DETERMINANTS OF ACQUISITION INTEGRATION LEVEL: A DECISION-MAKING PERSPECTIVE

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Executives of 56 acquiring organizations participated in policy-capturing research that examined how the task, cultural, and political characteristics of acquisitions influence decisions about levels of integration. Although task-related characteristics entered most heavily into managers' decision models, cultural and political factors were also important. These results suggest that an understanding of acquisition integration is best achieved by viewing integration design decisions through multiple theoretical lenses. Furthermore, although industry and acquisition experience explained some variation in integration decision policies, results suggest that other individual or organization-level factors are also at work.

Over the past several decades, acquisitions have become a wellinstitutionalized phenomenon in the structure and behavior of business organizations (Hirsch, 1986). In the 1980s, acquisition-related activity accounted for more than 22,000 corporate transactions valued in excess of $955 billion, and the popularity of this strategic alternative continues today, accounting for $222 billion of corporate activity in the first three years of this decade (Mergers & Acquisitions, 1990, 1992, 1993).^1

Such obvious corporate commitment suggests that many firms consider acquisitions to be a superior vehicle in which to invest corporate resources. However, the results of acquisitions do not always support this position. Although some studies have suggested that acquirers realize positive performance outcomes (Chatterjee & Lubatkin, 1990; Healy, Palepu, & Ruback, I would like to thank my dissertation committee, Janice Beyer, Janet Dukerich, William Hays, David Jemison, and Sim Sitkin, for their helpful insights during various stages of the research reported here. This work also benefited from conversations with Philippe Haspeslagh. Thanks to George Trussell and three anonymous reviewers of this journal for their valuable contributions during the review process. Financial support from the Eugene and Dora Bonham Fund, the University of Texas and the Faculty of Management Future Fund, the University of Calgary, is gratefully acknowledged.

^1 The activity levels cited include both merger and acquisition transactions, but are net of divestiture activity and reflect reporting bases in use at the time. Mergers and acquisitions are frequently studied as a single phenomenon, but acquisitions are the focus of this study. In an acquisition, the majority ownership of a firm changes, with another firm obtaining control of and authority over it.
1992; Lubatkin, 1987), or at least don’t perform more poorly than their non-acquiring counterparts (Bradley & Jarrell, 1988; Franks, Harris, & Titman, 1991; Shelton, 1988), the preponderance of the evidence suggests that the intended benefits of acquisition are often not realized, with acquiring firms exhibiting poor performance in terms of both accounting- and stock-market-based measures (Agrawal, Jaffe, & Mandelker, 1992; Datta, Pinches, & Narayan, 1992; Fowler & Schmidt, 1988; Herman & Lowenstein, 1988; Ravenscraft & Scherer, 1987; Schmidt & Fowler, 1990). In addition to failing to create value for acquiring firms, acquisitions have had negative impacts on the employees and managers of acquired firms, a topic that has also received a great deal of attention (e.g., Buono & Bowditch, 1989; Jick, 1979; Marks & Mirvis, 1985; Schweiger & Walsh, 1990; Schweiger & DeNisi, 1991).

As traditional financial, strategic, and organizational perspectives have not been able to explain these disappointing outcomes, scholars have increasingly begun to focus on factors influencing the management of post-acquisition relationships as potentially critical in acquisition success or failure. The result is a growing recognition that strong theories of acquisition performance must take into account not only those strategic factors that indicate the potential for value creation as reflected in capital market expectations (e.g., Chatterjee, 1992; Seth, 1990), but also the processes through which those theoretical synergistic benefits come to be realized (e.g., Datta, 1991; Jemison, 1988). One of the most important issues to be dealt with in this context is the question of how acquiring and acquired organizations are to be integrated in postacquisition periods. Indeed, poor integration has been cited as one of the leading causes of acquisition failure (Kitching, 1967, 1973). Beyond the near-term impact of the integration process on the performance of a newly formed firm are further-reaching consequences for the long-term viability of a consolidated entity. To the extent that management attention and energy must be drained away from other organizational activities to attend to the assimilation of a newly acquired unit, innovation and the achievement of other strategically important goals are likely to suffer (Hitt, Hoskisson, & Ireland, 1990; Hitt, Hoskisson, Ireland, & Harrison, 1991). Given the pervasive ramifications of this component of the acquisition process, the importance of gaining insights into the management of acquisition integration cannot be underestimated.

Following an acquisition, some degree of interorganizational integration is necessary, but the issue of what level of integration managers choose and ultimately implement in the combined organization is critical to acquisition outcomes because under- or overintegration can result in a failure to create value, or worse yet, value destruction. The realization of potential synergies will be short-circuited given an insufficient level of integration, but exces-

2 This research focuses on friendly related-business acquisitions rather than hostile or conglomerate acquisitions. It is in the former cases that management of the postacquisition relationship is most critical for acquisition success.
sive reconfiguration can stymie the development of conditions conducive to a fruitful union, as occurs when high-performing executives depart in the context of an unpropitious postacquisition atmosphere, depriving the combined organization of much-needed resources and expertise (Cannella & Hambrick, 1993; Hambrick & Cannella, 1993; Walsh & Ellwood, 1991). A focus on the factors that influence an organization's postacquisition design strategy is central to understanding this fine balance, and thus, to disentangling the process of value creation.

A number of acquisition researchers have argued that conceptualizing acquisitions in terms of decision-making processes can enhance researchers' understanding of the dynamics and outcomes of acquisition activity (Duhaime & Schwenk, 1985; Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986). Further, it has been suggested that any consideration of acquisition integration should take into account the decision-making process that leads to it (Schweiger & Walsh, 1990). Therefore, efforts to explain or predict integration eventualities must first focus on understanding the managerial judgments that culminate in an organization's integration strategy.

Although the literature relevant to issues of integration design has not addressed how integration decisions are made, it does suggest the likely importance for such decisions of three primary sets of issues in acquisition situations. These are the task objectives of an acquisition (e.g., Haspeslagh & Jemison, 1991; Kitching, 1967; Shrivastava, 1986), organizational tolerance for cultural diversity (e.g., Nahavandi & Malekzadeh, 1988; Sales & Mirvis, 1984), and the potential for political action between the combining firms (e.g., Bastien & Van de Ven, 1986; Souder & Chakrabarti, 1984). Despite the recurrence of these themes in the literature, no rigorous empirical research has examined how, and to what extent, these acquisition characteristics might actually influence integration design decisions. The purpose of this research, therefore, was to objectively examine managers' decisions in order to more fully understand how acquisitions' task, cultural, and political characteristics enter into the decision models that guide managers' judgments about integration design.

**CONCEPTUAL FRAMEWORK**

**Acquisition Integration: Concepts and Definitions**

When two previously sovereign organizations come together under a common corporate umbrella, the result is a hybrid organization in which value creation depends on the management of interdependencies through the facilitation of firm interactions and the development of mechanisms promoting stability (Borys & Jemison, 1989). Acquisitions are a form of hybrid in which integration is the means by which such interfirm coordination and system control are achieved. As such, integration involves actions taken to secure the efficient and effective direction of organizational activities and resources toward the accomplishment of some set of common organizational
goals. These actions may involve adapting the firms' value-generating activities to realize technical synergies, altering bureaucratic mechanisms of authority and control to ensure internal coherence, and transforming systems of values, beliefs, and practices to create congruent organizational frames of reference (Schweiger, Csiszar, & Napier, 1994). Thus, integration can be defined as the making of changes in the functional activity arrangements, organizational structures and systems, and cultures of combining organizations to facilitate their consolidation into a functioning whole.

An important part of the integration design decision is whether changes should be made in one or both organizations. Integration may involve a complex and interactive mutual adjustment process between the two organizations, but change is frequently one-sided, occurring primarily within the acquired organization (Buono & Bowditch, 1989; Datta, 1991; Hambrick & Cannella, 1993; Shanley, 1987; Shanley & Correa, 1992). Empirical evidence indicates that an acquiree is often expected to conform to its acquirer's culture (Chatterjee, Lubatkin, Schweiger, & Weber, 1992), and where changes are made in policies, systems and plans, those of the acquirer tend to be used (Schweiger & Walsh, 1990). Even though prescriptions for implementing acquisitions suggest that acquiring executives refrain from "fixing things that aren't broken," it is easy to see how the majority of changes would be made within acquired firms since, in most cases, the top managers of acquiring firms are expected to manage, or at least provide a plan for managing, newly acquired organizational units (Jemison, 1988; Schweiger & Weber, 1989). Thus, it is both realistic and instructive to study integration design decisions from the perspective of acquiring firm management, the perspective taken in this research.

