineer the evolution of successful M&A capability by reducing the uncertainty inherent in M&A through intense process framing efforts. Simultaneously, management should have the ability to perceive acquisition opportunities that appear unexpectedly; this is achieved through basic content channeling.

Intense process framing. Intense process framing includes creating extensive M&A processes, loosely coupled and large M&A functions, and establishing specific M&A systems and M&A career paths to enhance M&A experience retention and replication. The traditional view of strategic decision-making suggests that comprehensiveness slows down decision-making.[27] It has been suggested that this tardiness can be overcome by considering a few alternatives.[28] This can be achieved via intense process framing. Acquisition initiatives can then only stem from a few predefined sources. This study argues that this is beneficial in moderately dynamic contexts in which variety and exploration are not as decisive as in dynamic environments.[29]

Dividing the typical M&A process into clear tasks that traverse a structured sequence of steps creates extensive M&A processes. Process efficiency can thus be substantially enhanced because a well-defined process framework allows managers to deal with the uncertainty created by an acquisition task's complexity. The following description of the case context and the citations describe this role of a process framework.

One of the investigated business groups, which is active in a moderately dynamic context, developed an M&A process manual, which was presented to all the division managers to convince them of the advantages of a strict, sequential approach's feasibility and significance. In the beginning, it was difficult to convince the division management that the separation of content and process responsibility made sense. Over time, however, the division managers recognized the benefits of this structure, and today the tightly structured approach to M&A management is broadly accepted: "*We always deliver good results. [The division managers'] trust is growing with each successful transaction.*"

Another business group frequently filled strategic gaps by means of smaller acquisitions. The M&A function handled all of these acquisitions according to a largely similar approach: "*A good example of this is the strategy to grow with regard to process automation: They applied the same approach to each acquisition; this is very robust and very successful. I think that anyone engaging in so many deals should manage them according to this pattern.*" Another interviewee remarked: "*Once we had identified the gaps [in the*

[27] Fredrickson, J. & Mitchell, T. (1984). Strategic decision processes: Comprehensiveness and performance in an industry with an unstable environment, *Academy of Management Journal*, 27, 399-423.

[28] Mintzberg, H., Raisinghani, D. & Theoret, A. (1976). The structure of „unstructured" decision processes, *Administrative Science Quarterly*, 21, 246-275.

[29] E.g., Eisenhardt et al. (2000), op. cit.

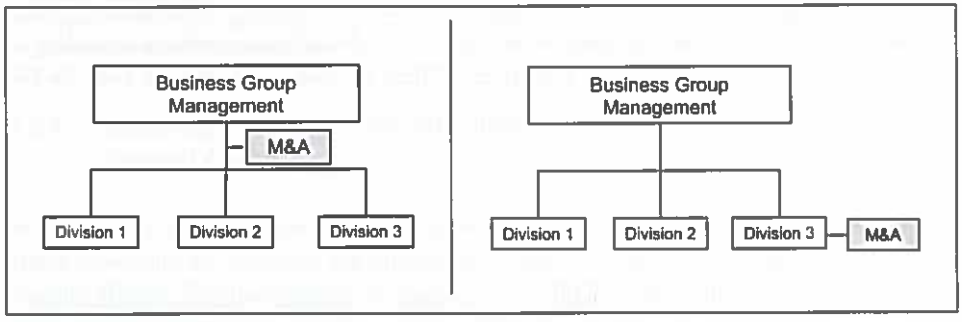
process automation], we checked which companies were active in these segments and could complement us. Subsequently, we addressed these potential targets. We systematically undertook a string of acquisitions following the same method, and now we are almost complete."

Transparent and compulsory processes allow tight control of the acquisition initiatives from an early stage in the preparation phase. Existing knowledge can also be anchored in the processes. This facilitates both knowledge replication and retention, thereby converting tacit knowledge into explicit M&A knowledge.

