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SOCIAL INTEGRATION IN SUBSIDIARY-BUILDING ACQUISITIONS

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Keywords: International acquisitions, Subsidiary-building acquisitions, Qualitative studies, Multinational Corporations, Post-acquisition integration

ABSTRACT

In this paper, we identify and conceptualize the phenomenon of subsidiary-building acquisitions. International acquisitions provide a powerful means for multinational corporations (MNCs) to grow their existing subsidiaries. The integration of subsidiary-building acquisitions involves a triad of actors; the MNC, the existing subsidiary, and the target. However, extant research emphasizes international acquisitions as a cross-border phenomenon, focusing limitedly on the foreign acquirer - local target dyad, thus ignoring the complexities of subsidiary-building acquisitions. Through a qualitative study of a Norwegian target acquired by a French MNC with an existing Norwegian subsidiary, we find that subsidiary-building acquisitions involve tensions between autonomy and integration in two distinct and interrelated integration processes: a local integration process and a cross-border integration process. We uncover how pressures for autonomy in one process counterintuitively trigger pressures for integration in the other. These dynamics fuel headquarters-subsidiary relationships and subsidiary cohesion, the two components of social integration in subsidiary-building acquisitions. By unearthing the underexplored phenomenon of subsidiary-building acquisitions, we provide novel insights into the complexities of international acquisitions. We bridge the merger and acquisition (M&A) and MNC literatures, thus paving the way for research on international acquisitions to move beyond the acquirer-target dyad to understand their implications for MNCs.

SOCIAL INTEGRATION IN SUBSIDIARY-BUILDING ACQUISITIONS

About a third of international acquisitions are made by foreign acquirers that already operate a subsidiary in the focal market¹. These “subsidiary-building acquisitions” are often undertaken to improve global competitiveness and strengthen established subsidiaries. Despite the prevalence of subsidiary-building acquisitions, the international acquisitions literature has largely ignored this empirical phenomenon. Rather, scholars have predominantly focused on the dyadic integration between the MNC and the foreign target in their examination of international acquisitions. This omission is crucial, as subsidiary-building acquisitions involve an acquisition and the development of an existing subsidiary. Hence, they combine post-merger integration with MNC expansion.

Through a qualitative case study, we examined the acquisition of a Norwegian firm by a French MNC with an existing subsidiary in Norway. Our analysis uncovered tensions between integration and autonomy unfolding in two distinct integration processes, the cross-border integration process between the newly acquired target and the MNC, and the local integration process between the newly acquired target and the existing subsidiary. Surprisingly, we observed a dynamic interaction between these two processes, wherein pressures for autonomy in one process counterintuitively triggered pressures for integration in the other, ultimately fueling social integration.

By conceptualizing subsidiary-building acquisitions, we bridge the M&A and MNC literatures and add important insights to our understanding of international acquisitions and how subsidiaries evolve. First, by addressing the underexplored phenomenon of subsidiary-building acquisitions, we provide novel theoretical understanding of the dynamics and complexities of post-acquisition integration (Graebner, Heimeriks, Quy Nguyen, & Vaara, 2017), and offer important insights into the integration–autonomy dilemma (Haspeslagh & Jemison, 1991, Puranam, Singh, & Zollo, 2006). Second, by addressing how MNCs build subsidiaries through acquisitions, we shed light on micro-processes in subsidiary development (Stendahl, Schriber, & Tippmann, 2021), and reveal how tensions arising in international acquisitions are precursors of social integration (Clark & Geppert, 2011, Nohria & Ghoshal, 1994).

THEORETICAL BACKGROUND

Post-acquisition integration is crucial to reap the benefits of a deal (Haspeslagh & Jemison, 1991). However, the integration process itself may have disruptive effects on the ongoing operations of the two joining firms. The loss of autonomy following integration may deplete the target firm's innovative capabilities through the disruption of routines (Mirc, Sele, Rouzies & Angwin, 2023) and loss of valuable personnel (Puranam, Singh, & Chaudhuri, 2009), and cause human resource-related problems that drain managerial capabilities (Larsson & Lubatkin, 2001). Thus, a main challenge is securing sufficient integration between the acquirer and target to accommodate capability transfers and value creation, while allowing autonomy to mitigate disruptions and preserve acquired resources and capabilities (Kroon, Noorderhaven, Corley, & Vaara, 2022; Zaheer, Castañer, & Souder, 2013).