Level of integration can be defined as the degree of postacquisition change in an organization's technical, administrative, and cultural configuration. Level of integration is an important concept in acquisition management because, although high levels of integration theoretically enhance realization of interdependency-based synergistic potential, they may also result in realization of negative synergies as a result of increased coordination costs and potential for interorganizational conflict.

Clearly, the overall level of integration that emerges after an acquisition depends on the acquisition's type and on characteristics of the two companies' operations. Acquisitions vary in terms of the comprehensiveness of integration—the number of organizational functions and units involved—but at some point, changes made during integration activities affect the overall configuration of the organization (Schweiger et al., 1994). Since it is difficult to identify the point at which this occurs, one of the premises underlying the current research was that, in general, an adequate degree of integration comprehensiveness exists to allow a focus on an organizational level of integration.

Integration design choices have been described as sitting on a continuum from autonomy to absorption (Schweiger & Walsh, 1990). Conceptually, this view reflects the notion that levels of integration can range from
low to high, and a number of researchers have suggested the changes associated with each level (e.g., Bastien & Van de Ven, 1986; Buono & Bowditch, 1989; Haspeslagh & Farquhar, 1987; Nahavandi & Malekzadeh, 1988; Napier, 1989; Shanley, 1987; Shrivastava, 1986). A low level of integration is conceptualized as one in which technical and administrative changes are limited to the sharing of financial risk and resources and the standardization of basic management systems and processes to facilitate communication. A moderate level of integration includes increased alterations in the “value chain” as physical and knowledge-based resources are shared or exchanged. Administrative changes at this level may include required selective modifications in reporting relationships and delegation of authority, with such structural changes necessitating reframing cultural bases of decision making. The highest level of integration is conceptualized as being quite inclusive, involving the extensive sharing of all types of resources (financial, physical, and human), generalized adoption of the acquiring organization’s operating, control, and planning systems and procedures, and complete structural and cultural absorption of the acquired firm.

Given the choices of integration design reflected in the different levels described above, the key question becomes, “What are the factors that determine the level of integration that is chosen in an acquisition?” The theoretical basis for investigating this question is discussed in the next section.

Determinants of Level of Integration: A Theoretical Framework

There is no unified perspective on what determines the level of integration in an acquisition. However, focusing on integration as a means for achieving postacquisition coordination and control makes it apparent that there are three primary themes in the acquisitions literature upon which a theoretical framework for understanding integration design decisions can be based. These themes are conceptually linked in that all concern the impact of characteristics of an acquisition situation on the basic coordination and control functions of integration. The characteristics of interest relate to the task, cultural, and political features of acquisitions.

Task characteristics. A significant body of research has grown up around the notion that in order to understand integration design, the strategic intent of an acquisition must first be understood (e.g., Buono & Bowditch, 1989; Howell, 1970; Kitching, 1967; Shrivastava, 1986). Strategic intent has at its core the recognition of potential sources of synergy deriving from interdependencies between the value chains of the two organizations. The realization of this synergistic potential requires that two important tasks be accomplished to achieve the appropriate degree of interfirm coordination: a strategic task and an organizational task (HASPESLAGH & FARQUHAR, 1987).

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3 Conceptually, there is no zero point on this continuum because this research focuses on acquisitions pursued for strategic reasons and that therefore rely on synergies realized through some level of integration.
strategic task can be defined as the successful sharing or exchange of the critical skills and resources that form the foundation for value creation. The accomplishment of the strategic task requires, however, that target-specific bases of those critical skills and resources be kept intact. The organizational task, therefore, is the preservation of any unique characteristics of an acquired firm that are a source of key strategic capabilities.

Both strategic and organizational tasks have implications for integration activities. The strategic task requires that links be developed between the combining firms' value activities and that the organizational context be appropriate to support those links. However, the organizational task reflects a need to maintain some level of structural differentiation between the combining organizations so as to protect capabilities that are causally related to or inextricable from a specific organizational context. Thus, there is an inherent tension in the integration design decision (Haspelagh & Farquhar, 1987; Haspelagh & Jemison, 1991).

Strategic and organizational task needs are present to a different extent in different acquisition situations. For example, when operational synergies have motivated an acquisition, the need for links between the combining organizations is high. Alternatively, if only financial synergy is the goal, interdependencies are quite limited in scope, and less interaction is required. Thus, strategic task needs are defined by the degree to which the realization of intended synergies depends on the sharing or exchange of critical skills and resources.

Organizational task needs vary with the target capabilities that motivated an acquisition. If, for example, a candidate's innovative capability resulting from a unique combination of personnel characteristics and administrative philosophy drove the alliance, the need to preserve the organizational characteristics that fostered that capability will be high. However, if target benefits are generic or can be easily transferred across contexts, less postacquisition organizational integrity is required. Thus, the degree to which acquisition synergies depend on the preservation of a unique, context-specific set of organizational capabilities defines organizational task needs.

These arguments about the relationships between integration activities and an acquisition's task characteristics suggest the following hypotheses:

**Hypothesis 1a:** In making integration design decisions, managers' decision models will reflect a positive relationship between strategic task needs and the level of integration chosen.

**Hypothesis 1b:** In making integration design decisions, managers' decision models will reflect a negative relationship between organizational task needs and the level of integration chosen.

**Hypothesis 1c:** In making integration design decisions, managers' decision models will reflect a significant inter-
action effect between strategic task needs and organizational task needs. That is, as organizational task needs increase, the association between strategic task needs and the level of integration chosen will decrease.

**Cultural characteristics.** In acquisition situations, as in broader organizational contexts, culture is an important "internal variable" (Smircich, 1983). That is, culture is critical in the configuration of a total organizational system, influencing the effectiveness of the organization in its environment. Thus, in acquisitions, culture can have an instrumental effect on both the coordination and control functions of integration, as it can operate to generate commitment to the larger organization (Siehl & Martin, 1981), enhance organizational stability in a situation of dramatic change (Louis, 1980), and convey a sense of identity to organization members (Deal & Kennedy, 1982).

From this perspective, an organization's routine approach to the management of culture has implications for how it is likely to design integration activities, independent of the task-based needs of the situation. Particularly relevant is the issue of cultural differences between the combining organizations and how that diversity is to be managed. A multicultural organization tolerates and even encourages cultural diversity, and is therefore more likely to allow an acquired firm to retain its own values, beliefs, and practices than is a less multicultural organization that uses culture as a powerful control system, emphasizing conformity and adherence to a unique organizational ideology (Chatterjee et al., 1992; Nahavandi & Malekzadeh, 1988).

Thus, an acquirer's degree of multiculturalism should be a predictor of the level of integration that is chosen for an acquisition. When the acquirer is highly multicultural, a low, or at most, a moderate level of integration will probably be chosen. This is because acquisition benefits are likely based on some resource or skill sharing across organizational boundaries, and at the same time, a highly multicultural acquirer will be loath to impose a uniform decision-making framework or culture because cultural diversity is valued. When multiculturalism is low, the level of integration pursued should be high because conformity to the acquirer's values, philosophies, and practices will be desired. Thus,

*Hypothesis 2: In making integration design decisions, managers’ decision models will reflect a negative relationship between the multiculturalism of the acquirer and the level of integration chosen.*

**Political characteristics.** Acquisitions are situations in which relational difficulties are commonplace, reflecting the adjustment by the two organizations to new, and often hierarchically altered, roles vis à vis each other (Hambrick & Cannella, 1993). Furthermore, conflict frequently develops between acquiring and acquired firms over the new unit's mandate and terms of reference as a result of the preacquisition use of ambiguity to facilitate negotiations (Jemison & Sitkin, 1986), an acquirer's lack of understanding of the acquired's activities, and the latter's failure to internalize the acquirer's
goals (Shanley, 1987). In such situations, the acquirer may take actions, including the exercise of power, to ensure that its goals in the acquisition are being pursued. The political characteristics of an acquisition speak to the extent to which power is likely to be used to achieve preferred organizational actions and outcomes. This perspective emphasizes the control function of integration as a means of curbing interorganizational conflict over acquisition means and ends (Shanley, 1987).