The business groups that are active in moderately dynamic contexts developed M&A process prototypes. These were launched with the help of strong support from the business groups' top management. In the beginning, this prototype was based on the overall cognitive insights. The resulting M&A processes and structures were then subsequently adapted when they had proven themselves in practice: "*On the one hand, we engaged in developing an overall M&A methodology. On the other hand, we applied and refined the methodology in everyday business. We learned a lot from this iterative process during this initial phase.*" According to another interviewee: "*We have described the general M&A process that is compulsory for our divisions. [...] We have described the process in detail and division managers can download information on each process step from the intranet. This process description allows us to systematize M&A issues.*"

Simply relying on extensive processes is, however, not sufficient: Responsibilities for the various project steps have to be clearly established, and a central function needs to be responsible for coordinating the various tasks and setting an overall schedule. This can be achieved by installing a loosely coupled, rather large, M&A function.

Figure 6: Organizational anchoring of an M&A function in stable settings



Consequently, a clear separation of responsibilities can be achieved, which further enhances process transparency. This form of organization enables a tight, central control of acquisition programmes and initiatives:

> *"An M&A department is definitely desirable because this unit can ensure solid, basic M&A know-how even when there are no acquisitions in a certain period. Then, if there is an acquisition project, you can draw staff with the required industry expertise from the acquiring division and add someone with methodological competence from the M&A department. This person is capable of organizing the due diligence and the screening process. These competencies should be anchored in an organizational unit so that you can draw on them whenever you need them."*

This structure further allows high levels of knowledge replication and retention within the department, while at the same time enabling the transfer of M&A knowledge to other organizational levels.

A further process framing activity that facilitates the replication and retention of M&A knowledge is establishing continuous and efficient feedback loops in the form of specific M&A systems. The repetition of successful M&A models requires awareness of successful prior M&A projects and of those project parts to which the success can be attributed. This requires substantial rationalization efforts, even more so if not all acquisitions are similar, i.e., when prior M&A experience has to be replicated appropriately rather than copied one-to-one. Performance evaluation and incentive systems specifically enhance such an experience rationalization and, consequently, the ability to replicate and retain M&A knowledge:

In one of the investigated business groups, the M&A department's experience is accumulated on the business group level, which comprises eleven experienced M&A managers. One of these managers is always a project leader in an M&A project. The M&A department makes considerable efforts to document M&A knowledge in the form of templates. Every project manager is obliged to write reports documenting the respective project's process: *"He [the head of M&A] always made sure that we [the M&A managers] documented our projects."* There are also two databases: One in which summaries of M&A projects were stored and another one for storing basic process descriptions: *"We established a database to gather information on all M&A projects in the pipeline."* Another interviewee remarked: *"Recently, we started to build something like an M&A knowledge database. This is an internal database for the M&A department in which we store standard letters, candidate screening templates, non-disclosure agreements, etc."* There is also a special performance evaluation system for acquisitions: *"We also introduced acquisition controlling. This is a quarterly report on the integration's progress and the acquisition's performance in which we compare the originally established targets with the ones we have achieved so far."*

The insights gained from the above are rationalized during the annual planning process. The M&A department's incentive system does not evaluate an individual M&A manager's closing rate but elements such as the project's the soundness, documentation, etc.: *"We built an incentive system that includes elements such as teamwork, project intensity, overall conduct, contribution to the enhancement of the acquisition process, etc."* In general, these efforts are highly effective: *"We learned a lot from controlling our acquisitions. Some acquisitions were not that successful. For me, one insight from rationalizing these experiences is to avoid certain deal structures as they are too complex."*

This ability to rationalize is believed to be beneficial in moderately dynamic settings, as it reduces the uncertainty associated with task complexity and capability tacitness.

Replicating and transferring complex capabilities is often impossible if people aren't transferred. It is assumed that this difficulty is minimized by investing in processes that convert tacit knowledge into codified, explicit knowledge. This is, nevertheless, often impossible. Even in moderately dynamic markets, it can be difficult to replicate M&A capability,[30] particularly when the acquisition challenges differ.[31] Consequently, it is assumed that by defining an M&A career path that will anchor specialist expertise within an organization will also enhance knowledge replication and retention.