While extant research on post-acquisition integration traditionally has focused on the dyadic relationship between the acquirer and the target in single deals, M&A scholars have recently turned their attention to firms that engage in a series of acquisitions (Colman & Lunnan, 2022), noting how inefficiencies accumulate over time (Barkema & Schijven, 2008). Others have addressed the additional complexities of integration that arise from nested acquisitions (Zorn, Sexton, Bhussar, & Lamont, 2019). While these studies provide valuable insights into the dynamic and contextual nature of integration in international acquisitions, they offer limited guidance into integration processes in subsidiary-building acquisitions.

The International Business (IB) literature has provided important insights into how MNCs grow their subsidiaries. Scholars have emphasized the subsidiary as a contested terrain wherein tensions between integration and autonomy play out over time (Clark & Geppert, 2011). Subsidiaries struggle to maintain internal and external legitimacy (Colman, Grøgaard, & Stensaker, 2022), and engage in issue-selling and initiative-taking (Dörrenbächer & Gammelgaard, 2016). Subsidiary managers negotiate and construct their relationship to the MNC headquarters (Balogun, Jarzabkowski, & Vaara, 2011), and invoke conceptions about “us” and “them” to justify needs for autonomy and resist power structures (Koveshnikov, Ehrnrooth, & Vaara, 2017). These types of struggles impact the ongoing integration between the subsidiary and the MNC (Vaara, Tienari, & Koveshnikov, 2021). In this perspective, the

subsidiary is never integrated in a final sense, but its relationship to and integration with the MNC is constantly ongoing and questioned.

While IB scholars have explored subsidiary evolution (Birkinshaw & Hood, 1998), there is limited understanding of the relations between initial and subsequent acquisitions (Stallkamp, Pinkham, Schotter, & Buchel, 2018). Scholars have suggested benefits of learning from international acquisitions (Pedersen & Shaver, 2011; Chang, 1995), and conduit deals that lower failure rates (Wang, et al., 2022). However, IB research has not yet explored the integration challenges of subsidiary-building acquisitions.

METHOD

Our study is a qualitative, in-depth analysis of a single case: the acquisition of a Norwegian firm by a French MNC with an existing subsidiary in Norway. Case studies are well suited to account for organizational members’ accounts and interpretations, and allow thick descriptions (Doz, 2011).

Research Setting

The focal acquisition involved “French MNC” and “Target firm”². French MNC is a leading producer of high-grade manganese ore and refined manganese alloys, already operating a subsidiary in Norway. The existing Norwegian subsidiary consisted of two manganese plants acquired 10 years prior to the focal acquisition. Each unit had approximately 200 employees, and the two were united under a subsidiary structure. Target firm consisted of two units; a titanium plant (approximately 200 employees) and a manganese plant (approximately 200 employees). The expected synergies were global optimization of raw material supply, increased production capacity, and improved coordination of the local value chain. Local integration included shared human resources functions, finance, procurement, and logistics. Figure 1 shows an overview of the units in the study and the distribution of interviews.

Insert Figure 1 about here

Data Collection

We collected rich, real-time primary and secondary data during the integration process. Data collection took place in three rounds. This enabled access to the informant’s interpretations of the changes as they

were unfolding. We interviewed respondents from different parts and levels of the organizations to secure variation in viewpoints. Key informants were chosen because they had access to specific information about the integration process, given their positions in the organizations. This included the top management team at the French MNC headquarters, the management team in the Norwegian subsidiary, the managers in each plant, and employees with specific integration responsibilities. At each round of data collection, we interviewed until saturation.

We conducted the interviews in the native language of each respondent (Norwegian or French) to get more authentic, rich, and nuanced insights (Welch & Piekkari, 2006). Interviews lasted between 45 and 90 minutes; they were recorded and transcribed. Table 2 summarizes the data sources including how we triangulated the information collected across data sources. Overall, all data sources used in the analysis were convergent and consistent.

Insert Table 1 about here

Data Analysis

Data analysis unfolded in five steps. First, we developed a case history to make sense of the timeline of events and the context of the integration process. Second, we coded and recoded each interview separately based on “in vivo” respondent phrases to generate first order categories. Third, each interview was coded separately based on these first order categories. Fourth, identifying links among these categories progressively allowed us to group them into second order themes. Through several iterations of coding, we progressively moved toward stable and theoretically meaningful codes (Locke, Feldman, & Golden-Biddle, 2022). This involved constantly going back and forth between the empirical data and the literature to ground the emerging concepts in the literature (Miles, Huberman, & Saldana, 2020). Fifth, we ultimately defined three aggregate dimensions. This sequential coding process allowed us to build the foundations of our emergent model, which shows the dynamics involved in subsidiary-building acquisitions.