From an acquirer’s perspective, therefore, two key elements in the integration design decision are the perceived need to exert power and the ability to do so. The extent of the perceived need to use power will depend upon the degree to which the target has a vision of essential actions and outcomes in the acquisition that is compatible with the acquirer’s. Cultural mechanisms of control could be used to manage this interorganizational conflict by channeling individuals’ values, beliefs, and behaviors in desired directions (Van Maanen & Kunda, 1989). However, such a lengthy and evolutionary process is unlikely to be acceptable to acquisition managers who feel pressured to make “quick fixes” to meet performance expectations (Haspeslagh & Jemison, 1991). As a result, the acquirer’s capability for exercising power to enforce its preferences in the near term becomes an important factor. This capability reflects the extent to which there can be a unidirectionality of influence from acquirer to target, possible when the acquirer is significantly larger than its acquisition, a situation creating a power differential between the two organizations (Bastien & Van De Ven, 1986).

The impact of size differences is not simply the overwhelming and domination of the smaller entity through sheer magnitude, but also the intensification of beliefs about superiority and inferiority between the acquiring and acquired firms. The marginalization of acquired firm managers from the central core of the organization, reflecting their reduced relative significance to the overall business, eventuates in their losing status and impact, and thus power, relative to the managers of the acquiring organization (Hambrick & Cannella, 1993).

Thus, power differential and compatibility of acquisition visions should be predictors of the level of integration that is chosen in an acquisition. In acquisitions in which the compatibility of acquisition visions is high, a low level of integration will be pursued because the acquired firm is unlikely to present any challenges to the acquiring firm’s actions or objectives. This factor should offset the effects of a high power differential, which in and of itself might result in a high level of integration because interdependency fosters the use of power when it is available (Kotter & Schlesinger, 1979; Pfeffer, 1981). When compatibility is low and power differential is high, a high level of integration will be pursued because it is both necessary and possible. However, when compatibility and power differential are both low, the need to integrate to ensure compliance with the acquiring organization’s preferences will be offset by lack of organizational ability to enforce this compliance, resulting in a moderate level of integration. Thus, a critical
issue in acquisitions, as for organizations more generally, is the need and ability to use political processes to achieve organizational preferences.

This discussion about an acquisition's political characteristics suggests the following:

**Hypothesis 3a:** In making integration design decisions, managers' decision models will reflect a negative relationship between compatibility of acquisition visions and the level of integration chosen.

**Hypothesis 3b:** In making integration design decisions, managers' decision models will reflect a positive relationship between power differential and the level of integration chosen.

**Hypothesis 3c:** In making integration design decisions, managers' decision models will reflect a significant interaction effect between compatibility of acquisition visions and power differential. That is, as compatibility of acquisition visions decreases, the association between power differential and the level of integration chosen will increase.

Drawn together, the preceding arguments suggest an overall framework within which managers might make integration decisions designed to achieve the coordination and control of activities between previously independent organizations. Figure 1 presents this model.

**Relative importance of the characteristics.** Previous research on strate-
gic decision making and on acquisition decisions in particular suggests that
decision makers do not give equal weight to all the information available to
them in a decision situation (Duhaime & Schwenk, 1985; Stahl & Zimmerer,
1984). Therefore, it is unlikely that in making integration design decisions,
managers' judgments will be equally influenced by the task, cultural and
political characteristics of the acquisition situation.

Jemison and Sitkin (1986) proposed that impediments in the acquisition
decision-making process may cause decision makers to focus more on stra-
tegic issues and less on organizational issues than is normatively appropri-
ate. Other research suggests that financial and strategic criteria take prece-
dence over human resource criteria and other organizational variables dur-
ing acquisition planning (Boland, 1970; Schweiger & Weber, 1989).

Therefore,

Hypothesis 4: In making integration design decisions,
managers will weight strategic task needs more heavily
than any of the other characteristics of an acquisition
situation.

Demographic characteristics of decision makers may also play an im-
portant role in their integration design decisions. Decision-making research
indicates that, rather than decisions in a particular domain reflecting some
universal underlying policy, notable decision-making differences exist
among individuals making decisions in the same domain (e.g., Slovic &
Lichtenstein, 1971). In acquisition decision-making situations, for example,
differences in individuals' decision models have been demonstrated with
regard to candidate evaluation (Hitt & Tyler, 1991; Stahl & Zimmerer, 1984).

Previous experience with acquisitions may influence how managers
make integration design decisions. Because training in corporate strategy,
the prescriptions of financial analysts and strategic planners, and the busi-
ness press all emphasize the importance of optimizing strategic fit in acqui-
sitions, elements relating to this issue should be familiar to most managers.
This traditional focus on strategic fit should be particularly salient for less
experienced acquirers facing integration design decisions because individ-
uals often seek solutions to unfamiliar problems in familiar procedures and
criteria, even if they are not appropriate to the decision situation at hand
(Cohen, March, & Olsen, 1972). Thus,

Hypothesis 5: In making integration design decisions,
managers with less acquisition experience will weight
strategic task needs more heavily than will managers with
more acquisition experience.

Furthermore, acquisition experience may be a determinant of the extent
to which decision makers will rely on information about power differential
in making integration design decisions. Even when potential power is rec-
ognized, its use is a matter of choice, and choosing to use that power may
result from a lack of familiarity with and expertise in other means of achiev-
ing objectives (Hespaslagh & Farquhar, 1987; Kotter & Schlesinger, 1979).
Thus, in grappling with integration issues, inexperienced acquirers may be
likely to focus on a situational factor that is easily recognized and that may be perceived to suggest a clear implementation strategy in that power differential suggests whether there is the organizational capability to dominate. More experienced acquirers, on the other hand, may have developed the understanding and skill to resist such a heavy-handed approach by taking into consideration the implications of more subtle and ambiguous features of an acquisition situation. Thus, the ability to exercise restraint in the presence of perceived power is postulated to correlate with acquisition experience.

Hypothesis 6: In making integration design decisions, managers with less acquisition experience will weight power differential more heavily than will managers with more acquisition experience.

Another demographic characteristic, organization membership, may also be an important variable influencing managers' integration design decisions. That is, in providing an experiential background, the size of an organization and the industry in which it competes may influence managers' perceptions of situational variables and their use of that information.

Some acquisition researchers have found that large size differences between acquiring and acquired organizations are strongly related to acquisition outcome (Kusewitt, 1985). Although findings have been inconclusive as to whether or not relatively larger acquirers generally smother their acquisitions with a high level of integration (McCann & Gilkey, 1988; Shanley, 1987), it can be argued that as size differences increase, acquirers tend toward extremes in integration. Specifically, large organizations may fall into the "make them like us" syndrome (Haspeslagh & Jemison, 1991) simply because they can exercise unilateral influence. Alternatively, large organizations may by default adopt a hands-off approach because an acquisition is too small to clear an action threshold (Kitching, 1967). In any event, it is suggested that power differential will be a more salient characteristic of the acquisition situation for decision makers in large organizations because significant size differences between themselves and the firms they acquire are likely to be the norm, and thus this variable has greater action implications for them.

Hypothesis 7: In making integration design decisions, managers from larger acquiring organizations will weight power differential more heavily than will managers from smaller acquiring organizations.

The industry context in which managers operate may also influence their integration design decisions. Although Rumelt (1991) found minimal industry effects on firm performance and argued against the need to examine potential industry differences in strategic management research, others have suggested that failure to take these influences into account may lead to erroneous conclusions (Dess, Ireland, & Hitt, 1990). Furthermore, although the links between industry characteristics and firm profitability may be unclear, the relationship between industry and strategic decision-making pro-
cesses is more straightforward. Specifically, industry is likely to have a major influence on strategic decisions that are taken within an organization because characteristics of the industry form the bases for how the organization competes (Porter, 1980), influencing managers' perceptions of what information is relevant and focusing their attention on the elements judged to be most central to organizational performance.