One of the M&A functions' most important tasks is to pass on M&A knowledge to young project leaders within the M&A department. There are regular project discussions in the form of fixed meetings: *"In these sessions, every project leader presents his current projects and lays open his problems. The team then discusses potential solutions. An M&A expert is invited to present a specific M&A-related topic at each of these sessions. This is time-consuming; nevertheless, it has proved more efficient than mere project documentation."* The head of M&A personally organizes M&A trainings and road shows: *"I want people to comprehend the M&A process's complexity. This is because I notice that many people become involved in projects and totally underestimate their complexity."* Each M&A project also has an official kick-off meeting, ensuring the integration of M&A and industry expertise.

Basic content channeling. An important part of M&A capability is selecting the right acquisitions. In stable environments, this is mainly achieved by extensive control structures and processes. Simply relying on intense process framing would, however, result in a widely standardized approach to M&A management, generating transparency but reducing the sources of new ideas. An elaborated framework thus enhances control and

[30] Teece et al. (1997), op. cit.

[31] Nelson, R. R. & Winter, S. G. (1982). An *evolutionary theory of economic change*, Belknap Press of Harvard University Press Cambridge, MA.

provides confidence,[32] but may also hamper creativity, as ideas that do not fit the existing approach may not gain support.[33] This danger has to be minimized in an opportunistic market, such as the one for corporate control in which unforeseen acquisition targets pop up from time to time even in moderately dynamic contexts. The hampering of creativity can be avoided by setting generic guidelines that serve as an orientation for the business management when they evaluate whether an acquisition opportunity is truly serious.

What should these generic guidelines comprise? Building on existing strengths is of special importance in moderately dynamic markets. This is supported by the current findings: They reveal that in such contexts, an acquisition strategy's emphasis is more on filling portfolio gaps than on opening up new markets. Previous research has argued that firms should leverage their core competences[34] through their acquisitions.[35] The basic idea is to capitalize on what the firm does well. This balancing act between seizing opportunities and building on existing strengths can be achieved by combining intense process framing with basic content channeling activities.

Based on these considerations, this study suggests that, in moderately dynamic contexts, it is beneficial to formulate the basic strategic orientation according to the company's core competences. Subsequently, the division managers can then evaluate potential acquisition opportunities. This provides the division management with certain flexibility when dealing with opportunistic M&A markets. On the other hand, the division management would be incapable of action without generic guidelines, thus impeding the emergence of acquisition initiatives from channels other than the official ones.

In the investigated business groups at Siemens, the management hardly adds to the corporate management's generic strategic guidance. This study found that the investigated groups orient their growth strategies according to these strategic and financial guidelines. The interviewed business group managers repeatedly mentioned that they had these guidelines in mind during market screening and target selection.

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[32] Brown et al. (1997), op. cit.; Haspeslagh, P. C. & Jemison, D. B. (1991). The challenge of renewal through acquisitions, *Planning Review*, 19(2), 27-32.

[33] E.g., Burgelman, R. A. (2002). Strategy as vector and the inertia of coevolutionary lock-in, *Administrative Science Quarterly*, 47, 325-357.

[34] See Prahalad, C. K. & Hamel, G. (1990). The core competence of the corporation, *Harvard Business Review*, 68(3), 79-91.

[35] Capron, L. (1999). The long-term performance of horizontal acquisitions, *Strategic Management Journal*, 20(11), 987-1018.