Insert Figure 2 about here

FINDINGS

Tensions in Subsidiary-Building Post-Acquisition Integration Processes

Our data uncovered two distinct integration processes: the local integration process between the newly acquired units and the existing Norwegian subsidiary, and the cross-border integration between the newly acquired units and the French headquarters. Our informants' stories revealed a tension between integration and autonomy in both processes. Surprisingly, the acquisition re-ignited integration-autonomy tensions between the existing Norwegian subsidiary (that was acquired more than ten years prior), and the French MNC.

Tensions in the local integration process between the two existing and two newly acquired units. On the one hand, organizational members from both the newly and previously acquired units voiced how interaction and cooperation were required to gain access to new knowledge and expertise and, ultimately, to realize the expected benefits of the deal. Moreover, they emphasized the need to cooperate and build a strong Norwegian subsidiary to face internal competition from the French MNC's global production facilities.

French MNC is investing in both China and Gabon, which in the long run can be a threat to the Norwegian system. We see it...[and] it is probably our job to prove that we are still the best then, so we get to produce. (Existing Norwegian subsidiary employee #3)

On the other hand, Target firm employees voiced that they believed they would have been better off alone than as a part of the Norwegian subsidiary. For example, they described how the association with the other Norwegian units had diminished their status and attractiveness as an employer. As described by this target firm employee:

It used to be that if you got a job at Target firm, you were safe forever. No matter what kind of employment you had, if a job opened up at Target firm—you would apply for it. But now it's turned around, now it's like this: do you work at Target Firm [or] Norwegian Subsidiary? Do you dare? (Target firm employee #6)

Over the years, the two previously acquired units had competed for attention and resources from the French MNC, struggling to be the preferred production unit. A manager explained how these two

units “had been pitted against each other”. The newly acquired Target units were perceived as additional competitors for resources and attention from the French MNC headquarters. Although the two existing units in the Norwegian subsidiary had been integrated for a decade, the tensions between integration and autonomy remained. The focal acquisition spurred new tensions, thus re-invoking old plant identities, and reinforcing organizational legacy demarcations. This became more pressing as the French MNC was recovering from a substantial drop in demand for their products, requiring a temporary shutdown of production in their Norwegian plants. As noted by an existing Norwegian subsidiary employee, that plant was “fortunate” in that one of the Target firm units had problems with its furnace, allowing the existing Norwegian subsidiary plant to be the first to start up production:

When the silicomanganese market started, [and] when orders started to come in again, Target unit 1 was allowed to restart production there, but then they had an oven that was being repaired, so then we could take care of those orders ... So we were probably really lucky; the furnace in Target unit 1 was being repaired, so then we were the plant that got to start up our furnace instead. (Existing Norwegian subsidiary employee #6)

Tensions in the cross-border integration process between the newly acquired target firm and the French MNC. On the one hand, the need for integration with the French MNC was justified portraying the French MNC as an attractive owner and the acquisition as beneficial. Existing subsidiary managers and employees described how the French MNC had been a good owner over the past decade, with a long-term perspective for the Norwegian plants, allowing local autonomy and allocating substantial investments. These perceptions were conveyed to the target: “We’ve heard that the French MNC has invested, and that they are concerned about health and safety” (Target firm employee #3). Further, Target employees described how the French approach, focusing on details, was attractive and beneficial:

They don’t take any shortcuts. ... it has added something important to the culture [of Target]; created more openness in our organization. At the same time, it places demands on us because we must compete and perform. (Target firm manager #5)

On the other hand, we observed how both new and existing employees justified the need for subsidiary autonomy. They emphasized distinctiveness from the French MNC, resisted integration

efforts, and voiced concerns about French business intervention. Managers lamented about unnecessary, time-consuming interferences from headquarters visits and information inquiries.

They are very controlling... headquarters in Paris should be a support for us, but my experience is that there is more reporting to Paris, and a larger proportion of my time goes to internal work than to the customers (Target firm manager #10).

Developing Social Integration

While tensions between integration and autonomy were playing out both at the local and cross-border levels, our data also showed the emergence of social integration. First, we observed the development of cohesion between the four plants (two existing and two newly acquired units) in the Norwegian subsidiary. Second, we observed the building of relationships between plants (both from the target and existing subsidiary) and the headquarters, strengthening headquarters-subsidiary relationships.