Prior research on strategic decision processes has provided empirical support for the notion that interindustry differences in key competitive capabilities affect considerations of objective criteria in the evaluation of acquisition candidates (Hitt & Tyler, 1991). Similarly, I suggest that the integration decision policies of managers in service industries and those of managers in manufacturing industries can be distinguished because the sources of competitiveness in the two industry types are qualitatively so different.

Service organizations compete largely on the basis of intangible outputs that reflect a set of relationships among organizational actors (employees and customers). The technology-driven objective structure that reduces employee discretion and options for decision making in manufacturing organizations is thus replaced in service organizations by subjective, value-driven structures that control employee behaviors and interactions with customers (Mills, 1986; Van Maanen & Kunda, 1989). Because of this service sector reliance on a strong cultural ideology, it is likely that information relevant to the management of corporate culture will be quite salient to service industry managers making integration design decisions.

Hypothesis 8a: In making integration design decisions, managers from service industry organizations will weight multiculturalism more heavily than will managers from manufacturing industry organizations.

The effective management and performance of service organizations has been found to be related to "employee attachment," or employees' commitment, dedication, and intention to remain (Ulrich, Halbrook, Meder, Stuchlik, & Thorpe, 1991). Thus, service industry managers involved in integrating acquisitions might be expected to attend to influences on such employee responses. Because unique features characterizing an acquired firm may well be among those influences (Buono & Bowditch, 1989), organizational task needs should be an important integration decision criterion to service industry managers.

Hypothesis 8b: In making integration design decisions, managers from service industry organizations will weight organizational task needs more heavily than will managers from manufacturing industry organizations.

Finally, service industry managers should be particularly concerned with compatibility of acquisition visions. Intracorporate conflict over processes or goals relating to service delivery can spell disaster; in contrast, agreement among major corporate functions and units on these issues has been found to be positively reflected in profitability (Schneider, 1991). Thus,
in the combined organization created by an acquisition, the extent to which there exist shared or, at least, similar visions of how the acquisition will operate to create value through the management of service quality should be of great interest to service industry managers.

_Hypothesis 8c: In making integration design decisions, managers from service industry organizations will weight compatibility of acquisition visions more heavily than will managers from manufacturing industry organizations._

**METHODS**

In order to discover the models managers actually apply in making integration design decisions, I employed a decision-making exercise using a policy-capturing technique. Policy capturing is a technique widely used in decision-making research to gain an understanding of individuals' decision processes. Through this technique, individuals' unique, tacit policies for making decisions in particular domains are inferred from statistical models derived by regressing the individuals' decisions (the dependent variable) on the decision criteria available to them in the situation (the independent variables) (Slovic, Fischhoff, & Lichtenstein, 1977; Slovic & Lichtenstein, 1971).

The procedure used in this methodology is to present decision makers with a series of decision situations that are experimentally designed to manipulate the level of a number of theoretically determined decision criteria. After reviewing each decision situation, decision makers assign a rating that best represents their judgment in the situation given the information available. The manner in which decision makers weight and combine theoretically important decision criteria can be inferred from the derived statistical relationship between the independent and dependent variables, and thus the extent to which the theories of interest model decision-maker behavior can be evaluated.

The statistical equation that is derived describes both the consistency with which decision makers use the decision criteria in making their judgments (represented by the $R^2$) and the relative importance of each decision criterion in determining the overall judgment of the decision maker, represented by the vector of weights associated with the independent variables, or the beta weights (Slovic & Lichtenstein, 1971; Zedeck & Kafry, 1977).

**Respondents**

A letter requesting participation in the study was sent to a top-level officer (the chief executive officer [CEO] or president) of 270 organizations that had been acquirers during the preceding three years. I identified the firms through ADP Network Services Corporation's Mergers and Acquisitions Data Base. Each of these individuals was contacted by telephone between two and three weeks after the initial mailing to confirm his or her organization's participation in the study, and at that time, was given the
option of identifying another individual in the organization whom he or she felt would be a more appropriate respondent for the research. In all, 58 individuals actually completed and returned the decision-making exercise, for a response rate of slightly over 21 percent. The low response rate is typical of acquisition research (Marks, 1982) and also reflects the nature of the desired respondents (experienced and high-level) and the required time commitment of an hour or more (Bazerman, 1985). Two exercises were received with missing data. Thus, the final number of respondents was 56.

The average level of respondent acquisition experience was 12 acquisitions. Respondents ranged in acquisition experience from 1 to more than 100 acquisitions, with a median level of experience of 6 acquisitions. All respondents indicated that they had been involved in making integration design decisions, and all but four indicated that they had been involved in integration implementation. The respondents also represented a wide range of organization sizes, ranging from 6 to 25,000 employees, with an average of 1,938 employees. The median size of the organizations represented in the data is 700. Of the 56 organizations represented in this study, 33 were in service industries and 23 were in manufacturing.

Twenty-one (37.5 percent) of the respondents held the highest position in their organizations (chairman, CEO, or president, or a combined position). Another 29 (51.8 percent) were in senior management positions; specifically, 20 were at the level of executive vice president (6), senior vice president (6), or vice president (8), 7 respondents were directors (corporate finance, mergers and acquisitions, or corporate development), 1 was the general manager of commercial development, and 1 was a treasurer. The remaining 6 respondents (10.7 percent) were middle managers (managers of financial planning, mergers and acquisitions, business, corporate, or market development) who indicated that they had been significantly involved in or were very familiar with the acquisition activities of their organizations.

The functional areas in which respondents had spent most of their careers clustered in four areas—finance, manufacturing, general management, and other. A significant number had moved in recent years into positions in corporate/market development, and others had made moves, accompanied by changes in position, from specific functional areas into general management.

A comparison of the respondents’ organizations to all the organizations originally contacted about the study revealed that the respondent group came from a significantly larger percentage of small organizations than the original group ($\chi^2 = 7.19, p < .05$). This apparent response bias may limit the generalizability of the findings, but analysis indicated that differences in respondents’ integration decision policies were not related to the size of the organizations of which they were members. The distribution by industry classification revealed no significant difference between the respondents’ organizations and the group of organizations originally contacted ($\chi^2 = .22$, n.s.) along this dimension.
Decision-Making Exercise

I used the five variables suggested as determinants of integration level (strategic task needs, organizational task needs, multiculturalism, power differential, and compatibility of acquisition visions) as decision criteria around which a set of decision scenarios was constructed to simulate the integration design decision process. The set of scenarios was based on a one-half fractional replicate of a full factorial experimental design (Cochran & Cox, 1957) with each of the five criteria at two levels (high and low). The result was a total of 16 scenarios (decisions) per respondent (1/2 x 2 x 2 x 2 x 2).

To maximize realism, the hypothetical acquisition scenarios were developed using descriptions of actual acquisitions that had occurred during the fourth quarter of 1989. Each of the 16 scenarios was described in one page of text, with the decision criteria embedded in the text. I varied the order of the decision criteria across the decision scenarios to minimize effects of order on responses and thus reduce stereotypic responses to scenarios (Rousseau & Anton, 1988). Further, the order of the scenarios in each questionnaire was varied so that there were 16 different versions of the questionnaire, each version having a different order for the scenarios and a different scenario last.

Pretesting was done at several stages using scholars familiar with acquisition research, master's in business administration students, and practicing managers experienced with acquisitions. Pretests involved reading the scenarios for realism, clarity, and interest as well as testing for the effectiveness of the manipulations, the clarity of the instructions in the instrument, and the time needed to complete the exercise. Revisions were made at each stage as indicated.