The following interview citations describe this logic: „*Corporate management does not know how to do business. Only the business groups can do that. Yet, we [corporate management] have to stimulate them to do something. Therefore, we set objectives so that they feel challenged and become active. Achieving a number one or two position in our markets – this is the core of our strategy. […] This objective actively drives their consideration of the growth options. […] In addition, we aim at achieving twice the GDP sales growth in all our businesses. You cannot achieve this in stagnating markets. We have to enter the growth markets, and this drives the portfolio development. […] We have to enhance our position in many markets or have to become a technological leader. The overall strategy enforces this objective.*" „*The businesses now are aware of the overall strategic ambitions. They know that they are supposed to grow more rapidly, and they know that they have a certain freedom to realize acquisitions when they appear to make sense. And this fires their imagination.*"

In moderately dynamic markets there is, however, no direct need to have additional guidance, for example, specific screening criteria, in place according to which the divisions can evaluate their acquisition initiatives in advance. This is due to the largely mechanistic M&A structures guaranteeing the early involvement of the company's M&A experts in moderately dynamic contexts. These experts assess the acquisition initiatives' strategic soundness according to their usual criteria and in cooperation with the respective division managers.

3.2.2 Dynamic Contexts: Intense Content Channeling with Basic Process Framing

We found that, in dynamic contexts, business group managers engineered the evolution of successful M&A capability by reducing the uncertainty inherent in M&A through intense content channeling activities combined with basic process framing.

Intense content channeling. Business management's attention has to be focused if the confidence and ability to act in dynamic contexts are to be instilled in them. This focus can be achieved through intense content channeling activities, which enhance exploration, by reducing excessive variety, while simultaneously allowing extensive local responsiveness. Intense content channeling comprises clear strategic and financial directions, as well as predefined screening criteria that allow the company to be developed in accordance with future market challenges.

Strategic decisions' high levels of uncertainty are typical of dynamic contexts. Furthermore, it is widely acknowledged that business managers find it difficult to make decisions when faced with environmental dynamism.[36] In dynamic contexts, business managers therefore frequently need to deal with high uncertainty in their acquisition decisions and have to react fast when a promising opportunity emerges. Previous literature has argued that organizations with superior capabilities to manage exploration are better able to deal with environmental uncertainty.[37] In addition, it has been suggested that people need direction when confronted with a multitude of information and unclear options.[38]

To enable managers to deal with the variety of information and options required for exploration, clear strategic directions need to be provided. Clear guidelines substantially reduce the costs created by an extensive variation in options and when these are scrutinized for selection, as they can filter the options appropriately right from the beginning.[39]

In addition to the generic strategic goals provided by the corporate management (i.e. doubling the GDP annual sales growth, targeting the established profit margin, and achieving a first or second position in all relevant markets), one of the investigated business groups, which is active in a dynamic context, set an additional internal growth target: An annual 1% increase in market share per business. This target ensures that the market will eventually be outgrown, thus requiring additions ones. To facilitate the screening of potential M&A targets, the business group has developed a definition of what makes an acquisition target strategically relevant in respect of the group's overall strategy. Potential M&A targets are screened with regard to:

- their potential to improve the cost and process efficiency, as well as the quality in the healthcare sector;
- their potential to improve the group's handling of the 'healthcare process' and thus become a total solution provider;
- their potential to improve the performance of the group's products, services, and solutions; and
- their potential to improve the group's profitability and growth.

[36] Brown et al. (1997), op. cit.; Eisenhardt, K. M. (1989). Making fast strategic decisions in high-velocity environments, *Academy of Management Journal*, 32, 543-576.

[37] McGrath (2001), op. cit.

[38] Eisenhardt et al. (2000), op. cit.

[39] Lovas, B. & Ghoshal, S. (2000). Strategy as guided evolution, *Strategic Management Journal*, 21, 875-896.

This business group thus offers its divisions extremely clear strategic directions and then largely relies on the division managers' entrepreneurial spirit. M&A-sensing processes are thus guided by strategic directions rather than by standardized processes.

Existing research has further emphasized that in dynamic contexts, it is crucial to look to the future. Consequently, managers need a good sense of the future and a vision for their organization within that future. In dynamic settings, however, the future cannot be planned but has to be explored.[40] This study therefore recommends establishing clear long-term strategic goals to meet tomorrow's market challenges. These goals will guide the business managers when making acquisition decisions. In dynamic contexts, such guidance should go as far as providing specific screening criteria for acquisitions. This allows short-term flexibility to be combined with the overall directing of acquisition decisions.