Building subsidiary cohesion. We identified cohesion in the expressed desire to “become one firm,” a sentiment voiced from all four Norwegian units. It materialized, for example, in the expressed need for a shared logo and name.

Many [employees] are terribly concerned with just the name ... whether it should say French MNC or Target firm on that sign. What should be written on the work clothes ... We get tons of questions. A guy from the corporate sports team came to see me and said that now we had to decide on that name because they were going to print some medals. I said that is not a deciding factor for our company name ... these may be small issues in the big picture. But since people care about it, it's important in the big picture. (Target firm manager #9)

Another element was the development of shared values. This included work to define “who the Norwegian subsidiary should be”. Managers and employees described this as an effort (particularly driven by the CEO of the Norwegian Subsidiary), to develop a shared leadership philosophy across all plants.

It is a part of a management philosophy... We need to be fairly cohesive ... we are trying to get a shared basis to work from. We have a lot of discussions on how we go about things ... how we should work together ... now there is more shared thinking and [a] system and philosophy. (Target firm manager #9)

Headquarters-subsidiary relationship building included developing shared understanding and increasing interactions between the French headquarters and the Norwegian subsidiary, including existing and newly acquired plants and individuals. Subsidiary employees described this as a decade-long, ongoing process building “trust accounts with the French”:

It has been [Norwegian subsidiary CEO’s] basic philosophy from the beginning when the French MNC acquired us, that we shouldn’t fight our owner; [instead,] we work with them and find an appropriate form of cooperation. And many of us have applied that philosophy in various positions—had we have engaged in a lot of communication with Paris—you have to build a “trust account” with the French. When you have it, you can then hopefully use it sensibly and get things done. (Existing Norwegian subsidiary manager #7)

Existing subsidiary employees described how trust had grown and that the relationships with the French “had matured over the years since the acquisition.” In general, our informants described how informal, social relationships emerged across borders. Both sides made substantial communication efforts and described how shared understandings developed. Leadership initiatives, such as leadership programs, were implemented in the Norwegian subsidiary to develop shared MNC values. Moreover, our informants described how the building of management principles and values had been ongoing prior to the focal acquisition and was reignited in the acquisition process.

From my point of view, I would say that we are very well integrated ... when it comes to the two plants in the existing Norwegian subsidiary it has been a bit conflicting, but I actually think it will get better now ... maybe it can be better for [the existing Norwegian subsidiary] to get the [Target firm] plants in the mix as well. (Target firm employee #7)

Emergent model of integration in subsidiary-building acquisitions

Below we present our emergent model of integration following subsidiary-building acquisitions (Figure 3).

Insert Figure 3 about here

Figure 3 shows the two integration processes (local and global), each characterized by tensions between perceived benefits of autonomy and perceived benefits of integration. We uncovered two counterintuitive dynamics arising from the informants' perceptions of the benefits of autonomy.

First, we observed how perceptions of benefits of acquired unit (newly and previously acquired) autonomy (1) triggered perceptions of benefits of subsidiary integration in the MNC (4). For example, we observed how the acquired units shielded themselves from local competition (from sister units) by seeking attention from, and alignment with, headquarters. This allowed them to establish the importance of their location, to access resources, and to position themselves as the preferred site for production and investment. Thus, when the newly acquired units perceived benefits of maintaining autonomy vis-a-vis the existing subsidiary, this elicited local competitive tensions in the subsidiary, that opened for the acquired units to see the benefits of integration with the MNC.

Second, we observed how perceptions of benefits of subsidiary autonomy from the MNC (3), triggered the four acquired units to turn to each other and seek integration in the local subsidiary (2). For example, when organizational members voiced the perceived benefits of subsidiary autonomy, this triggered the need to cooperate with the other acquired units. Organizational members lamented the French MNC's detail oriented and disruptive management and voiced the need for local decision making. While doing so, they emphasized the need for interaction with the other units in the subsidiary to seek allegiance facing the demands from headquarters, thus supporting each other against the "French".

Subsequently, we observed that when organizational members perceived the benefits of integration, this fueled the ongoing development of social integration. First, the perceived benefits of subsidiary integration in the MNC (4) fueled intentions to become one firm, thus strengthening headquarters-subsidiary relationships (6). For example, as employees perceived the acquisition to provide them with benefits, they engaged in increased interaction with the headquarters and developed shared understandings. Thus, the acquired unit's orientation towards global integration through interaction between them and the headquarters ultimately stimulated the strengthening of headquarters-subsidiary relationships.