Measures and Analyses

The independent variables were specified in the scenarios by describing the hypothetical acquisition situations in terms of information keyed to the five theoretically determined decision criteria as follows. Strategic task needs was the extent to which the sharing or exchange of critical skills, capabilities, or resources between the acquiring and acquired organizations was necessary to achieve the acquirer's goals in the acquisition. Organizational task needs was the extent to which the success of the acquisition depended on unique capabilities of the acquired organization that would be jeopardized by loss of independence. Multiculturalism was the degree to which the management of the acquiring organization tolerated and valued a diversity of values, philosophies, and beliefs. Power differential was the

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4 The power differential variable was an exception. Pretesting indicated that associating size (the power differential variable) directly with the name of the hypothetical acquiring and acquired organizations reduced confusion regarding the sizes of the two organizations, so this information was listed at the top of each scenario.
difference in size of the two organizations, measured as number of employees as conceptualized by Bastien and Van de Ven (1986). Compatibility of acquisition visions was the extent to which the acquirer and the acquired organization had compatible ideas about the goals each was trying to achieve through the acquisition and the means to achieve those goals. The Appendix gives a sample scenario.

After reading each scenario, respondents provided their judgments about a level of integration for that particular case. As in other studies of information use and decision making, respondents were presented with scenarios in which a manager was depicted in a particular situation and were asked to respond as they would if they were that manager. Respondents were asked to make a unidimensional global judgment about integration and also to respond to six items regarding integration of financial resources and risk, policies and procedures, personnel, physical resources, decision making and control structures, and culture. I developed this exploratory scale to attempt to measure the integration construct on the basis of the dimensions of integration suggested in the acquisitions literature. An untested assumption in the literature is that these dimensions of integration form a Guttman scale (Guttman, 1944). A seven-point Likert scale representing the extent to which the decision maker would integrate the acquired organization was used for each dependent variable (0 = no extent, 6 = a very great extent; responses were subsequently recorded to range from 1 to 7).

The decision-making exercise included a manipulation check for the last scenario designed to assess whether the embedded decision criteria had been interpreted in the intended manner. I used this technique because it was impossible from a practical perspective to ask each respondent to complete a manipulation check on each scenario.

The questionnaire also included a personal profile page on which each respondent provided information about position, functional area, position and functional area tenure, acquisition experience (both as acquirer and acquiree), integration decision-making experience, integration implementation experience, role in most recent acquisition, organization’s size (employees), and organization’s major industrial classification (coded as manufacturing, 1; service, 2).

I took the standard policy-capturing approach, using standard multiple regression analysis to obtain the measures of decision consistency ($R^2$) and the vector of beta weights associated with the decision criteria for each individual. The initial regression equation estimated for each decision maker contained the five decision criteria and two interaction terms suggested by the theoretical model. After eliminating nonsignificant terms from the equation, I transformed the individuals’ calculated vectors of beta weights for the independent variables into relative weights so that they summed to 100, thus allowing for easy assessment of the percentage of total explained variance accounted for by each variable. This transformation is applicable when the independent variables are orthogonal, as they were in
this research, because of the use of a fractionated factorial design (Hoffman, 1960).

RESULTS

Data Examination and Evaluation

Manipulation checks. The manipulations were checked by asking each respondent to indicate, for the last scenario read, the extent to which he or she agreed or disagreed with the following statements: (1) The acquiring company believes that the success of the acquisition depends on the two organizations sharing or exchanging critical skills, capabilities, or resources. (2) The acquiring company believes that the success of the acquisition will be threatened if the target firm loses autonomy during integration with the acquiring company. (3) The acquiring company tolerates or even encourages different values, philosophies, and beliefs among its managers and employees. (4) The acquiring company is significantly larger than the target firm (e.g., has substantially more employees). (5) The acquiring firm’s plans for the acquisition are not in agreement with the target company’s plans or ambitions. The response scale values ranged from −2 for “strongly disagree” to 2 for “strongly agree”, with no midscale value.

The results of all manipulation checks indicated that the executives correctly perceived the manipulations embedded in each scenario and that there were not systematic problems with the manipulations. Overall, there were 26 errors out of 280 manipulation checks (56 respondents by five variables), for a 90.7 percent rate of correct responses. This rate is significantly better than the error rate that would have occurred by chance alone ($\chi^2 = 28.58, p < .001$).

Dependent variable scale construction. I used factor analysis, reliability analysis, and Guttman’s coefficient of reproducibility to assess whether the multiple dependent variable measures formed a reliable scale and the nature of that scale.

Factor analysis using a principal components method extracted only one factor (eigenvalue > 1.00), and all the dependent variable items, including the global rating, loaded on this factor. I thus created a single response scale. Reliability analysis was subsequently performed, and a Cronbach’s alpha coefficient of .90 indicated an acceptable level of reliability.

Guttman’s coefficient of reproducibility was found to be .67. Because the coefficient of reproducibility was not .90 or greater, the scale cannot be considered a true Guttman scale (Guttman, 1944). However, the item means for the responses to the dependent variable items did show a descending pattern from financial integration through cultural integration, indicating greater agreement with items at the low end of the scale than at the high end. Thus, although a true Guttman scale cannot be demonstrated, the pattern of responses does provide some evidence that the items are ordered in increasing intensity from financial integration through cultural integration, as sug-
gested in the mergers and acquisitions literature. I used the scale, including 
the global integration measure, in the subsequent analyses as a simple mul-
tiitem scale measure of the central construct, level of integration.

Decision-maker consistency. The squared multiple correlation coeffi-
cient ($R^2$) was used as a descriptive measure of the consistency of raters' 
judgments across the 16 scenarios. The average $R^2$ across respondents was 
.67, with individual values ranging from .40 to .92. These consistency mea-
ures compare favorably with those of other policy-capturing studies that 
have used textual presentation of decision criteria (Bazerman, 1985; Mazen, 
1990; Rousseau & Anton, 1988), and indicate the data's high quality in terms 
of representing actual decisions (Hitt & Barr, 1989).

Independence of observations for each decision maker was assessed by 
means of the Durbin-Watson test (Neter, Wasserman, & Kutner, 1990); results 
did not reveal any autocorrelation in individuals' responses to the scenarios. 
Further, although the ratio of observations to decision criteria is less than the 
four or five to one recommended for regression analysis (Tabachnik & Fidell, 
1989), given the consistently large effect sizes achieved in previous policy-
capturing research (Hobson & Gibson, 1983), the ratio of observations to cues 
used in this study is sufficient to achieve statistical power of .80 at an alpha 
level of .05 (Green, 1991).

Tests of Hypotheses

Effects and relative importance of the decision criteria. I examined the 
significance of each decision criterion's contribution to judgments about 
integration by testing the hypothesis that the mean regression coefficient 
(averaged across respondents) for each term included in the regression equa-
tion was significantly different from zero.

As Table 1 shows, the five decision criteria were significant influences 
on these managers' integration design decisions. Furthermore, the direction 
of their effects was as hypothesized for strategic task needs, organizational 
task needs, multiculturalism, and compatibility of acquisition visions. Thus,

<p>| TABLE 1 |
| Decision Criteria Standardized Regression Coefficients* |</p>
<table>
<thead>
<tr>
<th>Decision Criteria</th>
<th>Means</th>
<th>s.d.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic task needs</td>
<td>.32***</td>
<td>.24</td>
</tr>
<tr>
<td>Organizational task needs</td>
<td>-.51***</td>
<td>.21</td>
</tr>
<tr>
<td>Multiculturalism</td>
<td>-.07**</td>
<td>.18</td>
</tr>
<tr>
<td>Power differential</td>
<td>-.10***</td>
<td>.18</td>
</tr>
<tr>
<td>Compatibility of acquisition visions</td>
<td>-.07*</td>
<td>.23</td>
</tr>
<tr>
<td>Strategic task needs $\times$ organizational task needs</td>
<td>-.05</td>
<td>.21</td>
</tr>
<tr>
<td>Power differential $\times$ compatibility of acquisition visions</td>
<td>-.04</td>
<td>.18</td>
</tr>
</tbody>
</table>

* $N = 56$.  
* $p < .05$  
** $p < .01$  
*** $p < .001$
Hypotheses 1a, 1b, 2, and 3a were all supported. However, although power differential had a significant effect on the level of integration chosen, Hypothesis 3b was not supported as the direction of the effect was opposite to that which was expected. Furthermore, neither the interaction between strategic task needs and organizational task needs nor that between power differential and compatibility of acquisition visions (Hypotheses 1c and 3c) was significant. Because the interaction effects did not contribute significantly to these managers' decisions, I based the remainder of the analysis on the five main effects for each individual regression equation.