Basic process framing generates a certain process control and transparency, thereby reducing the uncertainty originating from the complexity and tacitness inherent in the acquisition task. In dynamic contexts, process framing activities should be limited to identifying generic M&A processes and establishing small, embedded M&A functions. Installing extensive M&A systems may not prove beneficial, as high levels of replication and retention are of little help when environmental and acquisition challenges change continuously.

Generic M&A processes can be established by establishing clear responsibilities and basic communication structures. This enables managers to act when faced with high uncertainty. These basic processes thus provide a generic orientation framework, which is indispensable for swift and direct reactions to environmental challenges. A compulsory review policy should also be introduced to ascertain the acquisition's strategic and financial soundness. The processes should, however, not be tightly systematized to allow managers the freedom and flexibility required to adapt to sudden contextual changes.

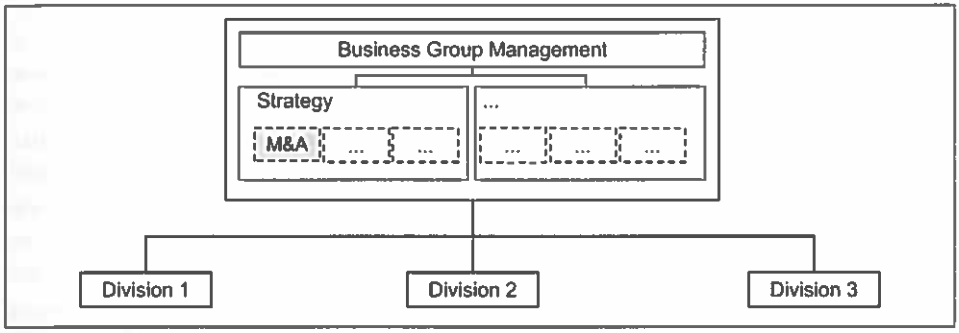
The business groups that are active in dynamic contexts also have to submit to the company-wide M&A authorization process. Their additional internal M&A processes are of a generic nature and are managed by different project teams, although they do not completely lack structure. According to one interviewee: "*We defined an internal procedure: Before an acquisition request is made, the proposal first has to pass the internal quality gates. We have, however, not defined the M&A sub-processes in great detail. While these are based on the experience of the involved M&A managers, they are not explicitly described anywhere.*" Another interviewee mentioned: "*Our M&A process is very simple: Someone thinks of acquiring a promising target. Then, this manager goes to see his or her*

[40] Brown et al. (1997), op. cit.

'godfather' in the group executive management. If they arrive at a mutual agreement, the business manager goes to see the M&A manager and provides him with the required information. [...] The M&A process cannot be passed without involving the M&A manager. This works well, and adherence to the process is not a problem."

Only rudimentary M&A structures should be installed in dynamic contexts, ensuring sufficient knowledge retention to avoid M&A capability erosion. This is achieved by embedding a rather small M&A function within the strategy department that collaborates closely with the top management.

Figure 7: Organizational anchoring of an M&A function in dynamic settings



This setup is beneficial in dynamic contexts because it prevents M&A capability from collapsing. Integrating M&A expertise into the strategy department has the advantage that M&A knowledge can be easily spread across the entire department. This largely ensures the retention of M&A process expertise. The department does not, however, depend exclusively on continuous M&A activity. Furthermore, the lack of spare capacities for M&A ensures that these processes are managed on a decentralized level with a high degree of business autonomy, thereby creating a high degree of local responsiveness. In general, intertwining the strategic and the M&A tasks closely are beneficial in dynamic contexts in which mainly new strategic thrusts are pursued via external growth.