Secondly, we observed that the benefits of integration between the four acquired units (2) fueled subsidiary cohesion (5). When organizational members engage in collaboration and repeated interaction, this ultimately fuels the development shared values and stimulates the development of cohesion within the subsidiary. Consequently, our model shows that social integration in subsidiary-building acquisitions has two components: subsidiary cohesion and headquarters-subsidiary relationships.

Ultimately, we argue for feedback loops, as existing levels of social integration will shape further benefits of autonomy and integration. First, subsidiary cohesion (5) reinforces perceived benefits of integration between acquired units (2). Subsidiary cohesion and shared values will encourage organizational members to see the value of further interaction and integration within the local subsidiary. Second, the formation of headquarters-subsidiary relationships (6) will reinforce the perceived benefits of subsidiary integration within the MNC (4). When there are extensive interactions and established relationships between the headquarters and subsidiary, organizational members will more likely perceive increased value of cross-border integration. Overall, our emergent model shows how autonomy, which often is depicted on a continuum opposite to integration, has an integrating effect, as it cuts across the two integration processes in subsidiary-building acquisitions.

DISCUSSION

By conceptualizing the phenomenon of subsidiary-specific acquisitions, we enrich the literature on international acquisitions and offer a bridge between the M&A and MNC literatures. While opposing tensions between integration and autonomy have been extensively documented in the literature on post-acquisition integration (Dattée, Arrègle, Barbieri, Lawton, & Angwin, 2022, Zaheer, et al., 2013) and in headquarters-subsidiary relationships (Kostova, Marano, & Tallman, 2016), the novelty of our findings lies in theorizing how these micro-level processes cut across different integration processes in subsidiary-building acquisitions, and how they provide the fountainhead of social integration in the local subsidiary and between the subsidiary and the headquarters.

Expanding our understanding of integration processes in international acquisitions

We add important nuances to our understanding of the integration–autonomy dilemma in post-acquisition integration (Paruchuri, Nerkar, & Hambrick, 2006, Puranam, et al., 2009), where the

dominant thinking is that higher perceived need for autonomy discourages integration. Our study of subsidiary-building acquisitions shows how pressures for autonomy in the local post-acquisition integration process counter-intuitively open for interaction and cooperation between the acquired unit and the headquarters. Directing attention towards an outside party (in this case headquarters) strengthens the unit's position towards other local units. Likewise, pressures for subsidiary autonomy in the global integration process open for local integration between the acquired units in the subsidiary. Aligning interests against the headquarters fuels subsidiary integration. These counterintuitive findings advance the conversation about the ongoing dialectic between the drive towards autonomy reduction and autonomy extension (Dattée, et al., 2022). This conversation has, with rare exceptions (Zaheer, et al., 2013), been polarized, thus displaying benefits of high or low autonomy. This novel insight demonstrates that scholars need to take into consideration both local and cross-border levels of integration when approaching subsidiary-building acquisitions to carefully consider their counterintuitive and beneficial influences.

Expanding our Understanding of Headquarters-Subsidiary Relationships

By theorizing subsidiary-building acquisitions, we provide important insights into MNC micro-level processes (Stendahl, et al., 2021). We conceptualize the contradictory process and the surprising effects of autonomy pressures as contingencies for subsidiary integration within the MNC. Extant research has thoroughly documented the tensions between subsidiary autonomy and integration in the MNC emerging from the dual embeddedness of subsidiaries (Meyer, Mudambi, & Narula, 2011). Our findings demonstrate that tensions in acquisitions fuel both global and local integration, thus contributing to dual embeddedness. Autonomy pressures drive the establishment of subsidiary linkages with the MNC (Cicekli, 2011, Nohria & Ghoshal, 1994), while fostering local linkages and local subsidiary identity (Meyer, et al., 2011, Ryan, Giblin, Andersson, & Clancy, 2018). Moreover, we further the notion of struggles between headquarters and subsidiaries for influence, resources, and power (Balogun, Fahy, & Vaara, 2019, Bouquet & Birkinshaw, 2008), to political struggles emerging within a subsidiary by explicating the dynamics involved as subsidiaries negotiate their position vis-à-vis the MNC and their local environments (Balogun, et al., 2011, Colman, et al., 2022).

Subsidiary-building acquisitions are a fountainhead for ongoing autonomy-integration struggles (Koveshnikov, et al., 2017). Residual autonomy pressures derived from previous acquisitions may remain as legacy identities and latent cultural tensions that can be invoked by subsequent acquisitions. By recasting social integration as an ongoing endeavor, driven by chronically accessible legacy cultural divides (Hsu & Elsbach, 2013), we complement insights on entry processes and cultural learning (Chang, 1995; Pedersen & Shaver, 2011).