Hypothesis 4 was tested by comparing the relative weights for each of the five decision criteria. As Table 2 shows, the criteria were not equally important in influencing the decisions. I used a Scheffé test to conduct a conservative pairwise comparison between the means of the criteria, finding that the relative weights of strategic task needs and organizational task needs significantly differed from each other and from the other three criteria, which formed a homogeneous subset. Furthermore, planned contrasts revealed that strategic task needs was weighted more heavily than any of the other variables except organizational task needs \( t = -5.47, p < .001 \). Thus, Hypothesis 4 was not supported.

**Effects of experience, organization size, and industry.** Consistent with other policy-capturing studies (cf. Stahl & Zimmerer, 1984), I first assessed variability in managers' decision models by examining the standard deviations and ranges on the values of the relative weights of the five decision criteria. I found striking evidence of major decision-making differences among individuals, with some managers being heavily influenced by a criterion while others accorded it no importance at all (see Table 2).

In order to evaluate the influence of acquisition experience, organization size, and industry category on the weighting of criteria in these managers' decision models, I analyzed Hypotheses 5–8c via a multivariate multiple regression equation in which the effects of the demographic variables on the decision criteria were examined in combination. I logarithmically transformed data on organization size and acquisition experience prior to investigating their effects. The multivariate multiple regression analysis revealed a significant relationship between amount of acquisition experience,

<table>
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<tr>
<th>Decision Criteria</th>
<th>Means</th>
<th>s.d.</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic task needs</td>
<td></td>
<td></td>
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<tr>
<td>Organizational task needs</td>
<td></td>
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<tr>
<td>Multiculturalism</td>
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<td>Power differential</td>
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<tr>
<td>Compatibility of acquisition visions</td>
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</table>

\( N = 56. \)

\( ^{b} \) Relative weights have been multiplied by 100 so that they sum to 100 percent.
organization size, and industry category (the independent variables) and the five decision criteria in combination (the dependent variables) (Wilks's lambda = .603, F_{15,133} = 1.78, p < .05). An eta-squared of .40 indicates that these demographic characteristics explain approximately 40 percent of the variability in the weighting of the decision criteria across managers.

To investigate more fully the influence of each demographic variable on the weighting of the decision criteria, multiple regression equations were computed for each in turn, with organization size, acquisition experience, and industry category acting as multiple predictors. As can be seen from Table 3, which provides the unstandardized regression coefficients for the estimated models, acquisition experience did not provide significant prediction of the weighting of strategic task needs or power differential information. Furthermore, the results failed to demonstrate the hypothesized relationship between organization size and the weighting of the power differential variable. Thus, no support emerged for Hypotheses 5, 6, and 7. However, acquisition experience significantly predicted the weighting of multiculturalism, a nonhypothesized finding.

The analysis also revealed that in their decision policies, respondents from service industries tended to weight multiculturalism more heavily than respondents from manufacturing industries, providing support for Hypothesis 8a. However, neither Hypothesis 8b nor Hypothesis 8c was supported, as industry failed to provide significant prediction of the weighting of either organizational task needs or compatibility of acquisition visions.

To look for demographic effects other than those hypothesized, I compared decision policies by management level and functional background. Between-subjects multivariate analyses of variance were performed with the five decision criteria weights as the dependent variables. The independent variables for the two analyses were management level (top, senior, and middle) and functional background (finance, manufacturing, general management, and other). The combined decision criteria weights were not significantly related to either management level (Wilks's lambda = .780, F_{10,98} = 1.30, n.s.) or functional background (Wilks's lambda = .624, F_{15,133} = 1.65, n.s.)

DISCUSSION

Management researchers have shown an increasing interest in the decision-making processes surrounding mergers and acquisitions. Most of this work has focused on candidate evaluation and the decision to acquire, but a number of researchers have noted the importance of understanding acquisition decision processes in general and decisions relating to acquisition integration in particular.

The problem of integration design has been a focus of attention for a number of years, and previous studies have suggested general relationships between key elements of acquisition situations and integration. However, although the importance of task, cultural, and political characteristics of
<table>
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<tr>
<th>Decision Criteria</th>
<th>Organization Size</th>
<th>Acquisition Experience</th>
<th>Industry&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b</td>
<td>s.e.</td>
<td>t</td>
</tr>
<tr>
<td>Strategic task needs</td>
<td>2.52</td>
<td>4.58</td>
<td>0.55</td>
</tr>
<tr>
<td>Organizational task needs</td>
<td>2.74</td>
<td>4.17</td>
<td>0.66</td>
</tr>
<tr>
<td>Multiculturalism</td>
<td>1.43</td>
<td>2.27</td>
<td>0.63</td>
</tr>
<tr>
<td>Power differential</td>
<td>−2.89</td>
<td>1.96</td>
<td>−1.48</td>
</tr>
<tr>
<td>Compatibility of acquisition visions</td>
<td>−4.68</td>
<td>2.53</td>
<td>−1.85</td>
</tr>
</tbody>
</table>

<sup>a</sup> N = 56.

<sup>b</sup> Manufacturing = 1, service = 2.

* p < .05

** p < .01

*** p < .001
acquisitions have been noted, there has been no empirical assessment of how these situational features influence an organization's choice of an approach to integration. A number of researchers have argued that in order to understand organizational choices, researchers should focus on the cognitions of managers who are in a position to interpret information and shape organizational actions (e.g., Dutton & Duncan, 1987; Smircich & Stubbart, 1985; Thomas, Clark, & Gioia, 1993). Accordingly, this research was framed in terms of a strategic choice perspective in which the decision-making processes of key managers mediate the relationship between the situational features of an acquisition and the integration design an organization chooses. By using a policy-capturing methodology, I was able to model executives' decisions to address the fundamental research question of how, and to what extent, acquisitions' task, cultural, and political characteristics influenced managers' judgments about integration.

Interpretations of Findings

The results of this study show that all of the hypothesized situational features play a role in managers' integration design decisions. For the managers in this study, task-related criteria were dominant in decision models, but cultural and political determinants were important as well. Decision policies were not universal among these executives but were instead influenced by their experience with acquisitions and the industry classification of their organizations.

Task-related influences had the hypothesized effects on integration decisions, with strategic task needs being positively and organizational task needs negatively related to the level of integration chosen. These findings provide empirical support for the rational, goal-focused model of decision making that forms the foundation for most acquisition research and that has found empirical support elsewhere (Hitt & Tyler, 1991). The lack of support for the hypothesized contingent relationship between strategic and organizational task needs suggests that in integration design decisions, acquiring managers may be unable to balance these two requirements in a normatively appropriate way.

Multiculturalism was, as expected, found to be negatively related to the level of integration chosen. This finding provides support for the notion that organizations have strong routines for handling cultural diversity that are played out across a variety of organizational situations, even such important and transformational events as acquisitions. Thus, like Martin and Meyerson (1988), I concluded that organizations and their managers have paradigmatic beliefs about the functionality of culture for managing coordination and control in situations of organizational change and ambiguity.

Surprisingly, power differential was significantly but negatively related to the level of integration chosen, suggesting that size differences are not perceived as a basis for power, but rather as a factor influencing management attention to an acquisition. In other words, acquisitions that are small relative to the acquirer may remain virtually unintegrated because they do
not attract a high level of management attention. In contrast, large acquisitions represent greater potential for gain or loss and therefore invite a higher level of integration, allowing for increased line authority and thus, greater scrutiny of potential problems. These findings are consistent with Kitching's (1973) contention that mismatches in size can lead to a lack of management attention. An alternative explanation for this finding is that managers may perceive that smallness in and of itself creates distinctive capabilities, such as innovativeness (Williamson, 1975), that would be lost through a high level of integration with a large firm. Thus, it is possible that respondents inferred organizational task needs from power differential information.