One of the investigated business groups, which is active in a dynamic context, has a business development department that has been responsible for strategic issues as well as M&A since the late 1990s. The business development department consists of only four managers, one of whom is exclusively responsible for M&A. This manager controls adherence to the overall M&A process and supports the divisions' acquisition strategies if required. Instead of setting up a larger M&A function, the respective business group decided to rely on external knowledge from the corporate centre and from investment banks. The structure has been rather fluid and changed frequently during the study period. The following citations describe this flexible approach to M&A coordination: "*The combined strategy and M&A department operates very closely with the group executive board.*" "*In our industry, M&A and strategy have to be interwoven. These issues belong together.*"

In moderately dynamic contexts, establishing specific M&A systems ensures continuous feedback loops, thereby enhancing knowledge replication and retention. Such systems are costly and not necessarily desirable in dynamic contexts in which acquisition challenges frequently change. Furthermore, when the acquiring division manages the entire process, the mix of strong entrepreneurial responsibility and sense of ownership of the acquisition may be more effective than any performance evaluation or incentive system. It is thus argued that in dynamic contexts, rationalization experience should be limited to creating a strong sense of ownership of the acquisition within the acquiring business.

Rather than investing in replication and retention structures and systems, business management should be helped to use real-time information for acquisition decision-making. This can be achieved by offering communication platforms that trigger creativity. Real-time information has been defined as "information about a firm's operations or environments for which there is little or no time lag between occurrence and reporting".[41] This can be achieved through the intense use of business group discussions and other informal knowledge replication methods. Offering a multitude of platforms to creatively develop acquisition initiatives guarantees local responsiveness[42] to suddenly emerging opportunities.[43] This provides the required flexibility within the overall framework.

[41] Eisenhardt (1989), op. cit.: 549.

[42] Amit, R. & Schoemaker, P. (1993). Strategic assets and organizational rent, *Strategic Management Journal*, 14(1), 33-46.

[43] Eisenhardt, K. M. & Sull, D. N. (2001). Strategy as simple rules, *Harvard Business Review*, 79(1), 106-116; Eisenhardt (1989), op. cit.

Rather than directly replicating the M&A experience from one project to the next, the M&A functions in the Siemens business groups that are active in dynamic contexts limit their efforts to supervising the divisions' M&A projects and engage in constant personal communication to transfer M&A expertise. The retention of M&A experience is limited to basic process documentation. The following statement by an interviewee describes the two groups' overall opinion: "*M&A expertise can only be acquired by experience originating from real M&A projects. The possibility of codifying M&A know-how, for example, through the storage of knowledge in a database, is limited.*" Rather than codifying knowledge, these business groups offer platforms for M&A knowledge transfer: "*We have a 'market day' during which our market's future development is analyzed. The divisions present their strategic plans and explain the measures with which they plan to implement them. M&A can be a topic, but it is not a compulsory part.*" Another interviewee reports: "*There is an ongoing strategic dialogue between the headquarters and businesses. There, we discuss where we want to go with our businesses; this may include M&A.*"

This study thus argues that in dynamic settings, managers should introduce informal replication methods instead of formal systems.

Figure 8: Engineering M&A Capability (details)

Engineering activity	Moderately dynamic context (standardized M&A capability)	Dynamic context (flexible M&A capability)
Process framing (reduces uncertainty originating from complexity and tacitness)	**Intense** *Characteristics:* – Extensive M&A processes – Large and loosely coupled M&A functions – Established M&A systems – A functional M&A career path *Benefits:* – Intense process framing is beneficial in moderately dynamic contexts as it reduces exploration in favour of enhanced exploitation	**Basic** *Characteristics:* – Generic M&A processes – Small and embedded M&A functions – No specific M&A systems favouring real-time information and informal replication mechanisms *Benefits:* – Basic process framing is beneficial in dynamic contexts as it frames the variety of options required for exploration – Basic process framing is beneficial in dynamic contexts as it allows M&A capability to evolve