To conclude, our study introduces subsidiary-building acquisitions and paves the way for future studies into the implications of this particular acquisition and social integration in the MNC.

NOTES

¹ This number is established by taking all foreign M&A second entries into the US between 1970 and 2022 (SDC), which gives a rough indication of this phenomenon.

² The companies' names are disguised in accordance with our agreement with them.

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TABLES AND FIGURES

Table 1: Data Sources and Triangulation

<i>Data source</i>	<i>Type of data</i>	<i>Use in analysis</i>
Interviews	151 semi-structured interviews (Transcribed into 2700 pages double-spaced)	Become familiar with the context, the industry, and the companies' history, and culture Understand the rationale of the acquisition Understand informants' perceptions and experiences of the integration process
Company documents	Integration newsletters (8) and bi-weekly information letters (35) Press releases (14)	Support and triangulate evidence from the interviews Become familiar with the local cultures of plants Identify the characteristics of the relationships between the subsidiary and French MNC headquarters Understand the rationale of the acquisition Support and triangulate evidence from the interviews
Observations	Field notes from meetings (93 pages double-spaced) Informal conversations (90 hours of observation). Plant visits (12 hours of observations)	Triangulate evidence from the interviews Validate our interpretations Clarify uncertainties Gain trust from informants, Acquire technical vocabulary to interact with workers Become familiar with the organizational context Become familiar with the metallurgical industry Gain knowledge on routines and work practices Acquire the correct technical vocabulary to interact with workers