A lack of compatibility of acquisition visions elicited selection of a higher level of integration, as predicted. This finding supports those from Shanley's (1987) exploratory work, in which he argued that the agency problems that may arise after an acquisition provoke the imposition of increased hierarchical control mechanisms by the acquirer. Although this study did not find the interaction between power and dissension that should form the basis for political action between combining organizations, this absence likely reflects an interpretation of size difference as related to something other than power. A firm's managers' perceived power in an acquisition may rather be position-based, stemming as much from being in the role of the acquirer as from anything more substantive (Jemison & Sitkin, 1986). Indeed, relative standing, a theoretical perspective on social processes that has recently been applied to good effect in explaining the departure of acquired executives (Hambrick & Cannella, 1993), may quite adequately capture the concept of power differential in an acquisition. Thus, a basis for political action exists because the ability to have influence by virtue of being the acquirer is a source of power in an acquisition in which there is disagreement over the acquisition's means or ends.

Task-related characteristics accounted for nearly 75 percent of the total explained variance in these managers' integration decisions, with organizational task needs accounting for nearly two-thirds of that. The finding that organizational task needs outweighed strategic task needs is indeed surprising, particularly in light of the traditional logic for acquisition evaluation and justification that has resulted in a primary focus on more easily quantified factors (Jemison & Sitkin, 1986). It is possible that in the wake of the 1980s era of hostile takeovers and corporate raiders, societal pressures to address the often negative organizational impacts of acquisitions have led organizations and their executives to have increased concern with maintaining legitimacy in a very visible area of organizational activity, as per the coercive isomorphism arguments of DiMaggio and Powell (1983). Because of this concern, organizational issues may be particularly salient to managers facing integration decisions.

The smaller contributions of cultural and political characteristics may reflect a perception that they are static. That is, top managers may see power differential, compatibility of acquisition vision, and an acquirer's multiculturalism as representing states of the relationship between the acquiring and
acquired companies, so that once such information is recognized, it does not command a great deal of attention. Task needs, on the other hand, may be clearly understood to have ongoing action implications for the process of integration, which managers recognize will continue to require their involved consideration once integration implementation begins, and so task needs become salient in integration design decisions.

Taken all together, these findings suggest that it is valuable to look at integration design decisions through multiple theoretical lenses. Although a rational model of decision behavior largely explained the integration decision policies of the managers in this study, cultural and political factors accounted for a quarter of the explained variance in managers’ decisions, indicating the value of applying culturally based routine and political process decision-making perspectives (Allison, 1969) as well. This study’s demonstration of the need to integrate diverse theoretical perspectives in explaining integration decisions is consistent with other research indicating that multiple approaches operate simultaneously in executives’ strategic decision making (Fredrickson, 1985; Hitt & Tyler, 1991).

This study found that the industry classification of managers’ organizations was related to differences in their integration decision policies. Specifically, managers in service industries were more heavily influenced by information about the acquiring organization’s degree of multiculturalism than were managers from manufacturing industries. This finding corroborates Van Maanen and Kunda’s assertion that there will be a “pronounced concern for culture” in organizations in which culture is a key success factor (1989: 56). Service industry executives apparently have learned that culture is a critical ingredient in industry recipes for success (Spender, 1989), because it serves as a potent control device in an otherwise highly uncertain and largely uncontrollable system. Contrary to expectations, no support was found for the presence of industry effects on the use of information relating to organizational task needs or compatibility of acquisition visions. The preceding arguments may also explain this absence of support: these criteria are not differentially important in particular industries, but rather, they have general importance across industries in acquisition situations.

Acquisition experience explained some of the variability in the use of the decision criteria beyond that explained by industry differences. With increasing acquisition experience, managers appear to place less emphasis on information relating to multiculturalism. One possible explanation for this finding is that experienced acquirers, looking beyond integration design to integration implementation, recognize that cultural change may occur in both organizations, regardless of an acquirer’s predisposition toward managing culture, and thus discount the importance of this variable. Although there were no other significant main effects of organization size, acquisition experience, or industry category on the weighting of the decision criteria, it is possible that interactions among these demographic variables or among these and other demographic variables are influential. Although a number of
plausible theoretical arguments could be made with respect to these potential effects, a full exploration of these is beyond the scope of this article.

No effects related to respondents’ functional backgrounds or executive levels were hypothesized, but the results of the post hoc examinations are surprising in light of other research that has pointed to the importance of functional heterogeneity (e.g., Dearborn & Simon, 1958; Hambrick & Mason, 1984; Hitt & Tyler, 1991) and managerial level (e.g., Ireland, Hitt, Bettis, & DePorras, 1987; Hitt & Tyler, 1991) on executive decision processes and outcomes. Although I can only speculate as to why such effects were not found in this study, it is possible that the functional analysis possible given the data collected was not sufficiently complex to reveal effects related to combinations of work experience that may be present and that have emerged in other research on strategic decision processes (e.g., Hitt & Tyler, 1991). Further, this study asked managers to make decisions about a very specific strategic issue with which they had all had experience. As descriptions of decision making based on the availability heuristic (Kahneman & Tversky, 1987) suggest, it is possible that in such decision situations, the type of information attended to depends more on the nature of previous experiences in the decision domain than on the level of the decision maker. Executive level may have a stronger influence across more varied strategic decision situations.

The demographic variables evaluated in this study explained less than half of the variability observed in these managers’ decision models. Thus, it appears that other organization-specific or individual-specific factors may be influencing integration design decision policies. The question of which could be sorted out by analyzing the decisions of multiple decision makers in each firm studied (Stahl & Zimmerer, 1984).

Limitations of the Study

Possible limitations to the external validity of the study should be noted. The simulation of individuals’ decision processes via policy capturing allows for evaluation of how respondents use an exclusive set of information to make judgments in a specific domain. Because the primary purpose of this research was to examine relationships predicted by a particular theoretical model, I included only the variables flowing from that theory in the decision exercise. To the extent that additional variables might have had an impact on respondents’ judgments, the decision models derived using the policy-capturing technique may be incomplete.

Also, this research used contrived rather than actual integration design decision situations. Although doing so was necessary to preserve the experimental control required to achieve my objectives, the responses to the hypothetical situations may differ from what responses to similar actual situations would be. However, research by Brown (1972) indicates that results from contrived situations are not significantly different from results from real-world situations, particularly when decision makers are occupationally
experienced in the types of decisions they are being asked to make, as they were in the present study. Furthermore, Hitt and Middlemist (1979) found strong support for the validity of managers' decision models derived using simulated cases by obtaining evaluations from superiors who had observed these managers' actual decision-making behaviors.

Finally, care must be taken in making inferences based on results of this study about decision makers other than current respondents because the study was experimental and lacked random sampling. Nonetheless, the results certainly describe the decision models of a broad group of decision makers, and thus it is likely that the judgments of the decision makers sampled here are reasonably representative of the judgments of a larger population of decision makers in acquisitive organizations.

**IMPLICATIONS, CONTRIBUTIONS, AND CONCLUSIONS**

This study examined a strategic decision of importance to both management researchers and practitioners. Although acquisition activity has declined over 50 percent in volume and nearly 70 percent in dollar value since its peak in 1988, continued high levels of activity indicate that acquisitions will be a strategic option presenting managerial challenges in the 1990s and beyond. Unlike the previous decade, when sensational financial plays predominated, the 1990s have chiefly seen organizational combinations driven by corporate strategy. These combinations are typically friendly, negotiated transactions between corporations with common business interests. Big companies are increasingly seeking small promising companies in related fields that they can use to fill holes in their product lines or add as “bite-sized” additions to their existing businesses and to which they can add value (Gupta & Tannenbaum, 1990).

These types of transactions have important managerial implications. Unlike acquirers motivated by the prospect of quick gains on asset plays, strategic buyers anticipate benefits based on a long-term relationship with the acquired organizations. Researchers have demonstrated that the integration design that is implemented has an important relationship with acquisition performance (e.g., Cannella & Hambrick, 1993; Datta & Grant, 1990; Shanley, 1987; Shrivastava, 1986). The integration design decision is thus an important initial influence on the ultimate success or failure of an acquisition.