Engineering activity	Moderately dynamic context (standardized M&A capability)	Dynamic context (flexible M&A capability)
Content channelling (reduces uncertainty originating from opportunistic M&A markets)	**Basic** *Characteristics:* – Generic strategic and financial guidelines – 'Mission' statements that guide acquisition initiatives in line with the existing core competences – No additional orientation for the screening processes as these are actively managed by the M&A function *Benefits:* – Basic content channelling is beneficial in moderately dynamic contexts as it allows a certain degree of 'controlled' exploration	**Intense** *Characteristics:* – Extensive strategic and financial guidelines – 'Vision' statements to guide the company's positioning in a continuously changing environment – Additional orientation for the screening processes by providing generalizable criteria *Benefits:* – Intense content channelling is beneficial in dynamic contexts as it enhances exploration by reducing the unnecessary variety of options

4 Risks and Recommendations

While previous publications on how to build capabilities for the M&A preparation phase have largely neglected context dynamics[44], our analysis shows that, depending on the investigated business groups' context, there are substantial differences in M&A capability engineering and, thus, in the resulting M&A capability. Both engineering activities, however, have disadvantages, which can only be partially overcome by balancing the two approaches.

The potential dangers inherent in content channeling are: Firstly, the process can only function effectively if the guidelines that channel the evolution of M&A capability remain unchanged over a certain period.[45] Secondly, if the set guidelines are not beneficial over a certain period, maladaptive acquisitions will be realized.[46] Thirdly, the people who are guided may not behave in accordance with the given direction.[47] This study finds that the third weakness can be specifically avoided through process framing: A well-defined,

[44] Eisenhardt et al. (2000), op. cit.

[45] Campbell, D. T. (1969). *Variation and selective retention in socio-cultural evolution. General Systems: Yearbook of the Society for General Systems Research*, 16, 69-85.

[46] March, J. G. (1994). The evolution of evolution. In J. A. C. Baum & J. V. Singh (Eds.), *Evolutionary Dynamics of Organizations*, Oxford University Press, New York, 39-49.

transparent, and ideally compulsory process helps reduce the pitfalls associated with bounded rationality, as it ensures control.

There are, however, also dangers inherent in process framing: First of all, process framing activities are costly.[48] Secondly, intense process framing may hamper creativity and inappropriately restrict the required variety of options in acquisition initiatives.[49] Thirdly, there are strong inertial forces inherent in replicating and retaining knowledge through formal processes, structures, and systems. Fourthly, experience captured in processes, structures, and systems runs the risk of being misapplied during replication if the acquisition challenges suddenly change[50], either due to superstitious learning[51], or when acquisitions have been falsely perceived as homogeneous.[52]

The pitfalls stemming from hampering creativity can be overcome by additional content channeling activities, which allow a certain degree of exploration. The danger of misapplying retained knowledge in future acquisition projects is, however, scarcely reduced by engaging in content channeling activities. A better suggestion is to allow a certain degree of process flexibility even in moderately dynamic contexts with high levels of M&A capability standardization. This is based on the observation that the danger of misapplying retained knowledge is substantially reduced by breaking down the process into flexible building blocks that M&A managers can use when required.

These insights shed light on why some frequent acquirers are more successful than others. With M&A, doing it more often does not necessarily mean doing it better. Frequent acquirers that create a context-specific M&A capability can, however, outperform both single and other frequent acquirers. This study is a first step towards providing managers with more guidance regarding generating value from M&A, which is crucial for advancing both M&A and strategy process research. We do, however, recommend more research that will hone and extend this study's insights.

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47 McKelvey, B. & Aldrich, H. (1983). Populations, natural selection, and applied organizational science, *Administrative Science Quarterly*, 28, 101-128, 1983; Nelson, R. R. & Winter, S. G. (1982). *An evolutionary theory of economic change*, Belknap Press of Harvard University Press, Cambridge, MA.

48 Zollo et al. (2004), op. cit.

49 Burgelman, R. A. (2002). Strategy as vector and the inertia of coevolutionary lock-in, *Administrative Science Quarterly*, 47, 325-357.

50 Haleblian et al. (1999), op. cit.

51 Levitt, B. & March, J. G. (1988). Organizational learning, *Annual Review of Sociology*, 14, 319-340.

52 Zollo et al. (2004), op. cit.