Figure 1: Overview of the case units and distribution of interviews

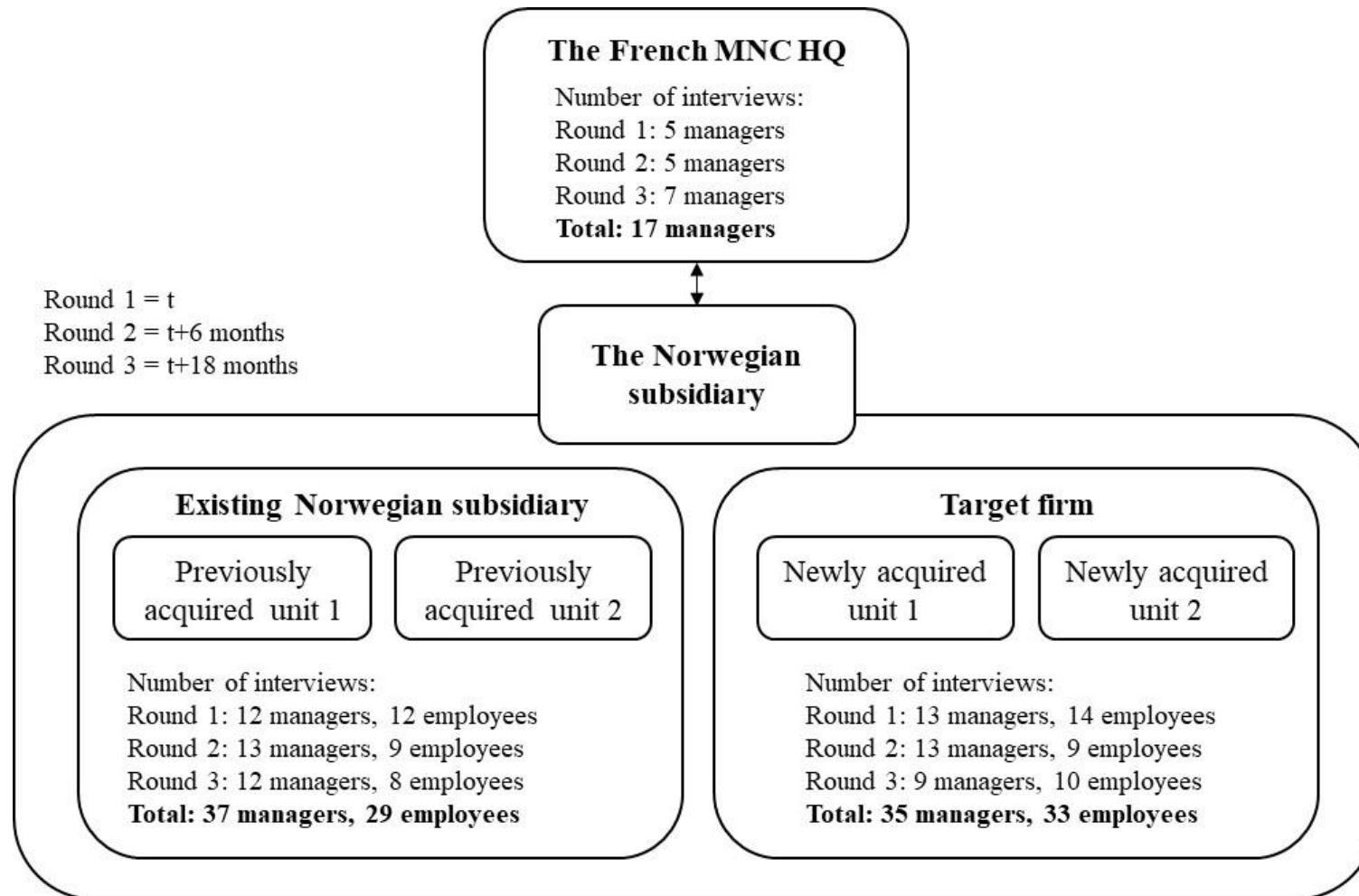


Figure 2: Data Structure

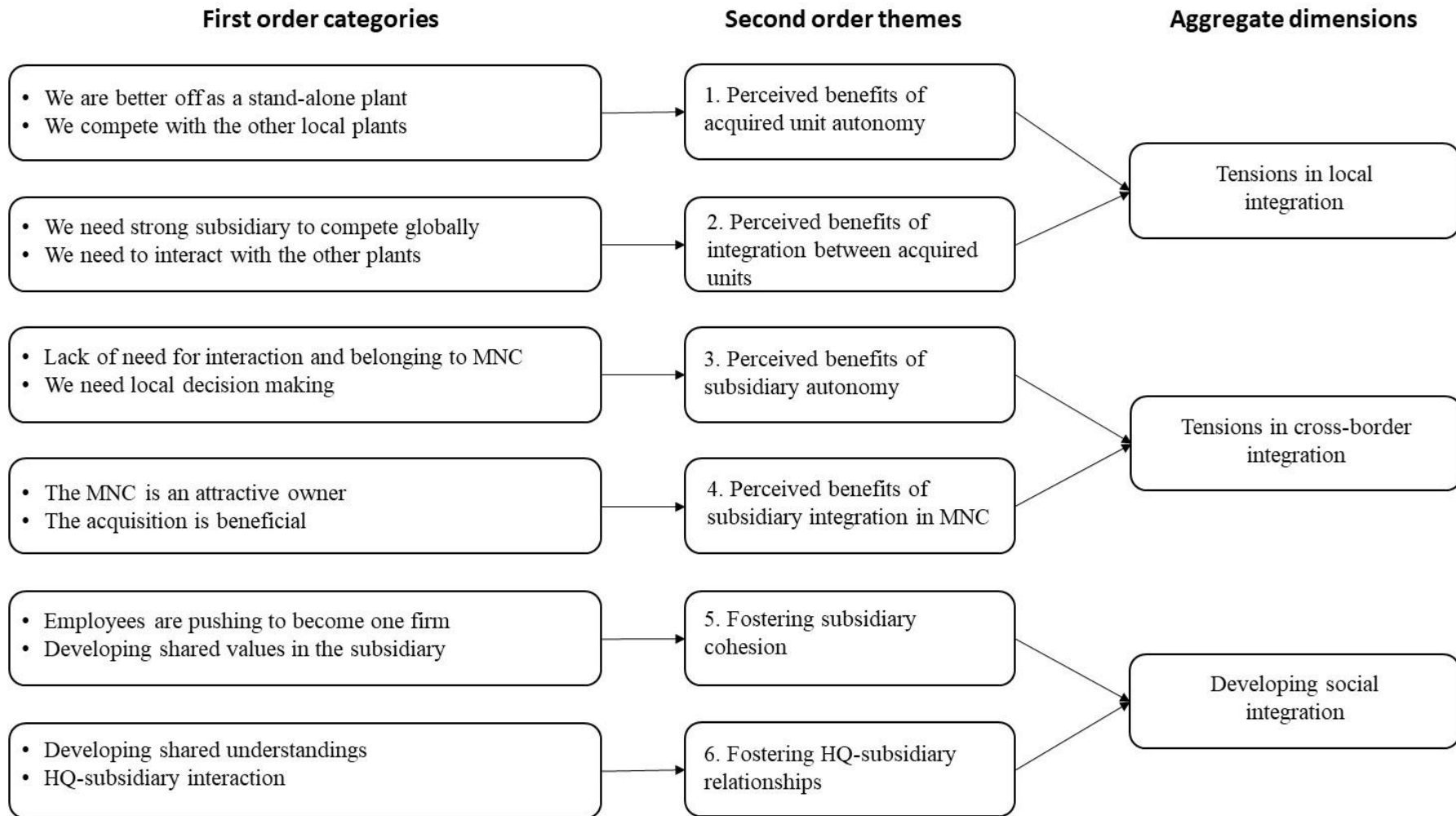