By providing insights into this decision, this study has relevance for organizations involved in acquisitions. Broadly, it suggests a method whereby decision makers can deliberately manage the integration planning and implementation process. By explicitly identifying relevant decision criteria and specifying the weights that should be attached to each, key decision makers can begin to formalize decision guidelines as a bootstrapping tool (Hogarth, 1987) to ensure the optimality and increase the consistency of integration decision making over acquisition experiences. The development of such policies would be a valuable learning process, enabling managers to gain insights for application in future acquisitions, and such explicit eval-
uation can bring “theories-in-use” closer to “espoused theories” (Argyris & Schön, 1974). Furthermore, such policies could serve as a valuable tool for communicating the rationale behind a plan for integration to those charged with the implementation of integration activities, reducing the lack of understanding and commitment that often results when the bases for strategy formulation are not shared.

More specifically, this study suggests that managers should be explicit in their consideration of how sufficient value is to be created in an acquisition while simultaneously preserving the foundation for that value creation. It appears that managers do not balance these two requirements in a way that meets the contingent needs of the situation, and recognition of this potential bias may enable managers to be more deliberate about identifying and reconciling specific trade-offs. Further, managers should take care to validate their perceptions about the sources of strategic capabilities as these understandings have major implications for integration decisions.

The primary theoretical contribution of this article has been to identify a conceptual link among diverse themes in the acquisitions literature as the basis for developing and testing a comprehensive model of integration decision making. The resulting model suggests that managers use multiple decision perspectives to consider what level of integration is required to achieve the basic coordination and control functions of integration and that research using a single focus results in an incomplete picture of the process.

The study’s findings also suggest some modifications to existing acquisition theory and some opportunities for future research. Specifically, although much of the research on acquisition integration suggests that acquirers often assume homogeneity (e.g., Shanley & Correa, 1992) and focus on strategic factors at the expense of organizational issues (e.g., Jemison & Sitkin, 1986), the results of this study indicate that acquiring firm managers are acutely aware of the need to address unique organizational requirements when making integration decisions. Although it is possible that these contradictory findings are an artifact of the different research methodologies used, this an issue that deserves further investigation. This research also suggests the need for finer-grained studies of how plans for integration are developed in that it offers evidence of the importance of industry characteristics and suggests the potential importance of organization-specific or even individual-specific factors.

This study examined integration design decisions at the organizational level. Such a high-level perspective enables a valuable contribution in terms of increasing understanding of the relationships between broad features of an acquisition situation and the overall degree of change planned for the acquisition. However, to get a better understanding of the integration dynamics that take place in particular acquisitions, it will likely be necessary to conduct more precise analyses that examine how the relationships discovered in this study play out in diverse functional areas or business units.

Further, and of particular interest from a theoretical perspective, is the possibility that the levels of integration examined in this research may ac-
tually represent different types of integration as well. Beyond a differentiation based on the extent of change in an organizational configuration, there may be a qualitative difference among the levels reflecting the diverse managerial challenges associated with implementation of each. For example, although characteristics of an acquisition situation may suggest a low level of integration, implementation of this design can be managerially delicate, requiring restraint and selectivity on the part of the acquirer.

Finally, although this work demonstrates that multiple independent approaches to decision making operate simultaneously in managers' integration decision behavior, the interface among these multiple approaches has yet to be examined. Researchers could build on this work by theoretically evaluating and empirically investigating the many plausible interaction effects suggested by the decision model proposed here. For example, multiculturalism and compatibility of acquisition visions may interact individually and in unison with organizational task needs to influence the level of integration chosen. An empirical examination of the numerous possible interaction effects will require a more robust study design focused on examining the relationships among the decision approaches rather than on how specific decision criteria are used.

On a broader scale, this study advances acquisition research in three important ways. First, it opens up a new avenue of inquiry in academic efforts to understand acquisition integration. This contribution is highlighted by the following shift relative to extant work (cf. Bazerman, 1985). Specifically, prior integration research has largely relied on subjective assessments of the complexity of the overall process as seen through the eyes of diverse organizational actors. By observing integration design decision behavior, the current research has, in contrast, objectively examined a single but consequential first stage in this larger series of events. In so doing, this study subjected the integration process to the same level of objectivity that has been applied to another initial step in acquisitions, the evaluation and choice of acquisition candidates. Future research should examine how understanding the underlying drivers of managers' integration decisions can help untangle the experienced complexity of the integration process.

Second, this research allows a focus on the role of executives in a critical component of the larger acquisition process. In taking this perspective, this work has recognized how top managers may influence larger organizational phenomena, particularly in events such as acquisitions, where situational cues are many, cloudy, and ambiguous. As Hambrick (1989) noted, it is in just such cases that top managers, shaped by their own sets of identifying characteristics, influence organizational form, conduct, and performance on the basis of their perceptions of the strategic context and their own theories of action. Individual decision makers were the units of analysis for this research and, to the extent that teams of decision makers are responsible for integration design decisions, the research did not achieve an accurate understanding of how organizations arrive at integration strategies. Future research should therefore explore the impact of group processes and management team composition on integration decisions, recognizing how individ-
ual biases and characteristics may combine to influence features of the decision process.

Finally, this study answers the general call for research focusing on the cognitive elements of strategy (Hrebiniak, Joyce, & Snow, 1988; Stubbart, 1987) and for acquisition research examining integration decision processes in particular (Schweiger & Walsh, 1990). The methodology used here allowed me to overcome the shortcomings of other strategic decision-making research techniques to uncover managers’ theories-in-use. The importance of such a focus is becoming increasingly apparent as researchers discover strong links among cognition, action, and organizational outcomes (Thomas et al., 1993).

The message for acquisition researchers is clear. Specifically, in order to understand variations in acquisition performance, an important first step is understanding the policies that guide managers’ decisions about how to approach integrating two organizations. This research has made initial progress in that direction, but there is clearly more work to be done. A critical task for future research will be to account for the organizational realities of implementing integration decisions, because miscommunication, organizational resistance, and lack of resources, among other forces, can intervene between intended and realized integration strategy. Finally, research in this area needs to be expanded to longitudinally examine the relationships among integration design decisions, integration implementation activities and processes, and acquisition outcomes so that researchers will be able to draw clearer links among these variables.

REFERENCES


Thomas, J. B., Clark, S. M., & Gioia, D. A. 1993. Strategic sensemaking and organizational per-


**APPENDIX**

Sample Decision Scenario

<table>
<thead>
<tr>
<th>ACQUIRER</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name: Lone Star Chemical Corp.</td>
<td>TexChem Inc.</td>
</tr>
<tr>
<td>Number of Employees: 11,328</td>
<td>1,920</td>
</tr>
</tbody>
</table>

Jim Conarty, President of Lone Star Chemical Corp., is really mad. Several months ago he charged some of his top managers with finding a way to cut operating costs at the company’s processing plants. These managers recommended to Jim that Lone Star acquire TexChem, a small company that had developed a very innovative and efficient production process. If Lone Star could get hold of and learn to use this technology, they could cut their operating costs by 20 percent. These managers made clear to Jim that transplanting this technology into Lone Star would require a lot of cooperation and close work between the managers and employees of the two companies.

Now that he’s signed the deal, Jim is getting very strong signals that TexChem is expecting to operate pretty independently. They’re more concerned with developing new products and processes than in optimizing the use of TexChem’s existing process at Lone Star. This just doesn’t fit with Lone Star’s plans for this deal at all. Lone Star’s management has always discouraged differences of opinion about how things should be done at Lone Star—it is part of their managerial belief system that such differences lead to inefficiency and a lack of control. At the same time, Jim’s afraid that in the case of TexChem, if he takes away too much of their independence during consolidation of the two companies, he may lose the talented people he needs to help get the new production process successfully implemented at Lone Star.

Amy L. Pablo received her Ph.D. degree from the University of Texas at Austin. She is currently an associate professor in the Faculty of Management at the University of Calgary. Her research interests center on managerial decision making and organizational outcomes, with a focus on the influence of risk on such processes and an examination of acquisitions as a strategic decision domain.