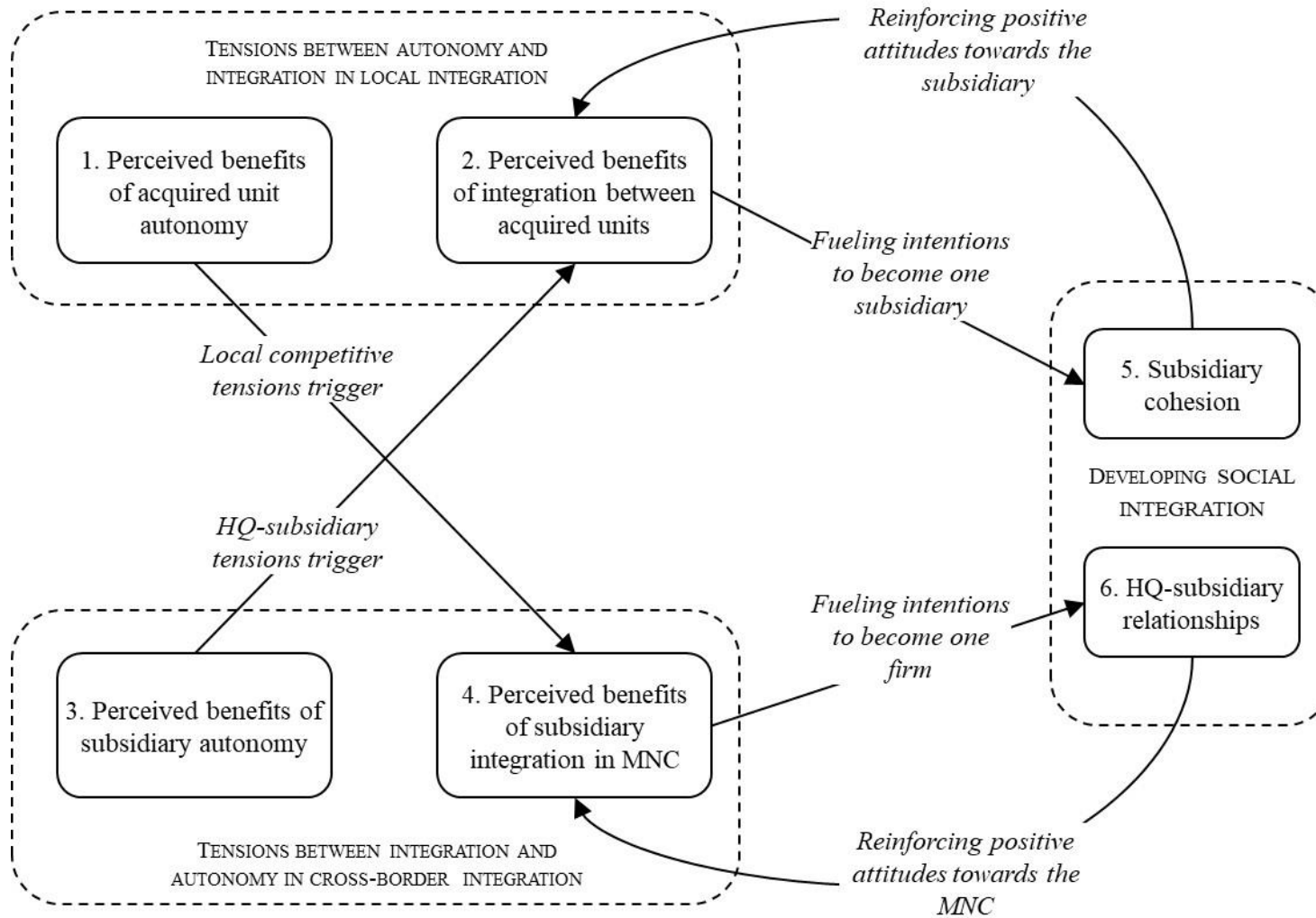


Figure 3: Social integration following subsidiary-building acquisitions



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